



## Social Enterprise in the United Kingdom: Models and Trajectories

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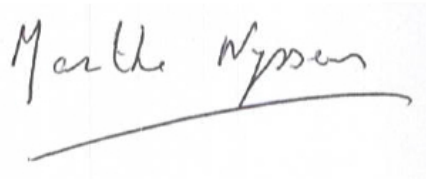
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## Table of contents

Introduction .....	5
<b>Part A. Concepts and policy .....</b>	<b>5</b>
A.1. UK concept of social enterprise .....	5
A.2. Defining the population of social enterprise in the UK .....	8
<i>Legal structures</i> .....	9
<i>Population of social enterprise</i> .....	9
<i>Different forms of social enterprise</i> .....	11
A.3. Understanding UK context: a historical discourse approach .....	12
<i>1998-2001: The construction of a social enterprise “movement”</i> .....	12
<i>2001-2005: Business solutions to social problems</i> .....	16
<i>2005-2010: Moving in with the third sector</i> .....	18
<i>2010-2014: New government, same direction?</i> .....	20
Conclusion on concepts and policy .....	21
<b>Part B. Identification of social enterprise models .....</b>	<b>22</b>
Organisational forms/models .....	23
Legal forms .....	23
Fields .....	24
B.1. Co-operatives in the United Kingdom .....	25
<i>B.1.1. Institutional and legal structures</i> .....	25
<i>B.1.2. Types of co-operatives and their activities</i> .....	27
<i>B.1.3. Co-operatives as social enterprises</i> .....	28
B.2. Charity social enterprises in England .....	29
<i>B.2.1. Charities and social missions</i> .....	29
<i>B.2.2. Governance of charities</i> .....	29
<i>B.2.3. Charitable companies</i> .....	29
<i>B.2.4. Reconfiguration of the sector towards social enterprise</i> .....	30
B.3. For-profit social enterprises .....	31
B.3.1. For-profit social enterprise and the UK and EMES definitions .....	31
B.3.2. Entrepreneurial pathways to for-profit social enterprise .....	32
B.3.3. Types, strengths and weaknesses of for-profit social enterprises .....	33
B.4. Community interest companies (CICs) .....	34
<i>B.4.1. Third sector form, and share-based form</i> .....	35
<i>B.4.2. Current performance (from the CIC Regulator report)</i> .....	36
<i>B.4.3. Survival and location of CICs</i> .....	37
B.5. Social enterprise fields of activities .....	37
<i>B.5.1. Work integration social enterprises (WISEs)</i> .....	37
Defining WISEs: differing typologies .....	38
WISEs in the UK .....	38
Summary .....	40
<i>B.5.2. Community businesses</i> .....	41
Towards understanding community enterprise .....	42
Defining community enterprise .....	43
<i>B.5.3. Public services</i> .....	44

<b>Part C: Institutional trajectories of the main social enterprise models</b> .....	<b>47</b>
Building social entrepreneurship cultures and helping start-ups .....	47
Training and advisory services .....	49
Social investment and finance .....	49
Social enterprises and delivery of public services.....	50
<b>Concluding comments: origins, trajectories, convergence?</b> .....	<b>50</b>
<b>References</b> .....	<b>52</b>
<b>Appendices</b> .....	<b>59</b>
Appendix 1. Cases surveyed (8/9: 2 charities, 2 co-operatives; 4 WISEs, 1 community business? .....	59
Appendix 2. For-profit mini-cases .....	59
1: <i>Elvis &amp; Kresse</i> .....	59
2: <i>JustGiving</i> .....	60
<b>ICSEM Working Papers Series</b> .....	<b>62</b>

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## INTRODUCTION

This paper begins by describing (in part A) the UK concept of social enterprise and how it is operationalised (section A.1); this is followed by an overview of the challenges of estimating the population of social enterprise in the UK, despite or because of different government-sponsored surveys (section A.2); this first part concludes with a review of the evolution of policy discourse for social enterprise (section A.3). The second part of the paper goes on to describe (sections B.1 to B.4) the different models that have evolved from different origins in the UK (with the main emphasis being on experience in England); in order to contextualise an understanding of these models, it describes three fields (section B.5)—work integration, community development, and public services; these illustrate the fluidity of models in the UK, where typically different models may be found within each field. Finally, Part C describes at a general level the relevant institutional frameworks and trajectories of the main social enterprise models.

## PART A. CONCEPTS AND POLICY

### A.1. UK concept of social enterprise

Prior to the election of a Conservative-led coalition government in 2010, the United Kingdom (or perhaps more precisely England) was widely seen as having one of the most developed institutional support structures for social enterprise in the world (Nicholls 2010). The need to be precise about the geographical area concerned is linked to the fact that, since 2000, the process of devolution in the United Kingdom has meant that policy developed at Westminster—through the Office for Civil Society and its precursors, the Office for the Third Sector and the Social Enterprise Unit within the Department for Trade and Industry—has (in the main) applied only to social enterprise in England. Scotland (as the accompanying working paper by Michael Roy and colleagues explains), Wales and Northern Ireland have devolved governments responsible for third sector policy.<sup>1</sup> This working paper therefore largely concerns itself with experience in England.

In an international perspective, UK social enterprises have arisen from an Anglo-Saxon context, where the discourse appears to be more business-oriented than the EMES model;<sup>2</sup> the basic UK definition differs from social economy-derived conceptualisations in particular with regard to governance or engagement of stakeholders—although in practice, since many third sector social enterprises use non-profit or co-operative forms, engagement of stakeholders is operationalized in most cases. This UK specificity also applies to the emblematic form of social enterprise in the UK, namely the community interest company (CIC), which has an additional but rather weak requirement for a stakeholder report.

The UK government promotes a very business-oriented approach to social enterprise, through its use of small business databases for its published statistics. And this fits with a broader business-

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<sup>1</sup> For an excellent overview of the devolution of third sector policy, see Alcock (2012).

<sup>2</sup> The EMES approach specifies an ideal type that combines economic/entrepreneurial dimensions with social and governance dimensions; see Borzaga and Defourny (2001).

oriented conceptualisation of the field, which includes the John Lewis model,<sup>3</sup> employee ownership, and for-profit models. The government view contrasts with many academic and third sector bodies, which emphasise the third sector form of social enterprise.

The UK government's definition of social enterprise is: "a business with primary social/environmental objectives, whose surpluses are principally reinvested for that purpose in the business or community rather than mainly being paid to shareholders and owners". This definition is clearly business-oriented—unsurprisingly, as it derives from the time when the social enterprise unit was based in the Department of Trade and Industry (DTI 2002). And unlike the EMES model, it focuses only on the social and economic dimensions and neglects the governance dimension. This business-oriented definition also creates problems for certain third sector organisations, such as charities, to identify themselves as social enterprise.

The definition is operationalised through the following criteria:

1. the organisation is trading, and generates a certain percentage of its income (25% or 50%; see Table 1) from trading of goods and services;
2. the primary purpose is to pursue social/environmental goals, rather than purely for-profit goals;
3. the organisation principally reinvests profits/surplus into the organisation or community to further social/environmental goals (typically operationalized as "the organisation reinvests more than 50% of its profits into the organisation or community");
4. finally, some surveys include a self-identification criterion, asking if the organisation sees itself as a business with primary social/environmental objectives, etc.

Some comments can be made on this operationalised definition.

First, trading includes both private markets and public procurement markets. And although not included in the definition, there is an interest in the existence of a minimum amount of employment, i.e. in the presence of one or more paid workers, and this criterion has been applied in the reporting of the survey data.

Secondly, it should be noted that the definition explicitly includes environmental goals as well as social ones. Since businesses are not classified using Standard Industrial Classification (SIC) or International Classification of Nonprofit Organisations (ICNPO), the social goal is determined by the respondent to surveys.

Thirdly, the criterion on reinvestment allows 49% profit distribution, which is much more liberal than the non-distribution constraint, which allows no profit distribution. This more liberal character would be expected, since it is part of the hybrid nature of social enterprise to have some business-like elements; for example, socially-oriented co-operatives have a limited distribution constraint, and these organisations are generally considered to be part of the social

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<sup>3</sup> John Lewis is a very successful retail chain store; it was created in the mid-1800s by its eponymous entrepreneur, and converted by his son Spedan, who had radical ideas about involving employees, into a hybrid structure owned by a trust on behalf of the employees. There is a profit-sharing arrangement for employees, and they have extensive involvement and influence over the governance structure (5 out of 12 seats on the partnership board that governs commercial activities are held by employees).

enterprise sector. However, there may be some inconsistency between this reinvestment criterion, on the one hand, and the way in which the limits on profit distribution are legally specified in the UK's community interest company (CIC), which is the legal form developed in 2006 specifically for social enterprise, on the other hand. The limit on profit distribution in CICs is indeed at a lower level than 49%—it is currently capped at 35%, while dividend distribution is capped at 20% (having been raised from 5% above base rate).

The fourth criterion—self-identification—was not used in all surveys. It has been used in some surveys, including the UK annual small business survey (ASBS), when additional questions have been added to identify social enterprise. The ASBS surveys organisations using a diverse range of legal structures, including those legally registered as sole proprietors with no employees (just under 50% of businesses surveyed) and those legally registered as partnerships (over 15%); but note that while it may be useful for policy reasons to ask about self-identification, it is not usual to use a self-identification question to define the population of small business categories (for example family business, women-led business).

When this self-identification criterion has been used in surveys of social enterprise (such as in the ASBS), the question was formulated in the following way: “Social enterprises are businesses with primarily social objectives whose surpluses are principally invested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners. Does this describe your organisation or not?” (Q38 in the national survey of third sector organisations 2010). There are two subcategories of the population of respondents for which this is a challenging question: organisations that do not meet the three definitional criteria, but which see themselves as a social enterprise; and those organisations that fulfil the three definitional criteria, but do not see themselves as a social enterprise.

There could be a number of reasons why organisations do not self-identify as social enterprise, even though they meet the three definitional criteria. It may be the case that the issue is around the definition of social aims (Lyon and Sepulveda 2009). But it could also be that the formulation of the self-identification question requires an organisation to identify itself as a business, and clearly many organisations that match the other definitional criteria of social enterprise may be charities conducting a substantial (and possibly growing) amount of social entrepreneurial activity, but they might not want to self-identify as a business—since they are registered as charities.

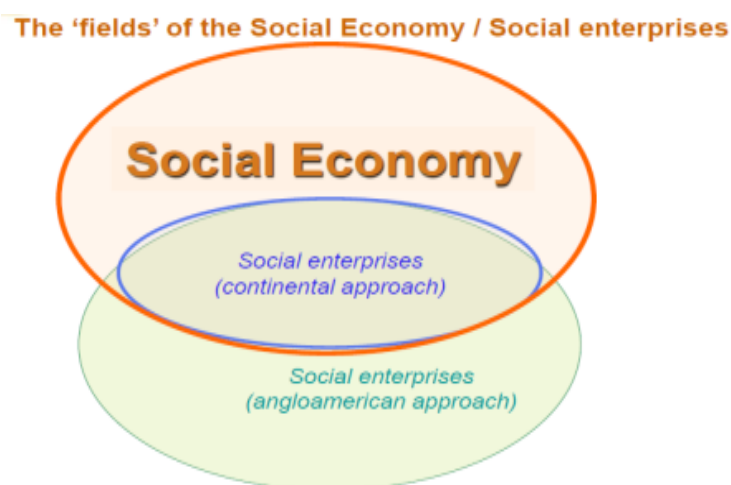
Some researchers (e.g. Teasdale et al. 2013) argue that the self-identification question should be used as a basis for defining the population of social enterprise in the UK. An alternative view would be that either the question needs to be reformulated, or the definition of social enterprise needs to be adapted, for example to be more inclusive of third sector organisations becoming more entrepreneurial. It could for example read: “Social enterprises are *organisations* with trading income, whose objectives are primarily social, and whose surpluses are principally invested for that purpose in the business or community, rather than being driven by the need to maximise profit for shareholders and owners” (adapting the DTI [2002] definition, by substituting “organisations” for “businesses”).

There are other criteria that appear relevant to defining the social enterprise sector (drawing on Johns Hopkins non-profit studies). They state that such organisation should be *organised/formal*, *private*, and *self-governing*; a more complete set of operational criteria would need to include these criteria. However, one of them (*organised*) is implied in the choice of a sampling frame of formally registered organisations. *Private* and *self-governing* are much more problematic criteria to apply, particularly regarding independence from government; for example, hospitals are “public benefit corporations” (a new legal form), and universities and housing associations are charities; they operate under highly regulated funding regimes but they could be considered as social enterprise if they are sufficiently independent from government, in terms of the degree of regulation in their funding regimes (criteria for defining the voluntary sector include independence from government, and being self-governing; Kendall and Knapp 1993). Note that governance and ownership are not specified in the UK criteria, although CICs are required to produce stakeholder reports annually.

## A.2. Defining the population of social enterprise in the UK

There are several different approaches to defining the population of social enterprise, and there are distinct differences between recent UK government approaches, on the one hand, and those of academics and sector bodies, on the other hand—see figure below.

One approach to defining the population of social enterprise is to argue that the social enterprise sector is included in the social economy or third sector (this is the position of many in the UK, and a view held more strongly in Scotland; it is also the view of the EMES network). This requires some consideration about excluding those members of the third sector that are not social enterprise because they are not trading or not sufficiently in the market. Such a view might also lead to excluding organisations that are not considered as providing sufficient social benefit—based on contested views over the extent to which co-operatives and mutuals have become isomorphic with conventional business; Mohammed Yunus, for example, in his definition of social business (where he specifies two categories), argues that only co-operatives owned by the poor are social business.



Source: Monzón and Chaves (2012).



However, there are other views, such as a US-inspired approach (“Anglo-American approach”, in the figure above) where social enterprise may take any legal form, including for-profit structures, provided they comply with the UK definition; or the view adopted by the British government, which goes even further by adopting in its ASBS surveys a sampling frame that excludes many third sector legal structures.

### *Legal structures*

In the UK, social enterprise may use a wide range of legal structures, but only one of these, the community interest company, is specifically intended for social enterprise. The possible legal forms are: company limited by shares (CLS), public limited company (PLC), partnerships, industrial and provident society (I&PS), company limited by guarantee (CLG), friendly society, community interest company (CIC), and since 2013 the charitable incorporated organisation (CIO).

Recent surveys in the UK have adopted two contrasting approaches, either adopting a sampling frame of the third sector, or a business sampling frame. This has led to two rather distinct population estimates of social enterprise, based on two broad types of social enterprise—third sector social enterprise, and private-sector social enterprise.

### *Population of social enterprise*

There have been at least five widely different survey-based estimates of population of social enterprise since 2005 in the UK, as summarised by Teasdale et al. (2013). The UK definitional criteria have been applied differently, but it is possible to reconcile and harmonise the criteria for the different survey estimates (see Table 1, adapted from Teasdale et al. 2013).

Since these surveys use different sampling frames, there is an issue of how to get an aggregate sum of social enterprise. Looking first at those surveys using third sector sampling frames, and using the three main operational criteria (trading income > 50%, reinvesting majority of profit, and social purpose), it can be estimated that the population of third sector social enterprise has risen from 15,000 in 2005 to 21,344 in 2010 (according to NSTSO Wide, which excludes the self-identification test).

In the two main surveys (ASBS) that used the business database, the third sector organisations within these surveys can be relatively easily separated out; and if the small number of third sector organisations in the sample are excluded, and the results normalised on the basis of the three criteria—in particular adjusted to reflect 50% trading income requirement, this reduces the headline figure of 62,000 social enterprise to 59,520 social enterprise; and these correspond to the private sector social enterprise.

This gives a combined total of 80,866 social enterprise in the UK (approximate date: 2010). As Teasdale et al. (2013) note, government policy seems to be oriented to third sector capacity building and social enterprise development, while the headline figure of 62,000 social enterprise refers mainly to private-sector social enterprise. The figure of 59,520 private-sector social enterprise requires further study to examine these organisations’ social purpose (which is based on respondent categorisation).

Table 1: UK data on social enterprise

Data source	Description	Sample details	No of orgs	Turnover (£ bns)	Employment	Comments
IFF 2005	> 25% income from trading and self-defining	Only CLG and IPS	15,000	18	475,000	
ASBS narrow (2005-7)	SE with employees	Dominated by private, under-representing TS	70,000	15.5	248,000	Only 8,000 in a third sector legal form
ASBS wide (2005-7)	All enterprises meeting SE tests	As above	234,000	23.6	410,000	Only 10,000 in TS legal form
NSTSO narrow	> 50% income from trading and self-defining	Third sector only	16,000	8.5	227,000	Postal/email survey of 48,939 organisations
NSTSO wide	> 50% income from trading but not self-defining	As above	21,000	10.7	272,000	
NCVO (2009)	SE activity	All civil society	Social entrepreneurial activity	77		Only TS, no private enterprise
Delta (2010)	Businesses wanting to make a difference	Private, less than 2 years old with >£200K income	232,000	97		Not self-defining
IFF (2011)	> 25% income from trading and self-defining	Dominated by private, under-representing TS	68,000	24	800,000	Survey of small business
BMG (2013)	> 75% income from trading and self-defining	Dominated by private SMEs	283,000	54.9	974,000	Using a less restrictive definition of social enterprise

## *Different forms of social enterprise*

As indicated above, almost all of the social enterprises in ASBS and BMG surveys (which are both government-commissioned surveys) use for-profit structures. In the 2012 BIS Survey (BMG 2013: 30),<sup>4</sup> 34% of social enterprises were companies limited by shares (CLS, both public and private), 31% were sole proprietorships, and 15% were partnerships; thus three quarters (75%) of the sample comprise business structures *unrelated* either to the third sector or to the new legal structure for social enterprise. The partnership structure can be used as a third sector form depending on how broadly the partnership is specified, and it was adopted by 15% of social enterprise; but most would be narrowly defined with few partners and so part of private business sector. Interestingly, almost half (48.7%) of the social enterprise in this government survey were family businesses.

Because the UK government adopts a rather simple set of criteria to define social enterprise, which can be met by almost any legal form, it could be argued that this for-profit characteristic represents the elephant in the room, since it has not been fully analysed and discussed. In contrast, in the above-mentioned recent government survey (BMG, 2013), since 10% of the responses could not be used for various reasons, there remained only 15% of social enterprises that used third sector structures: 4% were community interest companies (CICs—which can take CLG or CLS forms), 3% were companies limited by guarantee (CLG is a legal form commonly used by third sector organisations), and 3% were industrial and provident societies (I&PS form of co-operatives). All of these were enterprises *with* employees.

Some CLGs could have charitable status, but what proportion is not known, as “the question on whether enterprises also have charitable status is not asked in any of the small business surveys” (P 22, social enterprise market trends, BMG research, 2013). Thus some could be charitable; similarly, since charities can own private limited companies (typically CLS), it is not known what proportion of these are charity-owned social enterprise. However, charities and other TS social enterprise are well represented in the surveys using third sector sampling frames, such as NSTSO in Table 1.

In complete contrast to these findings, Social Enterprise UK (SEUK), the lead body in the sector, has conducted its own survey over the last few years, with a starkly contrasting sampling frame, where 38% were CLGs, 19% were I&PS, and 17% were CICs, i.e. 74% of the surveyed enterprises used third sector structures. Only 8% were companies limited by share, 2% were partnerships, 2% were sole proprietorships, 1% were limited companies, and 1% public limited companies. There is thus a considerable lack of agreement on the characteristics of the social enterprise sector; according to this dataset, non-third sector structures form only a significant minority—namely 14%—of social enterprises (about 11% of responses could not be used).<sup>5</sup>

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<sup>4</sup> The BMG (2013) reference corresponds to the 2012 BIS Survey. BMG conducted the survey for BIS in 2012, and it was published in 2013.

<sup>5</sup> It has to be noted that the published statistics (SEUK 2013: 67) have been adjusted to take account of the fact that about 23% of CICs use CLS form, and 77% use CLG form.

These two surveys reveal almost mirror images of the extent of non-third sector vs third sector structures used by social enterprise: 75%/15% according to government statistics, 14%/74% according to SEUK statistics.

### A.3. Understanding UK context:<sup>6</sup> a historical discourse approach

This section of the working paper adopts a historical approach, tracing the development of social enterprise in England since the late 1990s. In the process, we observe that social enterprise is a contested concept, used to refer to different organisational types, at different periods in time, by different commentators. A particular attraction to policymakers is that the fluidity of the concept permits them to be claiming to address a wide variety of problems and issues through social enterprise.

The UK (or England) has a peculiar “Anglo-Saxon place” in the world. In some respects, the welfare state, particularly such as it developed after World War II, and the Keynesian approach to economic policy pursued until the late 1970s would suggest that the UK has social democratic roots. However, since the election of the Thatcher government, in 1979, there has been a move towards a more liberal model of welfare regime, to such extent that Esping-Andersen’s original typology classified the UK as a liberal model. This somewhat uneasy position in between the continental masses of Europe and America is also reflected in the country’s traditions of social enterprise, which can be summarised as in Table 2.

#### *1998-2001: The construction of a social enterprise “movement”*

The first usage of the term social enterprise in the UK in anything closely reflecting its current usage has been traced by Ridley Duff and Bull (2011) to Freer Spreckley and his writings, in the late 1970s, about the use of social audit by co-operatives. It seemingly took a long time for the concept to take hold. The first organisation to bring the concept into popular usage was probably Social Enterprise London (SEL), which was established in 1997 by co-operative practitioners aiming to modernise the co-operative movement and capture public and political interest in the work of co-operative development agencies (Ridley Duff and Bull 2011; Teasdale 2012) without alienating people through the language of common ownership. Among SEL’s company objects (as specified in registration documents) were:

*to promote co-operative solutions for economic and community development [and] to promote social enterprises, in particular co-operatives and common ownerships, social firms, and other organisations and businesses which put into practice the principles of participative democracy, equal opportunities and social justice.*

Cited in Teasdale (2012: 109)

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<sup>6</sup> Some sections of this chapter have been reproduced from Teasdale (2012), who addresses many of the objectives set out in the specification for this working paper.

Table 2: UK social enterprise discourses and concepts, and associated ideal types<sup>7</sup>

Discourse / concept	Theoretical assumptions	Umbrella body	Examples of social enterprise(s)
<p>Co-operatives are a different way of doing business. They are different because they are jointly owned and democratically controlled.</p> <p>Co-operatives are controlled by members who actively participate in setting their policies and making decisions.</p> <p>Members serving as elected representatives are accountable to the membership and it is the members who are the <i>beneficiaries</i> of the activities of the business.</p>	<p>Social economy – a third (private but non-capitalist) sector made of cooperatives, mutuals and associations, and stressing democratic governance.</p>	<p>Co-operatives UK  <a href="http://www.uk.coop/about">http://www.uk.coop/about</a></p>	<p>A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly owned and democratically controlled enterprise.</p>
<p>Community enterprise is a significant sub-sector within the wider social enterprise sector. But a community enterprise is more specific in that it is based in, and provides benefits to a particular local neighbourhood or community of identity. A community enterprise is owned and managed by members of that community. It is an organisation run by a community as well as for a community.</p>	<p>Market failure – the failure of the private sector to allocate resources equitably and/or to meet demand.</p>	<p>Locality  <a href="http://locality.org.uk">http://locality.org.uk</a></p>	<p>Sunlight Development Trust is a community-owned and -managed charitable organisation that works with partners across all sectors.</p>
<p>Social businesses: Social enterprises are businesses which apply market-based strategies to achieve a social or environmental purpose.</p> <p>Many commercial businesses have social objectives, but social enterprises are distinct as their social or environmental purpose remains central to their operation.</p> <p>Some social businesses place limits on profit distribution, others are “for-profit”.</p>	<p>State failure – the inability of the public sector to deliver effective welfare services has led social enterprises to fill the gap.</p>	<p>Social Business  <a href="http://www.socialbusiness.org">http://www.socialbusiness.org</a></p>	<p>Social Bite “is an ambitious project set up by Alice Thompson and John Littlejohn after they were inspired by the notion of a ‘social business’ that seeks to make a positive change to society rather than personal wealth. In doing so, all profits are donated to Shelter Scotland, Vision Eye Care Hospital in Bangladesh and MicroLoan Foundation in Malawi and Zambia, as well as offering employment to ex-homeless people who make up a quarter of the staff”. It should be noted that there are no legal constraints on profit distribution, nor is it clear what profits have been “donated”.</p>

<sup>7</sup> Adapted from Teasdale (2012)

<p>Earned income: social enterprise as an activity (sale of goods and services) that has always been carried out by voluntary organisations.</p>	<p>Resource dependence – earned income as a response to declining state and philanthropic funding.</p>	<p>National Council for Voluntary Organisations  <a href="http://www.ncvo.org.uk/">http://www.ncvo.org.uk/</a></p>	<p>Oxfam, the international aid and poverty relief charity, derives most of its income through grants and private giving. However, a growing proportion is generated through the sale of second-hand and fair-trade goods.</p>
<p>Delivering public services: the state should retreat from delivering services (but remain as funder). The third sector should expand to fill the gap.</p>	<p>Voluntary failure – the third sector does not have the capacity to deliver welfare services and requires infrastructural investment to meet the challenges.</p>	<p>Association of Chief Executives of Voluntary Organisations (ACEVO)  <a href="http://www.acevo.org.uk">www.acevo.org.uk</a></p>	<p>Turning Point derives over 90% of its income through contracts to deliver drug and alcohol services on behalf of the state.</p>

A network of interested and influential people connected to the New Labour government soon built around SEL. These included: Baroness Thornton, a Labour Peer with a co-operative background; Ed Mayo, then director of the New Economics Foundation and currently secretary general of Co-ops UK; Andrea Westall, who saw social enterprise as a model for the design of new mutual structures for public services which would permit “radically altered ways of behaving whose values might be inherent to the processes of the business itself” (Westall 2009: 6); and later on, Patricia Hewitt (who became Secretary of State for the Department of Trade and Industry and later for Health).

SEL also quickly built links with other organisations sharing similar democratic values. As Roy et al. (forthcoming) and Pearce (2003) identify, social enterprise in the UK can also be traced back to the community business movement emanating in rural Ireland and Scotland and which later grew into the development trust model, popularised across the UK, whereby community-owned organisations hold and manage assets on behalf of the community for the purposes of sustainable regeneration.<sup>8</sup> Community enterprises such as development trusts were assimilated into the social enterprise movement (Bland 2010). While sharing democratic values similar to those of the worker co-operatives which dominated SEL, community enterprises tended to have a broader ownership, and rely less on trading income. Teasdale argues that community enterprises were less radical in their goals than much of the worker co-operative movement and hence positioned themselves “as a response to market failure, rather than as an alternative to capitalism” (Teasdale 2012: 109).

This period was a time of rapid policy change. A New Labour government, with a strong commitment to social and economic reform, had been elected in 1997. However, the “third way” stance adopted by New Labour marked a dramatic shift from Old Labour, particularly towards an acceptance of the market and rejection of state ownership (Newman 2007). This opened up a policy space which SEL and their political allies were quick to exploit. The widening of the social enterprise construct demonstrated that social enterprises were able to respond to regeneration in areas characterised by market failure, and enabled practitioners to persuade the New Labour government to facilitate social enterprise development (Ridley-Duff and Bull 2011). Within 18 months of SEL’s formation the term “social enterprise” was used for the first time in a government publication, at least in the context of organisations trading for a social purpose. The Treasury’s Neighbourhood Renewal Unit report on “Enterprise and Social Exclusion” (HM Treasury 1999) borrowed heavily from SEL’s own material in describing social enterprises, with many paragraphs closely resembling the report from SEL’s first conference (Brown 2003). However, the range of organisational types highlighted in the governmental report was wider than that provided by SEL, and included more of the organisational forms highlighted by the Commission for Social Justice. Examples of social enterprises included “large insurance mutual and retail co-operatives, smaller co-operatives, employee owned businesses, intermediate labour market projects, social firms (e.g. for production by people with disabilities), or social housing” (HM Treasury 1999: 105).

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<sup>8</sup> <http://www.dtascot.org.uk/content/what-is-a-development-trust>

Following the Neighbourhood Renewal Unit report, working groups were set up to inform a national social enterprise strategy (Grenier 2009). Membership of these groups consisted of representatives from the different organisational types, including co-operatives and development trusts. Also represented for the first time were social businesses, which differed from the existing constituents of the sector in that democratic ownership and collective purpose were not seen as necessary organisational attributes.<sup>9</sup> The influence of social business discourses should not be overlaid at this point in time, though: the first attempt to map the social enterprise sector derived from one of the working groups' recommendations. It is illuminating that this study ignored social businesses adopting conventional business structures, focusing instead on organisational structures favoured by co-operatives and community enterprises—industrial and provident societies and companies limited by guarantee. The rationale for this was that these were the organisational structures predominantly used by social enterprises (IFF Research, 2005). Thus, although the construct had widened further, the prominent discourses were those which portrayed co-operatives and community enterprises as a solution to market failure.

### *2001-2005: Business solutions to social problems*

Following the creation of a social enterprise unit within the DTI, in 2001, the social enterprise construct expanded to fully incorporate social businesses. A policy environment of “what works” was receptive to the argument that organisational form was irrelevant (Newman 2007). This diluted the influence of co-operative and community enterprise discourses, which emphasised processes of participation, etc. (Pearce 2003). Critical academic commentaries covering this period saw social enterprise as a neo-liberal response to perceived state failure (Blackburn and Ram 2006). However, while the policy emphasis may have favoured social business discourses, policy documents of the period still claimed that social enterprises embodied “stakeholder participation” and “democratic and participative management” (DTI 2002). Rather than constructing a grand narrative which would have excluded some groups, it would appear that policymakers were constructing a big tent which included all groups claiming to be social enterprises (Bland 2010). Nonetheless, the government's interest in social enterprise was clearly moving towards their becoming a vehicle to free public services from bureaucracy.

At the SEL conference in June 2001, Patricia Hewitt (Minister of State for Small Business and E-Commerce at DTI) committed to embed social enterprise more fully within government policy if Labour were to win the forthcoming election. A week later, she was made Secretary of State at the DTI with five priorities, one of which was social enterprise development (Bland 2010). The social enterprise unit within the DTI deliberately created a loose definition of social enterprise to permit the inclusion of a wide range of organisational forms (DTI 2002). Their draft working definition would have excluded many co-operatives and social businesses, as it did not allow for the inclusion of organisations with “some element of private benefit”.<sup>10</sup> This was criticised by some members of the research and mapping working group as implicitly limiting social enterprises to regeneration issues. Following a period of intense lobbying by the co-operative

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<sup>9</sup> Sourced from an unpublished document from 2002 entitled *Summary of the outcomes of the Social Enterprise Unit's Working Groups*.

<sup>10</sup> Sourced from an unpublished document from 2002 entitled *Summary of the outcomes of the Social Enterprise Unit's Working Groups*.



movement, Brown (2003) notes that the DTI's definition of social enterprise (still used today) published in *Social Enterprise: A Strategy for Success* was expanded:

*A social enterprise is a business with primarily social objectives, whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.*

DTI (2002: 8)

The insertion of the word "principally" was seen by Brown (2003) as permitting the inclusion of worker co-operatives, whose members have a financial stake in the enterprise. As well as allowing the inclusion of co-operatives as social enterprises, it also allowed for the inclusion of for-profit businesses with social objectives. The final version highlighted the fact that social enterprises adopt a wide range of legal forms, including that of private "companies limited by share" (DTI 2002: 7). A characteristic exhibited by "successful" social enterprises, according to *Social Enterprise: A Strategy for Success*, but absent from the draft strategy, was that of being "financially viable, gaining their income from selling goods and services" (DTI 2002: 16). This implied that social enterprises relied primarily on trading for their income. As noted earlier, many community enterprises derived income from a wide range of sources, and were financially viable only to the extent that they could attract grants and donations.

This shifting emphasis reflected the growing influence of a social business discourse according to which social and economic objectives were not mutually exclusive. Social business representatives argued that organisational form was irrelevant. It was acceptable to create "private profit" from "public good" (Black et al. 2005: 21). Social enterprise was characterised by the DTI at this time as "business solutions to social problems" (Grenier 2009: 191), perhaps reflecting a neoliberal influence within the DTI. Social enterprises were portrayed as a way to reform state services which had (supposedly) been stifled by bureaucracy and a lack of innovation:

*The Government believes social enterprises have the potential to play a far greater role in the delivery and reform of public services (...) Entrepreneurial behaviour combined with a continuing commitment to delivering public benefit can lead to local innovation, greater choice, and higher quality of service for users.*

DTI (2002: 24)

There was resistance from co-operatives and community enterprises to this encroachment of social business. The Social Enterprise Coalition (SEC) was established in 2002 by members of the co-operative movement, ostensibly to unify the competing interests (Bland 2010). However, SEC's definition of social enterprise differed from the DTI's as it explicitly excluded social businesses that paid out profits to shareholders:

*Social enterprises are businesses trading for social and environmental purposes. Many commercial businesses would consider themselves to have social objectives, but social enterprises are distinctive because their social and/or environmental purpose is absolutely central to what they do—their profits are reinvested to sustain and further their mission for positive change.*

This period marked a shift of the policy emphasis away from community enterprises and co-operatives as a response to market failure, and towards social businesses as a response to state failure. This was exemplified by the second attempt to map social enterprises in the UK, which used the Annual Small Business Service (ASBS) surveys, and endeavoured to determine what proportion of mainstream businesses were social enterprises. Unlike the previous study, there was no legal constraint on the distribution of profits to external shareholders—nor were social enterprises limited to organisations demonstrating social ownership or democratic control. Instead, they could take any legal form (Teasdale et al. 2013). The move away from the notion of social enterprise as democratically controlled was also evident in the creation of a new legal form for social enterprises in 2005, the community interest company (CIC). Unlike existing industrial and provident society legal forms, CICs had no requirement for democratic control and ownership (Smith and Teasdale 2012).

### *2005-2010: Moving in with the third sector*

Following the transfer of responsibility for social enterprise to the newly created Office of the Third Sector (OTS), in 2006, the social enterprise construct was widened further so as to incorporate earned-income discourses (see Defourny and Nyssens 2010). It became so inclusive that a wide-ranging review of the literature identified that the only defining characteristics central to all definitions of social enterprise were trading and the pursuit of a social purpose (Peattie and Morley 2008). A particular policy emphasis saw social enterprise as a response to voluntary failure, which necessitated a range of initiatives designed to increase the capacity of social enterprises to deliver public services. Some authors covering this period noted that the institutionalisation of social enterprise in England may be bound up in the privatisation of public services (Di Domenico et al. 2009; Haugh and Kitson 2007).

The Charities Aid Foundation (CAF) had demonstrated an early interest in the potential for social enterprise to offer alternative income streams to their members by commissioning research examining the potential utility of social enterprise in the voluntary and community sector (see Pharoah et al. 2004). Similarly, the National Council for Voluntary Organisations (NCVO) launched a sustainable funding initiative in 2000 to encourage their members to draw upon social enterprise activities as one part of a balanced funding mix (NCVO 2010). This earned-income discourse was careful to highlight that social enterprise/earned income was only one of many funding sources available to non-profits. Kane (2008) also differentiates this activity-based approach: "Social enterprise is normally thought of as a type of organisation. However, another way of thinking about social enterprise is as an activity, carried out by a variety of organisations within civil society." (Kane 2008: 1)

Whereas NCVO and CAF represented the earned-income school of thought pioneered by Dees (1998), the Association of Chief Executives of Voluntary Organisations (ACEVO) was leading a move to increase the role of voluntary organisations in the delivery of public services (Davies 2008). ACEVO adapted to the language of social enterprise, and lobbied government for social enterprises to deliver public services (Ainsworth 2010). However, ACEVO was not claiming to represent all social enterprises but rather non-profit-distributing voluntary organisations.

As stated above, the Office of the Third Sector (OTS) was created in 2006, following a period of lobbying by strategic alliances of voluntary organisation representatives (Alcock 2010), and responsibility for social enterprise moved to the OTS (which was a division of the Cabinet Office). This led to the policy emphasis that “social enterprises are part of the ‘third sector’, which encompasses all organisations which are nongovernmental, principally reinvest surpluses in the community or organisation and seek to deliver social or environmental benefits.” (OTS 2006: 10)

An underlying assumption was that the third sector was best able to identify and respond to social problems at a local level, and could potentially deliver public services more cost effectively than the public sector. However, an argument put forward by infrastructure bodies such as NCVO and the Social Enterprise Coalition (now SEUK) was that an injection of resources from the state was necessary to enable organisations to scale up and adapt to a new policy environment. This has echoes of the voluntary failure argument advanced by Salamon (1987). Considerable resources were invested in third sector infrastructure to enable third sector organisations to bid for and deliver public services (Di Domenico et al. 2009).

The earned-income discourse in part marked a shift of policy emphasis away from the social business and co-operative/community enterprise discourses which were prevalent in the early years of social enterprise. However, rather than suggesting that the meaning of social enterprise had changed, it is more accurate to say that the meaning had further expanded to also incorporate voluntary organisations delivering public services. This was driven in part by the changing policy environment, where the main policy driver was to reform public service delivery (in particular with a view to reducing the cost). Policy entrepreneurs from the social enterprise “movement” and wider third sector had been quick to spot this policy window of opportunity (see Kingdon 1995) and had pushed social enterprise as a policy tool to achieve this. Understandably, policymakers were keen to take advantage of this. By 2009 the OTS claimed (in a document outlining their vision for the reform of public services) that social enterprises demonstrated that:

*(...) social and environmental responsibility can be combined with financial success. They are innovative; entrepreneurial; concerned with aligning the needs of the individual with those of society; and social justice is their guiding principle. They offer joined-up, personalised services by (...) making the connections for service users (...) enabling users to make informed choices. They enable access to public services by (...) taking the service to the citizen, empowering dispersed communities to work together. They improve outcomes for those “hardest to help” by (...) developing innovative solutions (...) sharing the problem and the solution. They influence individual choices by (...) using role models within the community (...) giving people a stake in protecting their future.*

OTS (2009: 1)

Given these mythical attributes, what policymaker would dare ignore social enterprise as a policy tool?

## *2010-2016: New government, same direction?*

Many commentators (author Teasdale included) have portrayed social enterprise in England as a construct of New Labour. When a conservative-led coalition government came to power in 2010, amid economic crisis and a perceived need to cut public spending, one of their first acts was to “ban” usage of the term third sector, and rename the OTS, the “Office for Civil Society” (OCS) (Alcock 2012). This was closely followed by a decision to dramatically cut infrastructure support to the sector. The representative body, Social Enterprise UK, had been heavily funded by government and had to “downsize” significantly. However, rhetorical support for social enterprise seems to have further increased, and policy support has been continued, albeit through a seemingly radical new direction.

The election of the new government and the economic “crisis” provided a new opportunity for actors to (re)position themselves as central to support for social enterprise. While the conservative party had demonstrated some support for social enterprise while in opposition, David Cameron was the keynote speaker at Social Enterprise UK’s national conference in 2009, when many policy makers were seemingly unaware of the concept. While in opposition Cameron had outlined his “Big Society” discourse, which positioned the Big Society as a counterbalance to the overbearing Big State (Alcock 2012). One aspect of this idea was an enhanced role for voluntary and community organisations and social enterprises in the delivery of public services (Cabinet Office 2010; HM Government 2011).

A newly elected conservative MP—Chris White—had won a slot to introduce a private members bill. Following consultation with Social Enterprise UK and other interested parties, he produced what was then called the Public Services (Social Enterprises and Social Value) Bill. The framing of the bill was radical in that it indelibly associated social enterprise with social value creation, and suggested that social enterprises should be favoured by commissioners and procurers of public services due to the added social value they create:

*The Bill attempts to strengthen the social enterprise business sector and make the concept of “social value” more relevant and important in the placement and provision of public services. New duties will be placed upon central and local government authorities to publish explicit strategies for supporting these values and the public procurement process will need to reflect and measure them.*

Edmonds et al. (2010)

The original bill contained three significant clauses: it states that the central government will have to publish a national social enterprise strategy; that the 2000 Local Government Act will have to be amended so that every local authority will have to adopt proposals for promoting engagement with social enterprise in their area; and local authorities will have to consider how public contracts might improve the economic, social or environmental wellbeing of the UK (Edmonds et al. 2010). Social enterprise was to be (loosely) defined as “being a business, the activities of which are being carried on primarily for a purpose that promotes or improves the social or environmental well-being of the United Kingdom” (Parliament 2012).

Although considerable resources had been given to organisations (and particularly infrastructure bodies) claiming to be social enterprises over the past decade, the third clause—the potential for social enterprises to be offered favourable treatment by public services commissioners—and the definition led to huge debate as to what is (and what is not) a social enterprise, and in particular what is social value and which organisations create it. This debate is neatly summarised in the paper by Teasdale et al. (2012), which draws upon the Hansard record over the second reading of the bill. To briefly summarise here, one wing of the Labour party emphasised the need for democratic ownership and accountability within social enterprise; a “Big Society” group of Conservative MPs emphasised the non-profit distribution constraint as an essential criterion; while a third group, made up of market liberal MPs, emphasised that for-profit companies can also create social value and that the social enterprise label should not be limited to third sector organisations. Within this third group, there was considerable divergence of opinion as to whether only small (local) businesses should be treated as social enterprises, or whether larger organisations such as Tesco should also be seen as social enterprises due to the jobs they create in local communities and the money they put back into the community (Teasdale et al. 2012).

Rather than addressing this definitional complexity about social enterprise and the implications also for the first two clauses, the conservative party pressured Chris White to drop the first and second clauses from the bill, and considerably watered down the third clause such that commissioners of some public services must (financially proportionate to contract size) consider whether to include social value when commissioning public services. Social value itself was left undefined, leaving commissioners free to decide whether it was intrinsic to third sector or democratically-owned organisations, or whether Tesco did indeed create social value.

In some ways, the discourse around social enterprise under the coalition government has moved closer to that in the United States. The label “social enterprise” is perhaps used less as market liberal politicians try out alternative concepts, such as “social venture”, perhaps because these are less laden with left-of-centre notions of democracy, and more with a new way of thinking that sees social value creation as compatible with the accumulation of private profit. But this is accompanied by a still strong one-nation conservatism which supports the role of charities and voluntary organisations in delivering (non-public-funded) services. This in turn reflects the inherent contradictions in conservative political philosophy, which were accentuated within the era of Big Society.

The Big Society concept received less and less attention over the period of the coalition Government as social enterprise support was cut and replaced with policy attention to encouraging “social investment”. The policy interest in social enterprise declined further in 2016 with the policy makers working on social enterprise being moved from the Cabinet Office to the Department of Culture, Media and Sport.

## Conclusion on concepts and policy

Social enterprise is a contested concept, whose meaning is culturally, historically and politically variable. Some authors have attempted to classify the UK (or more correctly English) approach to social enterprise as a liberal one (Defourny and Nyssens 2010). As this paper shows, social

enterprise in England is not a single entity. It is a label that has been used by different actors competing for resources (political and financial)—worker co-operatives and employee-owned firms; not-for-profit local regeneration initiatives; private sector organisations with an apparent social conscience; charities with earned income streams; voluntary sector (and even private sector) companies delivering public services; and public sector spin-offs. These different organisational forms are linked to different practitioner discourses, and explained by different academic theories.

Social enterprise has been constructed by a variety of competing interests, embracing different discourses and representing different organisational constituents. The New Labour administration may have been initially influenced by the co-operative movement in supporting the development of social enterprise. A marriage between co-operative and community enterprise discourses helped position social enterprise close to the heart of the “third way project” in 1999. A second stage saw the influence of a social business discourse upon the construct. This became firmly embedded following the establishment of the Social Enterprise Unit within the DTI. In a third stage, the influence of earned-income discourses, promoting voluntary organisations as a vehicle for public service delivery, further broadened the construct. Under the coalition government that came into power in 2010, social enterprises role in delivering public services was further accentuated, while simultaneously, understanding of what a social enterprise is moved further towards the for-personal-profit private company with a social conscience.

Each widening of the social enterprise construct coincided with changing policy emphases, during different governmental periods of office. Thus a prominent community enterprise discourse coincided with a policy emphasis on area-based regeneration as a response to market failure in New Labour’s first term of office (Blackburn and Ram 2006). The prominent social business discourse linked closely to the enterprise culture promoted as a response to state failure in New Labour’s second term of office (Grenier 2009). New Labour’s final term of office saw a prominent voluntary failure discourse corresponding with a huge injection of resources from the state into the third sector to enable social enterprises to “scale up” and deliver public services. Under the coalition government, the “Big Society” discourse, which positions voluntary and community sector organisations and social enterprises as alternatives to a Big State in the delivery of public services (Teasdale et al. 2012), cohabited uneasily alongside a more (neoliberal) caring capitalism discourse, emanating from the United States, which argued that social and commercial goals could be more closely aligned so that private companies could serve the public good (Kramer and Porter 2011).

## PART B. IDENTIFICATION OF SOCIAL ENTERPRISE MODELS

In the UK, social enterprises use a variety of organisational forms, and this makes it problematic to survey the field. Organisational forms and legal structures coincide for some categories, but not for all; in particular, co-operatives and other third sector organisations share the company limited by guarantee legal form. Nonetheless, different organisational forms are recognisably distinct, and understood internationally. The following types of social enterprise are considered relevant to the UK/English experience of social enterprise.

## *Organisational forms/models*

Four main organisational forms (or “models”) of social enterprise can be identified, namely co-operatives, charities, for-profits, and community interest companies (CICs). Part B is structured on the basis of these organisational forms (sections B.1 to B.4); in the last subsection (B.5), SE fields of activity are analysed.

These organisational forms are distinct but, as we will argue, there is a degree of hybridity within each of them. For each of these organisational forms, there is more than one legal form that can be used (see Table 3); such situation is likely to support the development of hybridity.

## *Legal forms*

In the UK, there are a wide variety of legal forms that may be used for social enterprise: community interest companies, industrial and provident societies, companies limited by guarantee, charities, charitable incorporated organisations, companies limited by shares, sole traders, partnerships. The community interest company (of which there are two forms) is the only form that is specifically dedicated to social enterprise—in other words, organisations using that form are all social enterprises. All the other legal forms usable for social enterprise also include other types of organisation, which would not be considered as social enterprises.

Co-operatives may be formed under two legal structures: as companies limited by guarantee (CLG) or as industrial and provident societies (I&PS), for which legislation has recently been updated. Co-operatives are an important but relatively small part of the population of social enterprise in the UK. Worker co-operatives and co-operatives in the social care field are the most relevant to the field of social enterprise; but there are also some multi-stakeholder co-operatives amongst public sector spin-offs.

Charities form the most prominent part of the social enterprise sector, and their legal structures have been enhanced to facilitate entrepreneurial activity through the new legal form of charitable incorporated organisation (CIO); charities have been transformed to have increasing levels of socially entrepreneurial income, as their resource context is reconfigured, from subsidies to service agreements and procurement contracts. However, many charities may not self-identify as social enterprises, partly because of the very business-like definition of social enterprise in the UK.

For-profit social enterprises constitute a relatively under-researched part of the spectrum, but according to government statistics, they form a major proportion of SE in the country.

And finally, as mentioned above, the community interest company legal form has been specifically developed by the UK government in order to support the development of social enterprises and increase their visibility and legitimacy; but partly because the legislation has only been in force for 10 years, they only form a small proportion of the population of social enterprise in the UK.



The following table summarises the legal forms available to each organisational form.

**Table 3: Overview of the main social enterprise models in UK**

Model (organisational form)	Socially oriented co-operative	Trading charity	For-profit	Community interest company
<b>Main legal form</b>	I&PS, CLG	CLG/charity, CIO	CLS, sole traders, partnerships	CIC (CLG or CLS)
<b>Main goal</b>	Mutual and general interest	Public benefit	Private (profit) and general interest (blended value)	Community benefit
<b>Main resources</b>	Mainly market income; including public contracts	Public contracts, private market income, plus subsidies Mixed income	Market income	Mainly market income; including public contracts
<b>Governance</b>	Members as beneficiaries; democratic	Members ( $\neq$ beneficiaries); some level of democracy	Entrepreneur controlled	Member and/or entrepreneur controlled

**Abbreviations:** I&PS: industrial and provident society; CLG: company limited by guarantee; CLS: company limited by shares; CIC: community interest company; CIO: charitable incorporated organisation.

Adapted from Huybrechts et al. (2016).

### *Fields*

The UK has a broad approach to social enterprise, which recognises the potential for forming social enterprise in a wide variety of fields. Thus although work integration has been a prominent field for the development of social enterprise, it is by no means the only field of development. Community businesses have been a highly successful model for local community development, both in rural and urban inner-city areas. Social enterprises providing public services could have been identified as a model, but their forms and patterns of development are so diverse that it appeared more appropriate to identify them as a field. Public services SEs are of four main types: housing associations are regulated charities that took over local authority (municipal) housing; leisure trusts are staff-controlled multi-stakeholder co-operatives that took over municipal leisure services; academies and co-operative trust schools are multi-stakeholder charitable trusts where parents and staff are involved in governance; and public service mutuals are more recent spin-offs from the public sector (including in particular the health sector). Although public service



mutuals are referred to as mutual, they are typically management-led, with a substantial degree of staff ownership and participation. There are also a wide range of other sectors, including fair trade and ecological products and services. Fair trade is particularly interesting because it often involves multi-stakeholder and multi-organisational structures.

Three fields are covered here (in sections B.5.1 to B.5.3 respectively):

- work integration social enterprise;
- community business;
- public services (four types).

## B.1. Co-operatives in the United Kingdom

This section focuses on co-operatives in the UK and represents a concise review of the field.<sup>11</sup> The first part provides an examination of issues relating to the diversity of the co-operative field by examining features linked to their institutional and legal structures. The second part offers an overview of the range of organisational types and diversity of activities. The third part examines co-operatives as social enterprises.

### *B.1.1. Institutional and legal structures*

Many countries have a specific and dedicated legal form, enshrined by legislation, which defines a “co-operative”; this is typically informed by the International Co-operative Alliance (ICA), which has specified seven principles as a framework for co-operatives. The principles (ICA 2014) are:

1. voluntary and open membership;
2. democratic member control;
3. member economic participation;
4. autonomy and independence;
5. education, training and information;
6. co-operation among co-operatives;
7. concern for community.

In the UK, the major umbrella body, Co-operatives UK, is a federation of co-operatives. As a membership body, it undertakes advocacy, policy and research activities, organises conferences and develops codes of practice; it supports the seven ICA principles, and provides model constitutions (rules) for use with relevant legal structures. In the UK, until recently, despite a long historical continuity of co-operative development (including the Fenchurch Weavers in 1769; Robert Owen’s model factory initiatives from 1800; Dr William King’s cooperative store in Brighton and his paper published in the 1820s; and the Rochdale Society of Equitable Pioneers, founded in 1844—see ICA 2007), there was no dedicated legal form for a co-operative organisation (Co-ops UK 2014a). This meant that co-operative organisations that wished to register themselves with a legal personality chose one of a range of legal forms—none of which was designed specifically for them. This played, at the least, some role in shaping the field and the narrative surrounding this type of social enterprise.

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<sup>11</sup> For a more expansive and critical perspective, see Aiken (2016).

One popular solution for co-operatives was to register using the legislation enshrined in the Industrial and Provident Society (I&PS) Acts 1965-2002. In 2014, the Co-operative and Community Benefit Societies Act 2014 replaced the “industrial and provident society” legal form with two new organisational forms, one of which, namely that of “co-operative society”—unsurprisingly, as its name indicates—is specifically intended for use by co-operatives.<sup>12</sup> The mutual form of “co-operative society” aims primarily to benefit its own members, “who will participate in the primary business of the society” (FCA 2014: 4). The co-operative society must fulfil six conditions, four of which are seen to “reflect the ICA’s statement on the co-operative identity”: a social economic or cultural interest must be held in common by the members; the business must be run for mutual benefit; it must be managed by its members, not based on the size of their investment; and it must not be established to make profits or dividends for others (FCA 2014: 4). However, the Act does not emphasise the other co-operative principles such as they are defined by the ICA, namely principles 5-7, which are seen only as guidelines—5: education, training and information; 6: cooperation between co-operatives; 7: concern for community.

A second alternative, adopted by many co-operatives, is to register under the Companies Act 2006 as a company limited by guarantee (CLG), whereby each member guarantees a certain amount, usually £1, in the event of the company being wound up with outstanding debts. This legal form is very flexible, but the co-operative federal body, Co-operatives UK, provides model rules for CLGs that are consistent with ICA co-operative principles.<sup>13</sup> Such model rules state that members have democratic control over economic and management matters; there is no distribution of profits; assets may not be distributed to members in the event of dissolution; education and training in co-operative values are stressed; and community purposes are important (Co-ops UK 2017).

A third—and more recent—option is to register as a co-operative form of community interest company (CIC) using model rules/constitutions (either limited by guarantee or by shares) under the Companies (Audit, Investigations and Community Enterprise) Act 2004.

A fourth option, again using model rules, is to become a private company limited by shares, registered under the Companies Act 2006. However, this it is not always appropriate as companies that chose this legal form “are prohibited from issuing shares to the public” (Co-ops UK 2014a).

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<sup>12</sup> The Act also defines a “community benefit society”, which is *not* set up to benefit the organisation’s members but rather a given community; it is thus philanthropic in nature. It may not distribute profits to members, it is restrictive of interest on any share capital, and assets may not be distributed to members if the organisation closes (FCA 2014: 5). It therefore has some qualities that align it more to charitable structures, and could be deemed to be liable to charity law, although “it cannot be registered with the charity commission” (FCA 2014: 5). Existing I&PS organisations, which were registered before August 2014, will now be known as “registered societies”, although there are provisions by which an existing company or friendly society can be converted into a co-operative society or community benefit society.

<sup>13</sup> Co-operatives UK also provides model governing rules for a wide variety of co-operatives.

A fifth option is to register as a limited liability partnership under the Limited Liability Partnerships Act 2000. Members have limited liability and this has been used “by worker co-operatives but also co-operative consortia as their membership is often being made up of self-employed people” (Co-ops UK 2014a).

Sixthly, very small or informal co-operatives may not take on any of these forms and operate as “collectives”, registering as unincorporated associations or partnerships. We might also argue there is “below-the-radar” co-operative *practice*, within or without organisational forms, where professionals in a company or government department work together in co-operative ways or where activists organise or survive through co-operative working, reciprocal action or even “commoning” (through a “commons” perspective; see Quiligan 2013).

The first two of the above options—l&PS/co-operative 2014, and company limited by guarantee—are most common, but these six differing arrangements in relation to governance, management, share distribution, member liability and specific regulatory bodies present a complex picture of “key features of the different legal forms” (Co-ops UK 2009a: 27).

In August 2014, the legislative situation changed nominally when the Co-operative and Community Benefit Societies Act came into force—although it was largely a consolidation and tidying up of existing industrial and provident society legislation. In any case, legal structures do not, of course, necessarily constitute a good indicator of individual co-operatives’ actual activities and beliefs. They do not reveal in depth, for example, much about their behaviours or day-to-day governance in practice, nor the characteristics they exhibit in an institutional field. Cultural and historical factors, together with development strategies (top-down/bottom-up), also shape this varied field. Spear et al. (2014: 154) point to four types, based on a path-dependency perspective of social enterprise. The development paths of these new patterns of hybridity emerge from four main origins: mutualism, trading charities, public sector spin-offs, and new-start social enterprises. These origins still play a role—rhetorically or otherwise—in shaping practice today among co-operatives (for more specific analysis of hybridity in co-operatives, see Spear 2012).

### ***B.1.2. Types of co-operatives and their activities***

The major types of co-operative include worker co-operatives, consumer co-operatives, co-operative consortia (or marketing co-operatives), agricultural co-operatives, credit unions, housing co-operatives (of many varieties), community co-operatives, secondary co-operatives, and food co-operatives (buying groups) (Co-ops UK 2009: 28-30). However, there is a wider range of organisations that also bear resemblances to co-operatives. These include community amateur sports clubs, clubs or associations, community enterprises (or community businesses), community development finance institutions, community finance societies, community land trusts, community-supported agriculture organisations, development trusts, employee-owned businesses, leisure and cultural trusts, mutual partnerships, social enterprises, social firms, supporters’ trusts, and tenants’ and residents’ associations (Co-ops UK 2009: 31-35).

As far as cooperatives' fields of activity are concerned, in many traditional sectors, such as agriculture and consumer co-operatives, there has been a decline in the level of activities; but worker co-operatives, prominent in the 1970s and 1980s, have seen a regeneration of interest recently, and are now one instrument in work integration. Some worker co-operatives engaged in promoting the fringe idea of wholefoods in the 1970s are now listed in the "Top 100" co-operatives by income (Co-operatives UK 2013b). The recent development of credit unions helps address financial exclusion. There are some social cooperatives where the current context towards increasing marketisation of mainstream social provision—for example in the fields of workfare, elderly care, prisons and the health service—means that co-operatives are entering into government contracts for "business" in welfare fields that would have not have existed to the same degree 20 years ago. And the deregulation of public services has created new markets, such as for community-owned wind farms, and for phone and internet providers—the Phone Co-op, for example, had a turnover of £10,572,619 in 2013 (Phone Co-op 2013: 23).

### ***B.1.3. Co-operatives as social enterprises***

The DTI (2002) definition of social enterprise is operationalised, as already mentioned, through three main criteria, namely: the percentage of income arising from trading; the pursuit of social and environmental purposes; and the degree of reinvestment of profits; and (less relevant as a definitional criterion) the extent to which the organisation self-identifies as a social enterprise. Co-operatives would be likely to meet the trading and reinvestment criteria; there would be different interpretations of the social purpose criterion; and as to the self-identification criterion, whether a co-operative self-identifies as a social enterprise is only intended as an interesting policy question. It is possible that many of the newer initiatives would self-identify as social enterprises, but this has not been researched.

Turning to the EMES three sets of indicators defining an ideal type of social enterprise, most co-operatives would achieve well against the economic indicators and the governance indicators. But against the social indicators, there may be some difficulties for certain co-operatives; indeed, some of the more commercial co-operatives (in particular, agricultural co-operatives) might see the distribution of profits as centrally important for an enterprise trading for mutual benefit. Similarly, there would be different interpretations of the social purpose—mutual *versus* public benefit (general interest). If a co-operative emphasises mutual benefit, its members are not disadvantaged, and there is little wider community/public benefit, then it is difficult to consider that this co-operative has a social purpose. A similar approach is adopted by Mohammed Yunus when he describes one type of social business as "co-operatives owned by the poor", where he emphasises the disadvantaged as central stakeholders (Spear 2015). In such a perspective, worker co-operatives set up to help the unemployed and credit unions for the financially excluded would certainly be considered as social enterprise; but some of the more established co-operatives, where assisting disadvantaged members is not an important social goal, would not be considered as social enterprises.

Two case studies of co-operative social enterprise were carried out:

- a case study on a worker co-operative operating in a market with little or no public funding;
- a case study on a younger and smaller start-up co-operative, using one of the new structures under the 2014 Act.

## B.2. Charity social enterprises in England

There is a long tradition of charitable activity in the UK and a large proportion of the social enterprises have a charitable form as well as being limited companies. This section explores the nature of these charitable organisations that are trading as social enterprises.

These social enterprises combine registration as a charity with registration as a company limited by guarantee. Both of these forms will be explored below. Charitable social enterprises may evolve from established charities that were reliant on voluntary donations and grants but are becoming more engaged in trading activity. They may also come from new organisations being set up.

### B.2.1. Charities and social missions

Under the Charity Act, organisations can register as a charity if they can prove they have a “public benefit”. Being recognised as a charity demonstrates the organisation’s legitimate social purpose, and it is important for accessing funds from donors, grant-making trusts and the public sector. It also gives some tax exemptions, such as exemption from corporation tax, capital gains tax and local business tax. The social mission therefore has to be central to the charities’ objectives, although there is an ongoing debate over what is defined as a public benefit. In recent years, there have been particular debates regarding faith-based organisations, and registered charities that are very closely linked to commercial businesses and provide shareholders with some personal financial return.

### B.2.2. Governance of charities

Charities are governed by a set of trustees who are elected by a wider membership, usually at annual general meetings. The trustees are legally responsible for the charitable activities. The members can also vote for a wider management committee, making changes to the governing documents and on specific issues. However, there are some charities that do not have “wider membership”; in such cases, the trustees alone decide how their charity is run and make all decisions.

### B.2.3. Charitable companies

Charities may be unincorporated, but then the trustees are personally responsible for employing people and paying tax and for the debts of the charity. Consequently, charities that trade are wise to become incorporated as companies. They can register with Companies House<sup>14</sup> as companies limited by guarantee. This requires at least three company directors who have limited liability. Thus they have dual registration: as a company and as a charity with the Charity Commission. These charitable companies limited by guarantee differ from CLGs in that they cannot distribute surpluses to members or shareholders and they can only use their assets to carry out their charitable purposes. There are also a small number of social enterprises owned

<sup>14</sup> <https://www.gov.uk/government/organisations/companies-house/about>

as a subsidiary of a larger charity, but this is not explored here. The charitable incorporated organisation (CIO) is a new legal form (available for registration since 2013) that allows charities to enjoy the benefits of limited liability without having to resort to two forms of registration (the charity and the CLG legal forms). This new form has proven very popular, partly because it greatly simplifies the governance, so that only one board is required.

#### ***B.2.4. Reconfiguration of the sector towards social enterprise***

Over the years, the context for charities and other voluntary organisations has become more marketised. Years ago, there were subsidies for state-supported organisations; these subsidies gradually transformed into service agreements, which were more specific about what was required from the supported organisations; and this in turn led increasingly to contracts for tightly specified services.

It is also important to note that the National Council of Voluntary Organisations (NCVO) does not report the proportion of its members that are social enterprises; instead, it reports the proportion of income that is considered to be “socially entrepreneurial”—i.e. income from trading and contracts. This proportion has increased for the sector over many years, so that socially entrepreneurial income is now the largest source of income of voluntary organisations. Nonetheless there is a degree of resistance, among voluntary organisations, to self-identifying as social enterprises (partly due, as explained elsewhere, to the strong business orientation of the UK definition of SE).

There are different types of voluntary sector organisational responses to contracting; Buckingham (2010) distinguishes four types of response:

- Type 1: Comfortable contractors: these are typically housing associations, relatively at ease being largely dependent on contracts, adopting business-like practices, and with few/no volunteers.
- Type 2: Compliant contractors: these are charities that have become business-like and professional; they are more compliant about being very dependent on contracts and have few/no volunteers, and may be large or medium-sized organisations.
- Type 3: Cautious contractors: these have some involvement within government contracts, sometimes in the supply chain of large or medium-sized organisations; voluntary income is significant; there are volunteers; these organisations may be faith-based; and they may resist adapting to government requirements.
- Type 4: Community-based non-contractors: these organisations are not involved in government contracts; they tend to be small, related to local needs, or a cause or common purposes, or faith-based, and almost entirely organised by volunteers.

This research indicates considerable variation in the degree of hybridity of charities (Billis 2010). Type 1 is clearly a very commercial non-profit, while type 4 is much closer to the ideal type of voluntary organisation.

### B.3. For-profit social enterprises

In the UK, for-profit social enterprises might be considered as “the elephant in the room”. As noted in Part A, starkly contrasting data was presented in government-sponsored surveys, but whichever figures one takes, it is clear that sufficient numbers of social enterprise are formed using non-third-sector structures to make them an interesting type for further study. And yet they are hardly discussed as a separate type. Many influential stakeholders locate social enterprise within the third sector, and some very well-known “social enterprises” do not seem to be recognised as using for-profit structures (particularly CLS); and the issues and dilemmas associated with these types are not generally discussed—partly because the ambiguities around defining the scale of the sector are convenient for many different stakeholders.

The survey by the federal body representing the sector (Social Enterprise UK) uses a more targeted sampling frame (than government business surveys), where around three quarters of the organisations use third sector structures. And yet their 2013 survey, *State of Social Enterprise Survey 2013*, displays on its front cover Elvis and Kresse—an emblematic social enterprise with strong environmental values which is a for-profit social enterprise.<sup>15</sup>

This section of the paper examines the different characteristics of for-profit social enterprise, their entrepreneurial dynamics, and their strengths and weaknesses. There are different forms<sup>16</sup> that for-profit social enterprises take: from a legal point of view, there are four sub-types of social enterprise which use non-third-sector, for-profit legal forms:

- companies limited by shares (CLS);
- sole traders;
- partnerships (although broadly based partnerships might be considered as third sector forms); and
- B-Corp types of social enterprise (derived from USA model).<sup>17</sup>

#### *B.3.1. For-profit social enterprise and the UK and EMES definitions*

As already underlined, the UK has a very open and business-oriented set of criteria for defining social enterprise, which may legitimise the for-profit form. For-profit social enterprises are likely to meet the first criterion (i.e. deriving 75% of their income from trading [BMG 2013]), as they are more commercial than other forms of SE. In order to meet the second criterion (pursuing primarily social/environmental goals), the managers interviewed in the survey would need to respond positively to the question: “Do you think of your business as a social enterprise, by which I mean a business that has mainly social or environmental aims?” This raises questions about how respondents interpret the term “social”—as referring to a social purpose, a goal linked to the social sector, generating social value, or addressing a social problem; similar issues

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<sup>15</sup> For more information about Elvis and Kresse, see appendix 2, part 1.

<sup>16</sup> Note that the next section discusses the community interest company (CIC), differentiating between those using third sector versus for-profit legal forms.

<sup>17</sup> Since 2015, there has been growing interest in the B-Corp types of social enterprise, although only 100 had formally registered by 2017.



are raised for the term “environmental”. The third criterion (reinvesting the majority of profit into the organisation or community) is something that the majority of organisations in this category would do to strengthen the sustainability of their organisation (the dividend payout for S&P 500 in recent years has been just over 30%) —thus this criterion is also likely to be met.

With regard to the EMES dimensions of social enterprise, it is important to remember that these are not criteria, but are indicators defining an ideal type: comparing these indicators with the characteristics of the UK for-profit social enterprises will thus simply determine how close these enterprises are to the ideal type. With regard to the economic and entrepreneurial indicators, for-profit organisations would be expected to rate highly on these dimensions. With regard to the social dimensions, for-profit social enterprises have limited profit distribution (<50%); they have a social aim, but which may or may not be explicit; and they may or may not have collective entrepreneurial origins—thus there would be variations in the extent to which for-profit social enterprises rate against social dimensions. Finally, with regard to the governance dimensions, for-profit social enterprises would probably have a high degree of autonomy, but their decision making would be based on capital ownership, and they may be less likely to have a participatory nature—they would thus rate less highly on the governance dimensions. Overall, for-profit social enterprises would be likely to score well on the economic dimensions, less well on the social dimensions, and even less well on the governance dimensions.

Although the UK (and other countries of Anglo-Saxon origin) may be more open than other countries to for-profit structures generating social value, it is important to note that the UK experience is not exceptional. A recent European commission-funded study of social enterprise in 29 countries of Europe (ICF 2015) found that in 18 countries, the for-profit share company legal form “is one of the three most commonly used legal forms for social enterprises”.

Some would regard for-profit structures as a controversial part of the social enterprise sector unless there are strong constraints on the way in which they can operate. In practice, except for the CIC form, constraints are not strong—the only constraints are self-imposed, for example in statements about the use of profits (either public statements or constraints specified in the legal constitution).

### *B.3.2. Entrepreneurial pathways to for-profit social enterprise*

The possible entrepreneurial pathways of for-profit social enterprise are as follows:

- Entrepreneurial individuals and groups may set up an enterprise with strong social goals. Their choice of a for-profit legal form may be motivated by the desire to exploit a social market for private gain; it can also be due to indifference towards the variety of legal forms available, or to a preference for standard business structures. For example, Patagonia (which makes clothing and accessories for outdoor activities) has strong social/environmental values, as exemplified by its mission statement: “Build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis”.
- Charities and cooperatives may use for-profit structures to establish wholly-owned subsidiaries. These are considered as part of the charity or co-operative models, but such



structures do offer the possibility of bringing in outside private finance; the model then becomes hybrid, crossing the co-operative/charity/business sectors' boundaries.

- For-profit social enterprises may also be born from base-of-the-pyramid corporate entrepreneurship: this may be considered as economically motivated extensions of existing markets, or socially motivated CSR activities.
- CSR initiatives of some types (see below) can also be considered to belong to the spectrum of for-profit social enterprise.

Tracey et al. (2005) discuss different ways in which corporations can govern their corporate social activity. They identify four types of CSR practices:

1. charitable contributions (by corporations)—a traditional pathway, which may not be linked to social entrepreneurship;
2. in-house projects—where there is more control by the corporation, but it may be more difficult to change priorities, due do sunk costs;
3. collaborations with third sector organisations on joint strategies; and
4. partnerships with community enterprise (which is more equal than 2 & 3).

It may be possible to argue that type 2, with a high level of social investment, constitutes a hybrid structure, on the boundary between the social enterprise and for-profit sectors, while types 3 and 4 describe important social entrepreneurship pathways, as exemplified by the second generation of Grameen bank initiatives, where collaborations between the bank and multinational companies has led to some prominent joint ventures. However, most of these joint ventures (as in the Grameen cases) would be non-profit structures; the Grameenphone, which has proven highly profitable for the Norwegian telephone company, Telenor, is one of the exceptions to their current pattern of collaborations.

### *B.3.3. Types, strengths and weaknesses of for-profit social enterprises*

The characteristics of for-profit social enterprise are difficult to describe, because it is a very under-researched area. And there are considerable ambiguities both in relation to the current goals and values of for-profit social enterprises and in relation to their future aspirations and trajectories, given that they may be more susceptible than other legal forms to isomorphic tendencies.

However, it is clear, from the above analysis, that *four main types* of for-profit social enterprise may be distinguished on the basis of the pathways leading to their creation: some social entrepreneurs with strong social values may choose for-profit structures; some third sector structures may create for-profit structures with outside private shareholding; some multinational organisations may extend their products/services into base-of-the-pyramid markets (for social or economic reasons); and some business organisations may engage in CSR activities leading to for-profit joint ventures.

From a critical perspective, the *disadvantages* of for-profit structures include:

- lack of checks and balances or regulation over fairness in the distribution of benefits, and over the goal of serving the public good;
- ambiguities about the future use of accumulated assets;
- ethical concerns about making profit from disadvantaged people;
- lack of transparency about ownership structures, profit distribution, and tax contributions.

But for-profit structures are also interesting in an international perspective, because some countries, e.g. the USA, find them a quite legitimate form of social enterprise. Some commentators even go further and argue that they constitute a more efficient way of delivering social good. From their perspective, for-profit legal forms entail the following *advantages*:

- they have a familiar business form, with claimed efficiencies;
- they are less exploitative of staff (than charities)—although this view could be contested;
- they have a high potential for growth and scaling—due to access to capital markets.

Overall, there are considerable short-term and long-term ambiguities about for-profit social enterprises. They are very under-researched, and thus there is little evidence to support or counter their supposed strengths and weaknesses, beyond anecdotal evidence and good practice cases. Nonetheless, it is an interesting type, which has caught the imagination of social entrepreneurs and policymakers alike.

## B.4. Community interest companies (CICs)

This CIC legislation was passed to facilitate the development of community-level social enterprise:

*The Government will seek to develop further the Community Interest Company (CIC), an entirely new legal form designed for socially responsible enterprises. The Government does not intend that CICs should deliver essential public services such as schools or hospitals. However CICs have a clear role to play in complementing government services at the community level in areas such as childcare provision, community transport or leisure.*

HM Treasury Budget Report (2003)

The community interest company was launched in 2005 as a new legal form in the UK, and it has become an important model of social enterprise (almost 7,670 CICs were listed on the public register in 2013). The context for this development is a resurgence of interest in mutuality, after declines in the co-operative/mutual sectors due to demutualisations and poor performance—developments that parallel similar isomorphic tendencies in other countries.

The CIC is designed to be a flexible structure, facilitating entrepreneurial activity. CICs have three main characteristics:

- they have constraints on the distribution of profits (dividend cap);
- their primary purpose is to benefit the community;
- they have an asset lock.

### ***B.4.1. Third sector form, and share-based form***

The CIC can be used by non-profit-distributing enterprises providing benefit to a community. These enterprises are currently operating in areas such as childcare, social housing, leisure and community transport. There are a wide variety of CICs, including a health lottery run by a group of 51 CICs, which have contributed over £29 million to good causes during the last year. Many social enterprise are already incorporated as companies, either as a company limited by guarantee (CLG, a third sector form), and some as a company limited by shares (CLS, a private business form), and the CIC may be seen as an alternative. The defining characteristics of the CIC aim to make it particularly suitable for some types of community-based social enterprise—those that wish to work for community benefit within the relative freedom of the non-charitable company form, but with a clear commitment to a non-profit-distribution status. CICs are subject to the general framework of company law; the CIC is thus a new variant of existing forms of company. It can either take the form of a CLG or that of a CLS.

The distinguishing features of the CIC are the following:

- CICs must satisfy a “community interest test”, confirming that the enterprise will pursue purposes beneficial to the community and will not serve an unduly restricted group of beneficiaries. The test is that of a “reasonable person” judging if the CIC’s activities benefit the community;
- political parties, companies controlled by political parties, and political campaigning organisations cannot register as CICs;
- CICs cannot have charitable status, but charities can establish CICs as subsidiaries;
- CICs have an asset lock; a CIC’s residual assets, when it is wound up, cannot be distributed to its members. Rather, they will pass to another asset-locked organisation with similar restrictions on profits distribution, such as another CIC or a charity;
- CICs have constraints on the distribution of profits: CICs limited by shares can distribute a proportion of profits to “investor shares”, subject to a dividend cap regulated by the Regulator (see below); CICs limited by guarantee are subject to similar constraints on the distribution of profits. And they are both subject to caps on the level of interest payable on performance related loans (20%)
- the Regulator approves applications for CIC status, receives copies of the community interest company’s reports and polices the requirements of CIC status, including compliance with the asset lock. The CIC Regulator has close links with the Registrar of Companies;
- CICs must produce an annual company report containing key information relevant to CIC status, lodged with the public register of companies;
- beside their annual company report, CICs are required to provide an additional annual community interest company report to the Registrar of Companies. This report must cover: what the CIC has done during the year to benefit the community; the steps, if any, that the company has taken to involve its stakeholders in its activities; and information about payments related to its financial instruments, and about the remuneration of its directors.

CICs with share capital (i.e. those using the CLS form) can provide a limited return to their investors. The maximum total dividend that can be paid out to shareholders is limited to 35% of distributable profits, and for any one individual, to 20% of their share capital. 23% of CICs adopt the CLS form, and this proportion has been fairly stable for the last few years (Regulator of Community Interest Companies, 2016).

There has been a recent government consultation about increasing the limits imposed on the dividends distributed by CICs; the conclusion was that the limit of 35% of distributable profits should be retained, but that the maximum dividend per share (20%) should be removed. This change is intended to incentivise social investment, but in practice, only a few dividends have been paid in recent years. It should also be noted that uncapped dividend payments are already allowed to other asset-locked bodies (and 10% of CICs make such payments).

#### ***B.4.2. Current performance (from the CIC Regulator report)***

As far as dissolutions are concerned, 12% of CICs on the register failed in 2015/2016, but this is a lagging indicator, as there were almost twice as many CICs being formed as CICs that failed, and the failure rate peaks after 2-3 years, then declines substantially; the average rate of dissolution is 32% (total number of dissolutions divided by total number of formations, over the last 11 years). This appears similar to that for conventional SMEs.<sup>18</sup>

Interest in replicating the CIC model has been expressed in other countries, including Japan, Korea, France, and Italy, as well as in two provinces of Canada (British Columbia and Nova Scotia).

Areas of regulation by the CIC Registrar includes:

- directors' remuneration, which is expected to indicate an appropriate balance between personal financial return and delivering community benefit;
- protection of the assets, including ensuring that the asset lock is maintained;
- ensuring that community interest is satisfied, i.e. that community interest activities are being pursued, and monitoring community interest reports;
- misconduct or mismanagement;
- engagement in political activities.

Regional differences can be observed in terms of CICs population: two to three times as many CICs per capita are formed in England, compared to Scotland, Wales and Northern Ireland; the reason for these differences is not known, but they can possibly be due to the different policy and institutional support. There are also clear regional differences within England (with the North-East having twice the number/capita compared to the South-East [excluding London], Yorks and Humberside), and substantial differences of concentration of CICs in small towns, which may be due to different levels of support from institutions and networks; for example, a

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<sup>18</sup> "The majority (55 per cent) of small and medium-sized enterprises (SMEs) don't survive more than five years, according to new research from insurer RSA." (<http://smallbusiness.co.uk/majority-of-small-companies-do-not-last-beyond-five-years-2472867/>)

high level of concentration in small towns is seen in the South-West, which has 15 towns with 5 or more CICs (CIC Annual Report 2013).

### **B.4.3. Survival and location of CICs**

In a study of the determinants of social enterprise survival and location, Thirlaway et al. (2014) examined data from 6,868 registered CICs between 2005 and 2012. Based on population ecology theory, they researched various determinants of social enterprise survival and location:

- First, population density—they found that “as the population of social enterprises increased, dissolutions would gradually increase, as competition for resources intensified” (op. cit.: 29).
- Secondly, age/newness—this was not found to be a determinant of dissolution, as might have been expected, but industry sector was. Thus liability of age/newness was not found, but the liability of activity was confirmed, with more generalist social enterprise dissolving more than specialist ones.
- Thirdly, co-location with for-profit enterprises and NPOs—the researchers investigated the co-location population densities for social enterprises co-locating with for-profit enterprises and non-profit organizations, and “found positive relationships between social enterprise co-location and private enterprises as well as charitable organizations”, and they “[labelled] this relationship the *hybridity advantage*. Thus, it appears that social enterprises benefit from belonging to both private enterprise and charitable organization sectors” (op. cit.: 30).

Finally, they found that, due to their social mission, “social enterprises are more likely to be located in areas of disadvantage, where availability of resources is less than in more affluent areas”. They labelled this the *resource deprivation paradox*. However, their research offers an alternative (less paradoxical) explanation, namely that “government funding invested in areas of high deprivation does stimulate social enterprise founding rates”. (op. cit.: 30).

## **B.5. Social enterprise fields of activities**

### **B.5.1. Work integration social enterprises (WISEs)**

Social enterprise may be considered as a typology consisting of a number of different organisational forms that seek to reduce social inequality across different sectors by sustainably delivering non-economic outcomes (Nicholls 2007; Dart et al. 2010). Within this social enterprise typology, there is a particular form that seeks to assist people to reintegrate into the labour market, namely “work-integration social enterprises” (WISEs). A WISE assists people on the margins of society and is intended to prevent their permanent exclusion from the labour market and civil society (Spear and Bidet 2005). Prior research has identified WISEs as organisationally diverse (see Defourny and Nyssens, 2006), but it can also be argued that WISEs represent a specific type of social activity (labour market integration), and that different organisational forms are used to achieve this social outcome. This section seeks to explore the different models of WISEs that are operating in the UK today. It will identify their place within the economy and how this has been shaped by government welfare policy, both past and

present. In doing so, the section will demonstrate how government policy is leading to the growth of particular WISE models in different areas of welfare policy.

### *Defining WISEs: differing typologies*

As was outlined earlier, a WISE seeks to assist disadvantaged individuals who are socially excluded or on the margins of society to re-engage through employment (Spear and Bidet 2005). Generally, WISEs cannot tackle all of these individuals' problems (that can include drug/alcohol problems; low educational achievement; personal/family problems; and physical/mental health issues to name but a few), although many WISEs do try to offer holistic support, and so they generally focus on ensuring that individuals do not become permanently excluded from the labour market. They do this by offering employment, training, education and "life coaching/support" that is designed to alleviate *some* of the non-employment-related problems (outlined above). In seeking to achieve these aims, a number of different organisational forms have developed that adopt differing approaches to providing this experience.

Defourny and Nyssens (2006) identified six main types of WISE, namely: worker co-operatives; community businesses; social firms; intermediate labour-market organisations (ILMOs); voluntary organisations; and commercial integration organisations. Whilst these are all concerned with the central mission of reintegrating socially excluded individuals back into the labour market, the different forms have led to different approaches to achieving this integration. For instance, a number of organisations seek to deliver reintegration through permanent employment within the WISE itself; this is the case of worker co-operatives and social firms. These organisations vary in terms of percentage of their workforce that is socially excluded. In contrast, other organisations, such as commercial integration organisations (CIOs) and intermediate labour-market organisations (ILMOs) seek to reintegrate socially excluded individuals into the labour market through short-term work-based education, training and placements, either within the WISE itself or through external partners. Finally, community businesses and voluntary organisations tend to support either the less socially excluded (community businesses) or individuals with mental and physical disabilities (voluntary organisations) (Spear 2001). Community businesses and voluntary organisations can usually trace their origins to a parent charity, with community businesses usually representing a spinout or trading arm of a charity, whilst voluntary organisations tend to be reliant upon the donations and social capital that the parent/partner charity possesses (Spear 2001).

### *WISEs in the UK*

When examining WISEs in the UK, it is important to be aware of how they differ from their European counterparts and of the reasons behind this difference. Indeed, the types of WISEs that are prevalent in the UK, their goals and their structures have been significantly shaped by the UK unemployment rate and labour-market policy, as well as by the history of the third sector in the UK. In addition, the origins of WISEs in the UK (along with many other types of social enterprise) can be traced back to the worker co-operatives that emerged during the 19<sup>th</sup> century (Aiken 2007; Somers 2005) as a response of the workers to the perceived exploitation of their labour by the owners of the factors of production (i.e. factory owners).

The post-war restructuring of the UK economy provided an environment that was conducive to the growth of third sector organisations and social enterprises in welfare provision (Haugh and Kitson 2007), although the dominance of the state initially limited this growth. However, the drive towards more entrepreneurial and efficient government (Osborne and Gaebler 1992) that emerged in the 1980s and 1990s led to a reappraisal of the provision of employment welfare support. This shift in unemployment policy saw unemployment effectively split in two between the adult unemployed and the young unemployed (Furlong 1993) and created an environment where short-term education and training-based WISEs (i.e. ILMOs and CIOs) became the preferred providers of work-integration support to young people, whilst production-orientated WISEs (community businesses) sought to provide permanent, sustainable employment to the socially excluded adult unemployed. However, it is important to note that there is no clear evidence for the *exact* proportions of each type of WISE in the UK, and further research in this area is urgently required.

Within this policy environment, UK welfare support in the work-integration sector has been characteristically highly centralised. Despite the continuity of this centralisation, however, the focus of policies has fluctuated over time, as the country went from high unemployment (1980s and early 1990s) to relatively low unemployment (mid-1990s to 2008) (Aiken 2007) and, since the global recession of 2008, to high unemployment again, for 5 years. During the low unemployment scenario, the focus was on getting the severely disadvantaged into employment, and so policy favoured large-scale providers—which could contract out to smaller WISEs locally (as for example in the New Deal programme). However, following the recession and the increase in unemployment levels (2.69 million unemployed in the fourth quarter of 2011, compared to 1.4 million in 2007) (ONS, January 2012), this changed to become a high-volume market in which the focus was on large-scale government intervention. Whilst some WISEs have been used to deliver these programmes (again usually as sub-contractors), the main focus has been on national programmes delivering large-scale intervention but at the cost of little in-depth support for the individual (examples of such programmes included the Future Jobs Fund and, subsequently, the Work Programme).

This focus on large-scale (and—it could be argued—light-touch) interventions has meant that large-scale contractual support for WISEs has not been prevalent.<sup>19</sup> This trend has been further exacerbated by the government focus on hard outputs (i.e. individuals into employment) in the evaluation of work-integration programmes (Spear 2001), which has meant that the softer outcomes of such programmes (e.g. increased self-efficacy, confidence, etc.) have not been valued (Hazenbergh et al. 2013). This centralised and high-volume welfare market has led to large (and often national) contractors (known as Primes) being preferred to smaller (often localised) providers. This demonstrates that despite the government's stated commitment to using the third sector to deliver welfare services (Haugh and Kitson 2007), policy in fact encourages the growth of large private sector providers, at the expense of smaller providers (e.g. social enterprises). In this situation, smaller organisations such as social enterprises are forced to subcontract (often with unfavourable terms) with the larger Primes. Social Enterprise UK (2012)

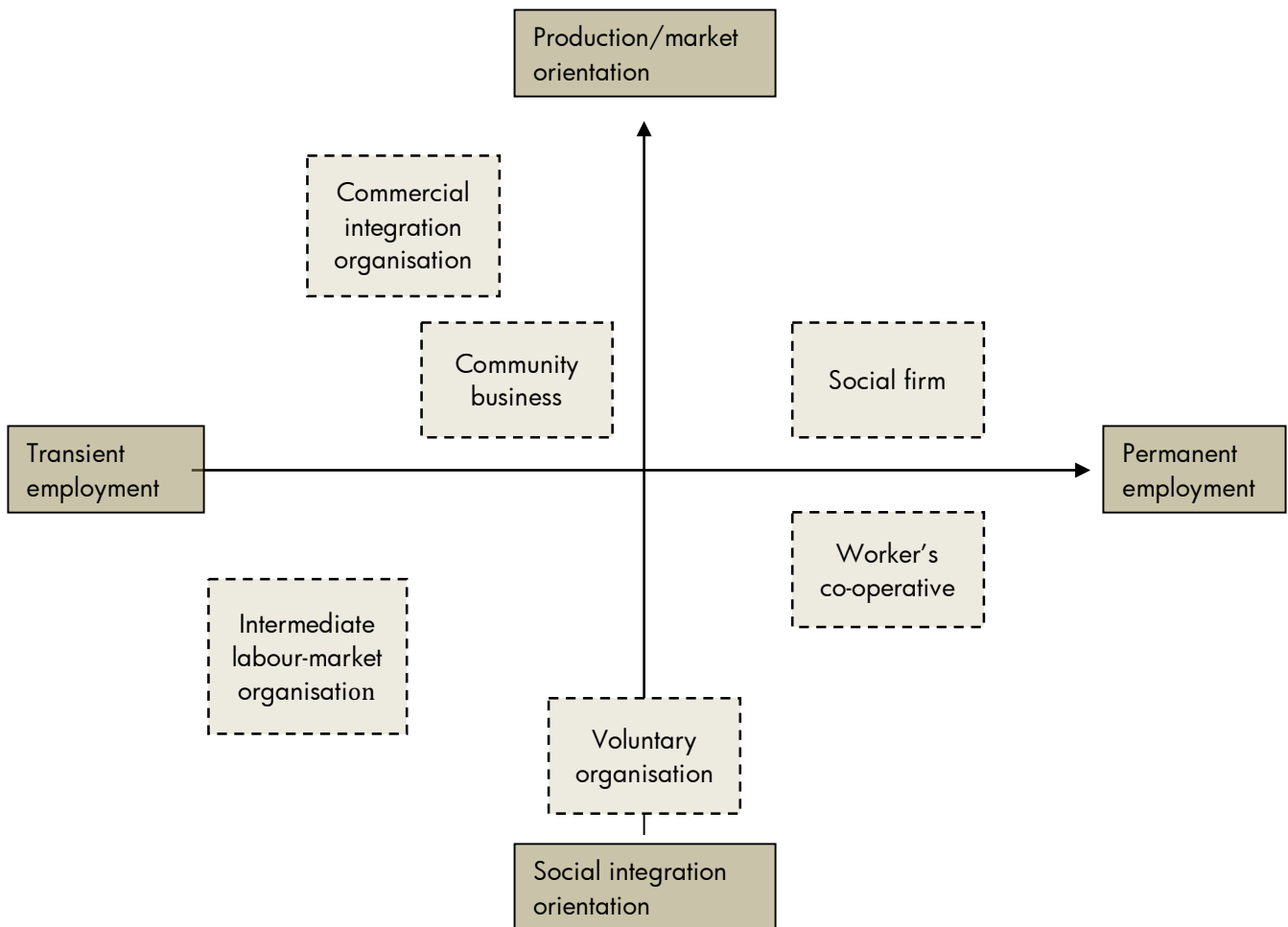
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<sup>19</sup> This may begin to change with the introduction of the Localism Act (2011) and the Social Value Act (2012).



has underlined the fact that this process may lead to the development of a “shadow state” due to the outsourcing of public services to a small number of large private sector organisations.

**Figure 2: The UK WISE sector**



### Summary

This section has identified that there are various types of WISE operating in the UK today and that the prevalence of these different organisational forms is dependent upon the sector of the labour-market integration “welfare economy” in which these WISEs are operating. The youth unemployment field appears to be dominated by ILMOs, which deliver transitional employment. In the adult unemployment sector, by contrast, there appears to be more CIOs, community businesses and social firms operating; these offer more holistic support and seek to provide sustainable and permanent employment to disadvantaged individuals. This dichotomy has in large part been driven by government labour-market policy that has sought to differentiate between youth unemployment and “adult unemployment”. In addition, the centralised nature of labour-market welfare policy in the UK has meant that large-scale programmes favouring large, private sector providers have become the favoured approach for work-integration policy-makers.



This in turn has often forced smaller social enterprise providers into unfavourable sub-contracting arrangements, which limits the impact and growth of the UK WISE sector. However, there remain large knowledge gaps in relation to the proportion of each type of WISE operating in the UK; exactly where their funding originates; their business models and hence social aims; and their social impact. Further research in this area would be extremely beneficial in developing our understanding of the WISE (and wider work-integration) sector.

### ***B.5.2. Community businesses***

Working on issues of local needs, engaged in supporting neighbourhoods and social cohesion, community enterprises are a thriving sub-set of social enterprise. From services such as shops, pubs and cafes, which have been the steadfast basis of community life, to sporting facilities, educational services, care services, village halls and transport, community businesses play an important role in providing local public services and supporting communities in their localities across the UK. As stated by Locality,<sup>20</sup> the national network body, community businesses are organisations “run by a community for a community”.<sup>21</sup>

Community businesses first developed in rural areas with low population density and spatial isolation—the best examples being in the Highlands and Islands of Scotland. They proved highly effective in motivating and supporting local communities in providing services such as transport and shops. The general approach is that members of the community take a share in the community business in order to own and control it. The community business then develops various projects, usually run as conventional businesses, and these are owned by and are accountable to the community business (typically through a charity with trading subsidiaries). This effective model was later successfully transferred from rural areas to inner city areas, most notably in Glasgow. It has since been taken up to a certain extent in the rest of the UK, and it has proven effective in addressing exclusion problems in the most severely disadvantaged inner city areas, since it generates a self-help approach to regeneration, establishing and strengthening community structures and services. The model has also been used in initiatives that might benefit from (a sense of) community ownership, such as City Farms. Community businesses are participative in nature, they reside within communities and are embedded in their localities since they tend to be community/member-led and democratically controlled; the projects have a degree of independence but are accountable as subsidiary companies. Community businesses have gradually increased in number and have also been effective as structures for project initiatives in the welfare sector. As noted above, Locality is the national network body representing community business; its original name was Development Trust Association, which indicated its strong emphasis on community development, and its preference for a charitable trust structure. Community businesses may also exist as communities of interest, either linking wider geographical areas (e.g. Women’s Health in a city), or non-geographically-based networks, where the sense of community of the organisation is not necessarily linked to the locality (sense of community based e.g. on youth, ethnic groups, disability).

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<sup>20</sup> <http://locality.org.uk/about/>

<sup>21</sup> Locality UK: <http://locality.org.uk/our-work/community-enterprise/what-is/>

### *Towards understanding community enterprise*

There are several perspectives that are worthy of considering when looking at community enterprise as a theoretical space. Essentially, these are: (i) the market perspective, (ii) the public service perspective and (iii) the alternative perspective.

In the market perspective, the space for the emergence of community enterprise is positioned as a reaction to the non-existence, withdrawal or failure of private enterprise (Teasdale 2012). In for-profit enterprise, a financial incentive and gain for the entrepreneur are paramount. For-profit businesses struggle to exist in rural areas because of, as Haugh (2012:183) outlines, “inaccessibility, poor communication, infrastructures and business services, and a shortage of human resources (OECD 1998)”. In terms of urban areas, the profit motive for the entrepreneur is also problematic in some of the most deprived wards of the UK, with low-income families and a lack of disposable income. In such locations, private enterprise is either sparse, uneconomical or absent, leading to gaps in the provision of services. Teasdale (2011:16) claims that “a prominent community enterprise discourse coincided with a policy emphasis on area-based regeneration as a response to market failure in New Labour’s first term of office”. This discourse—observed in Haugh (2007) and Tracey et al. (2005)—is one of defining community enterprises as separate from the voluntary and community sector because of their desire to trade rather than to use a philanthropy-oriented approach or to rely on grants. In this perspective, community enterprises can become sustainable as they are able to leverage social capital and aesthetic capital (local buildings and artefacts) through networks and a strong reputation that gives them legitimacy in the market (Austin et al. 2006). Thus, the value they generate is greater than market value alone.

In the public service perspective, the space for the emergence of community enterprise is positioned as a reaction to the withdrawal of the public sector as a deliverer of services; the public sector’s role evolves into one of commissioning and contracting with social enterprises (Baines et al. 2010). Such an evolution appealed to the centre-left New Labour government (1997-2010) (Sepulveda et al. 2013) and continued under the Liberal-Conservative Coalition (2010-2015), with the “Big Society” agenda and the potential for local providers of services to take over amenities previously run by the local government (Alcock 2010). One example of this is community/village halls. Bailey (2012) highlights the acquisition of assets of land and buildings through the transfer from central and local government as a recent noticeable trend, whilst Tracey et al. (2005:336) go as far as to claim that “local ownership of assets (especially physical assets such as buildings and land) is central to community enterprise”.

In the alternative perspective, the space for the emergence of community enterprise is positioned as a rejection of capitalism. Community enterprises in this perspective tend to be left-wing, launched by activists and community entrepreneurs (Leadbeater 1997; Lyon and Ramsden 2006; Ridley-Duff and Bull 2011). As Amin et al. (1999) suggest, the crises of welfare might be better addressed through and with people and neighbourhoods, rather than by other, external actors. Although commercial businesses in a given location may employ local people, wealth tends not to stay within the community. Put simply, community enterprise is a model that puts ownership, power and decision making in the hands of the communities. Amin et al. (1999)

suggest that community enterprises can deliver cost-effective services and contribute positively to the “life of the locality” (1999: 2034). Drawing on the research of Lee (1995), they suggest the creation of a radically alternative economy, one built on “civil economic geographies, based upon local resources, locally controlled”. The challenge is suggested as one of power and empowerment beyond that of capital—a democratising, self-financing alternative to mainstream economics. An example of an alternative ideology, not linked to the market or state withdrawal, is provided by FC United of Manchester, a community football club that was created in protest against the commercialisation of football, in particular the sale of Manchester United Football Club and the subsequent debt put on the club by the new owners (Brown 2008). Disenfranchised Manchester United fans, in a “politicized expression of community” (Brown 2008:346), set up the community enterprise (co-operative). As Brown outlines (2008:350), “football clubs can be understood in terms of providing ‘pre-modern’ forms of local community bonding”. The threat of the loss of what Brown terms as local community bonding between the Football Club and Manchester United football supporters became evident in the sale of the Football Club, as the level of debt put on the Club could have threatened the existence of the Club. The threat of the loss of local community bonding, as well as supporters’ alternative views on how the Club should be owned and organised, was enough to motivate supporters to set up their radically alternative economy, which was locally resourced and locally owned.

### *Defining community enterprise*

So what exactly is a community enterprise? And how are they distinctive from a general conceptualisation of social enterprise?

Pearce (2003: 32) suggests that community enterprises are local organisations that are owned, controlled and run for the benefit of the community, “working for sustainable regeneration in their community through a mix of economic, environmental, cultural and social activities. They are independent, not-for-profit organisations, locally accountable and committed to involving local people in the process of regeneration.” Bailey (2012: 4) underlines that “community enterprises define their social purpose in relation to a defined population or sub-group living in a geographically defined area”, whilst Haugh (2012: 184) claims that “[community] enterprises rely on the involvement of local people (as volunteers/employees/trustees) for their creation, management and governance. They bring together deep local knowledge (which is used to identify product/service gaps in the community and acquire resources) with strong interpersonal ties (which help to create community-led solutions to local market failure)”.

As Pearce indicated, community enterprises reside in a given local community—at neighbourhood, local, and district levels. As well as being locally accountable, community enterprises are fundamentally driven by engagement with, and the embeddedness of, people that are part of that community in the governance and ownership structure and day-to-day operationalisation of the organisation. Community enterprises may run much like conventional businesses but are both run and owned by the community; although not all community members participate, the idea is that local people have the opportunity to become involved. Haugh (2012) adds that local people are best placed to be involved in identifying their own community’s unmet needs. She also underlines that local people are a part of the solution—“(…) community enterprises are led by, accountable to and embedded in the values of the community they serve”

(2012: 184). Those values are: community roots, community accountability, community benefit and community ownership of wealth and assets (Pearce 1993).

### ***B.5.3. Public services***

The UK has a very high level of public services delivered by independent private organisations (£79bn.); Julius (2008) estimates that private sector delivery (including third sector) represents over 30% of total UK public expenditure. A small proportion of these services is delivered by social enterprise. Social enterprises delivering public services are driven by policy initiatives to privatise or reform the delivery of public services. They are typically spin outs from the public sector, and are of four main types:

- first, housing associations originating from an earlier era, when the Thatcher government was privatising public housing provision and housing associations took on local authority (municipal) housing, and managed them in highly regulated markets;
- secondly, leisure trusts, which are staff-controlled multi-stakeholder industrial and provident societies for the benefit of the community; they took over the management (and sometimes ownership) of municipal leisure facilities;
- thirdly, public service mutuals, which emerged more recently as spinoffs from the public sector. Many of these are active in the health and social care sector, but the government has supported the development of spinoffs in a much wider range of public service areas, including probation, social care, social work, children and youth services, and libraries;
- and fourthly, academies and co-operative schools, which form the major part of the growing independent school sector, strongly supported by co-operative sector institutions (UK Co-operative College).

These four types adopt several different legal forms—housing associations are charities; leisure trusts are co-operatives; public service mutuals adopt a wide range of legal forms, typically involving a range of employee-owned and participative structures, frequently management driven, with a high level of manager ownership; and academies and co-operative schools are typically charitable trusts with multi-stakeholder membership structures.

It should be noted that these public service spin outs can be seen in the context of New Public Management trends to create more independent public bodies, give them more governance autonomy, create internal markets, and reduce the level of regulation in those markets. There are increasing numbers of public service hybrids, located on the boundary between the public and third sectors (see Spear 2015), and thus presenting “mixed” characteristics. For example, most universities in the UK are charities, operating in a context which is more and more market-like—gaining a large proportion of their income from fee-paying students, and competing with each other; but the “market” is still quite regulated. Similarly, a majority of hospitals—which were NHS Trusts, a kind of public corporation—have now been converted into Foundation Trusts, with more financial and governance autonomy and with membership structures; similarly, their context is becoming more market-like, but their funding is still highly regulated.

*Housing associations:* Housing associations are independent non-profit organisations providing social housing for disadvantaged people. They were considered by the government as part of the third sector in 2008 (Mullins 2010); and similarly, in their contribution to the Johns Hopkins

Comparative Nonprofit Sector Project, Kendall and Knapp (1996) included housing associations in their narrow definition of the non-profit sector. However, Mullins (2010) argues that with the increase in scale of these organisations, the decline of voluntarism (e.g. on the board), and government regulation on possible rent increases, housing associations have moved away, to a certain extent, from the third sector; however, they display various forms of hybridity between the market, the state and society. The origins of housing associations can be traced back to Victorian philanthropic housing companies, such as the Peabody Trust and the Guinness Trust, which provided for various social groups; but it was the campaigning and organising by social reformer Octavia Hill that led to the current focus on the poor. After the First World War, public/social housing was taken over by local authorities, and it was not until the mid-1970s that Thatcherite policies brought housing associations back into centre field of housing policy. In a first stage, public finance was made available for housing associations to develop and build new social housing; this was followed by large-scale transfers of parts of the local authority's housing stock to housing associations (Mullins 2010). Nowadays, housing associations are the major providers of social housing in the UK.

*Leisure trusts:* There are over 100 leisure trusts (LTs) now in the UK; most emerged after 1993, when municipal leisure services were privatised. Greenwich Leisure Ltd is a charitable social enterprise, and has had a hand in setting up and running 115 sport and leisure facilities. Many are staff-led trusts. Most leisure trusts are industrial and provident societies—some with exempt status (charitable), some without. There are also companies limited by guarantee among leisure trusts, some with and some without exempt status (Simmons 2008).

*Academies and co-operative trust schools:* in the early 20<sup>th</sup> century, local education authorities were set up to administer school education in the UK (and take over many church schools); alongside this state-funded system, there have always been independent fee-paying schools with charitable status. But since 1988, it has been possible to opt out of local control and get grant funding directly from central government. Education is now a devolved responsibility so most of what follows applies to England. New Labour legislated for foundation (trust) schools in 1997, followed by legislation for academies—both these forms have more autonomy, a more direct funding from central government, and weaker or non-existent links to local authorities. Academies are (in general) non-profit charitable trusts, and it is now government policy to move schools away from local authority control, and support all schools (in England) becoming academies. Free schools are a form of academy, but facilitate a bottom-up process of establishing the school (it has to be noted that these models can take the form of new faith schools, but there are many traditional faith schools too). Much of the language describing governance requirements of academies is couched in the terminology of business and company directors. But governance of academies allows for some parent representation on the board, and up to one third of the board may be employee representatives, and others can be co-opted to contribute to the strategic effectiveness of the school.

However democratic control is rather limited in academies, and this may have been one of the factors leading to the growth of co-operative trust schools. There are now over 800 co-operative schools; these are multi-stakeholder charitable trusts, but with more democracy and accountability (than foundations/academies)—thus parents/carers, staff, learners and the local community are the members and they are represented on the Board of Trustees.

Thus, given their independent governance and their autonomy to compete with each other, albeit within a regulated funding regime, academies and co-operative schools (i.e. most schools in the UK) could be considered as multi-stakeholder social enterprises.

*Public service mutuals:* The term “public service mutual” has been used to describe the more recent transfers or spinoffs of social enterprise from the public sector, particularly from the health sector. Public service mutuals have been defined (Mutuals Task Force 2012: 8) as “organisations which have left the public sector, i.e. spun out, continue to deliver public services and in which employee control plays a significant role in the operation”. The advantages of this are to reduce bureaucratic control, and support the entrepreneurialism of the staff involved, allowing them to respond more quickly to opportunities, and bid for other contracts. There seems to have been a policy emphasis on employee empowerment and involvement rather than on user involvement in the spun-out structures (see for example Ellins and Ham 2009). However, stakeholder involvement was important to legitimise the spin-out process, and there has been some involvement of users in governance structures.

There are over 85 health sector spinouts. Many of these are quite large, in terms of staff and turnover. Through the Mutuals Support Programme, the government has supported the development of about 160 emerging and established public service mutuals in a variety of sectors, including social care, integrated health, libraries and youth services (Cabinet Office 2014).

The spinning-out process is enabled by government policy (“Right to Request” policy, which was replaced by the “Right to Provide” in 2011), which gives employees the right to request to take over a public service that they deliver. It is also supported by government funding; the Social Enterprise Investment Fund has invested in 600 projects, with more than £100m going into health and social care (Legrand and Mutuals Task Force 2012). But spinning out has also been driven by the desire of senior staff to improve service quality and control (Hazenberg and Hall 2013). This right of employees to request a transfer out is complemented by a community right to challenge, whereby voluntary and community groups may bid to run municipality-level public services via procurement contracts (either through new or through existing social enterprises).

The inspiration for this form seems to come from evidence about organisations with greater involvement of employees, such as the John Lewis Partnership (a large and highly successful retail organisation owned by a trust on behalf of its employees, which leads to greater employee involvement and profit-sharing, as well as minority representation of employees on the board). Other models include employee-ownership structures in the US, such as Kaiser Permanente—the long-established and very successful integrated healthcare system (which was originally a partnership but has since been converted into a corporation).

The scale of this spun-out sector is not large in terms of enterprises, but it is relatively large in terms of staff numbers and turnover: the Right to Request policy (which, as noted above, was in effect up to 2011) resulted in the creation of 38 new social enterprises, comprising about 22,000 staff (Miller et al. 2012), with a total income of about £362 million annually; there were from 6 to 2,250 employees in each of these social enterprise. A later survey of 27 health and



social care spin outs (Social Enterprise UK/Dan Gregory 2013) found that in the fiscal year 2012-2013, the average turnover was almost £18 million (median: almost £3 million); the majority of these enterprises (17) had no assets on their balance sheet, while the other nine only had relatively small levels of assets.

89% of these spin outs were CICs (with 55% adopting the company limited by share form); and the mean number of contracts at launch was six (median: two), but this had grown to 9 contracts (median: four) by the time of the survey, thereby demonstrating an ability to diversify income sources, with a 40% success rate in tendering for new contracts.

One of the major barriers to the more extensive spinning out of public service provision is the issue of pensions; many existing staff in the health sector would be registered in quite good public pensions, and would risk losing those rights if the provision of these services were spun out into a new social enterprise, unless some compromise could be found.

An example of this kind of spin-out forms part of the case studies for the UK: Sandwell Community Caring Trust.

## PART C: INSTITUTIONAL TRAJECTORIES OF THE MAIN SOCIAL ENTERPRISE MODELS

The UK policy for the development of social enterprise has been considered a benchmark model. It comprises the following themes:

- creating an enabling environment for social enterprise through:
  - government role (interdepartmental, enabling, direct support to third sector);
  - legal and regulatory issues;
  - public procurement;
- making social enterprises better businesses through:
  - business support and training;
  - capacity building;
  - finance and funding;
- establishing the value of social enterprise through:
  - establishing the knowledge base (research);
  - recognising achievements and spreading the word;
  - creating trust (through social audit and quality).

The policies of support aim to find ways to scale up impacts by encouraging individuals and communities to start up enterprises and by helping existing social enterprises to grow, but there is increasing recognition of the need to frame support in terms of developing an ecosystem for social enterprises. Some of the key ways of achieving this will be examined in turn.

### Building social entrepreneurship cultures and helping start-ups

Attempts to encourage social entrepreneurship are based on raising awareness in a range of contexts, for both children and adults. There are programmes to raise awareness in schools and in the general public; examples include Social Enterprise Day, and programmes to help social



enterprise start up, such as UnLtd's small awards,<sup>22</sup> which aim to give potential social entrepreneurs the opportunity to develop their ideas.

Some community and social enterprises can start as voluntary sector organisations or charities, and then may develop trading enterprises or go for more public sector contracts rather than grants. In such cases, there has been support from agencies supporting the third sector, although often the language of social enterprises is replaced by reference to "sustainable funding", "independence" and "diversifying income sources". The support for these organisations has been funded by the public sector in the past, although the funding for the voluntary sector support infrastructure has reduced dramatically since 2010 and the period of public spending austerity.

Policy for supporting start-ups has been implemented through enhancing small business support mechanisms to address the needs of social enterprise, as well as through recognising the role that sector networks and agencies can play—thus cooperative development agencies have broadened to support a wide range of social enterprise, and the federal bodies (Locality for community business, Social Firms UK, Cooperatives UK, National Council for Voluntary Organisations [NCVO], etc.) all play roles in supporting social entrepreneurship. There are also important institutional innovations, such as School for Social Entrepreneurs and UnLtd (a lottery-endowed support organisation), which support social entrepreneurs at different stages of development—from start-up to growth.

Policy for support has also included encouraging transfers from the public sector. A programme of transferring assets from the state to community enterprises is being promoted as a way to provide resources and security, as well as tap into the entrepreneurial approaches of community enterprises. There are also examples of whole organisations spinning out of the public sector. Examples of this include housing associations or the recent trend of encouraging people in the health services to "spin out" as part of the Right to Request and Right to Provide policies.

Support can come about through offering advice to those starting up organisations and through removing barriers, for example assisting establishing the enterprise. Other support has come from national-level changes to legislative frameworks, bringing in legal forms such as the community interest company, and the charitable incorporated organisation; local support has also been offered through providing workspace.

Support themes associated with recognising achievement and spreading the word to create trust have included promoting social return on investment as a technique for demonstrating social value; national competitions and awards for exemplary social enterprises; and the development of a Social Enterprise Mark, which improves the visibility of social enterprise for those interested in more ethical consumption.

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<sup>22</sup> [https://unltd.org.uk/about\\_unltd/](https://unltd.org.uk/about_unltd/)

## Training and advisory services

The most visible form of help is the advisory support and training that can be provided to those wanting to set up or grow an enterprise. Like it is also the case for business support, research has shown that those receiving social enterprise support prefer a more personalised approach of one-to-one advice or mentoring rather than training. However, this has considerable implications in terms of cost. There are innovative ways of reducing the cost through using groups and on-line methods, but the personal relationship is usually preferred.

Research on support for social enterprise has also found that building confidence is a crucial factor, which requires long-term relationships and more of a coaching or counselling approach. This is particularly important for voluntary board members without business experience, who may be uneasy taking risks or growing the organisation.

The social enterprise support infrastructure continues to be highly complex. In part, this is due to the hybrid nature of social enterprise and their desire to be able to draw on both conventional business support and support for the voluntary and community sector. There have been attempts to simplify business support, but there is also a current proliferation as local authorities become more involved in provision. The common forms of support might come from specialist social enterprise advisers, mainstream business advisers, voluntary sector support (e.g. Community and Voluntary Services - CVS), and local authorities (though regenerations programmes and area-based initiatives).

## Social investment and finance

Finance can come through grants, or repayable instruments. There are a number of philanthropic funds and social investment banks (such as Triodos or Charity Bank) that have developed repayable finance instruments for social enterprises. These instruments range from the more grant-like funds to the more commercial loans/equity finance (Nichols 2009; Nichols et al. 2015). There are also innovative approaches to raising capital through community shares and bonds, raising money from local people who may also be users of the enterprise's services (Hill 2007; Brown 2008). In all of these approaches, there is a combination of social and financial returns, with innovative approaches being used to demonstrate these social and economic impacts.

Within this context, there are a range of public sector funds that aim to meet an unmet need or address a market failure. Examples include Communitybuilders (£70 m from the Department for Communities and Local Government), the Social Enterprise Investment Fund (£100m from the Department of Health), Futurebuilders (£250m from the Office of the Third Sector—now known as the Office for Civil Society and Innovation), and Bridges Ventures—a social venture capital fund. More recently, a policy of taking unclaimed assets from banks and putting them into the wholesale bank, Big Society Capital, has provided more resource for social investment intermediaries looking to fund social enterprises. But while these interventions can tackle some of the supply-side issues, there are still demand-side constraints, as there is often resistance from trustees or board members to taking out loans for initiatives that involve an element of risk (Lyon

and Baldock 2014). There has also been a strong interest in trying to find different kinds of instruments, such as patient capital (loans with delayed and variable interest rates) and social impact bonds (which can draw in outside investors to support innovative initiatives).

## Social enterprises and delivery of public services

The public sector is also playing a key role in sustaining charities and community enterprises by procuring from them. Policymakers' interest in social enterprises is due to these enterprises' perceived innovative approaches and value for money, which produce benefits for the public sector and service users alike. The use of personal budgets<sup>23</sup> and the personalization of services offer particularly interesting opportunities for providing services, but also increase competitive risks for existing service provision. Many organisations are highly dependent on contracts from government, which entails risks as government priorities might change. Furthermore, the commissioning process can restrict the very innovation it seeks to support as bidders have to meet the expectations of the commissioners in order to win the contract. Finally, the advocacy role of charities can be muted as those receiving contracts may be unwilling to "bite the hand that feeds".

## CONCLUDING COMMENTS: ORIGINS, TRAJECTORIES, CONVERGENCE?

This paper has attempted to review the multi-faceted features of social enterprise in the UK—frequently regarded as an exemplary model of development for social enterprise. However, taking a closer, more critical perspective is useful in revealing the ambiguities and challenges faced by the UK social enterprise sector.

The origins of social enterprise policy within the Department of Trade and Industry led to a business-oriented definition of the concept, which has had consequences for subsequent developments. The policy discourses associated with different governments, from the late 1990s to the current time, have led to a broadening of the understanding of social enterprise, which in turn has led to considerable ambiguities about the scale and scope of the field—as can be seen in the very varied and increasing numbers of social enterprise reported in the UK statistical studies. It could also be noted that such survey outcomes, or lack thereof, may indeed not be totally disadvantageous for policymakers. The policy discourse has varied widely over time, focusing on different aspects in turn: emphasising the social goals of co-operatives; raising the profile of community businesses as important forms to address market failures in disadvantaged communities; stressing incorporation of the charitable sector (despite resistance to the "business" tag) through "socially entrepreneurial" income-generation activities; enhancing the capacity building of the charitable sector to help reform the delivery of public services; and advocating social businesses to bring the advantages of business models (and for-profit social enterprise models) into public services provision. Policy discourse has been a key factor in supporting a highly developed ecosystem of support for social enterprise, and it has been important in helping to legitimise different types of social enterprise; but socially entrepreneurial practice is shaped

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<sup>23</sup> A new system of welfare distribution giving more discretion to the recipient about how the welfare payment is spent.

by a much wider range of factors, including international movements of social entrepreneurship, as well as more traditional patterns of community self-help and collective entrepreneurship, supported by voluntary and co-operative sector institutions. Other policy measures have provided additional pathways to social enterprise, in particular the conversion (or spinning out) of state sector organisations into social enterprise forms.

Legal structures in the UK are very flexible, and provide an institutional framework which has contributed to the high degree of hybridity of the social enterprise sector, extending across business and state sector boundaries. New legislation for social enterprise (CIC), institutionalised in 2005, also allows diverse forms, and only comprises a minority of the total population of social enterprises.

However, somewhat paradoxically, social enterprise performance has in some respects been disappointing; some policy measures, such as those emphasising efficient (large) public procurement contracts, have had conflicting influences and perhaps unintended consequences on social enterprise—reducing the scope and potential of WISEs and welfare services social enterprise. And we may need to look at social entrepreneurship failings to explain the relatively low levels of new social co-operatives being formed—this contrasts with the impressive example of co-operative schools, which have been greatly facilitated through the institutional support of the Co-operative College. Finally, while the voluntary and charitable sector has been subject to considerable policy measures, transforming the contexts towards markets and mixed economies, it is clear that responses have been mixed, with resistance by some of these organisations (Oliver 1991; Buckingham 2010); the reconfiguration of charities towards becoming social enterprises, for example, has been problematic (see Spear, 2016).

Looking ahead, the high degree of hybridity amongst current social enterprise—both within the sector and across the state/business boundaries—raises questions about future trajectories and convergence or institutionalisation of types of social enterprise, or semi-permanent hybridisation. While there is considerable scope for further research, particularly on for-profit social enterprise (and public service mutuals), and the extent to which they may succumb to isomorphic pressures, institutional support could well sustain the continuation of three types: charitable social enterprise, co-operative social enterprise, and community interest companies.

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## APPENDICES

### Appendix 1. Cases surveyed (8: 2 charities, 2 co-operatives; 4 WISEs)

St Paul's Walden Preschool (childcare charity)

Sandwell Community Caring Trust (charity providing supported living for people with disabilities)

Infinity Foods (whole/organic food co-operative: wholesale, retail, cafe)

Bartlebys (small micro-brewery co-operative)

WISEs:

1. Goodwill Solutions (<http://logistics.goodwillsolutions.co.uk/>)
2. Turning Point (<http://www.turning-point.co.uk/employment.aspx>)
3. Accession CIC (<http://www.accessioncic.com/about-us/>)
4. Goldfinger Factory (<http://www.goldfingerfactory.com/>)

For-profit mini-cases: Elvis and Kresse, Just Giving (see appendix 2).

The cases were selected to cover the main types of social enterprise models identified in this paper (co-operatives, charities, CICs, and for-profit social enterprise), whilst at the same time provide a reasonable representation of the fields: work integration, public services (care), community business, as well as eco/ethical products (food).

### Appendix 2. For-profit mini-cases

#### *1: Elvis & Kresse*

This may be considered an emblematic social enterprise. It featured on the front cover of SEUK's The State of Social Enterprise Survey 2013, and as a case study within that report. It fits the UK governments criteria for a social enterprise, so its primary goal is social/environmental, it reinvests 50% of profits for such a purpose, and it gets most of its income from trading; it is a for profit limited company, and no-one doubts its strong commitment to environmental protection and recycling. Kresse Wesling MBE, one half of the partnership, is a social entrepreneur in residence at the Said Business School in Oxford University.

And recently they have become one of the first UK B-Corps...Benefit Corporations are certified by the nonprofit B Lab to meet rigorous standards of social and environmental performance, accountability, and transparency. As such they put mission before stakeholder returns.

Elvis and Kresse is an innovative design and production partnership producing bags and accessories from waste materials, thereby reducing landfill. It began in 2005 when it took London Fire Brigade's decommissioned fire-hose, and upcycled them into attractive bags. Since then it has made use of a wide variety of waste products: parachute silk, shoe boxes, coffee sacks, printing blankets, and leather waste from the production process. It has turned such unlikely waste materials into attractive high quality designer products, which are sold online and through other channels.

Elvis & Kresse re-distributes up to 50% of profits to projects and charities related to the materials it reclaims. 50% of the profits from its fire hose product range are donated to the Fire Fighters Charity. And it follows a similar model for more than 10 other types of waste. They do this because they believe in “good business”, which helps to solve environmental problems, in particular waste problems. And they want to engage their key materials supply stakeholders in making an impact.

It has made donations to a range of social and environmental organisations and charities, including: WWF, The Wessex Autistic Society, Help for Heroes, Comic Relief, British Forces Foundation and the Fire Fighters Charity. An example of its targeting donations related to a specific waste, the coffee sack upcycling project resulted in donations to CafeDirect, the Costa Foundation, David Williamson Rwanda Foundation, Bettys and Taylors, and Union Hand Roasted.

More information available from their website: <http://elvisandkresse.com/about/>

## 2: JustGiving

JustGiving is a for-profit organisation that used to call itself a social enterprise. This is no longer part of its description on its own website, though, where it is described (2014) as: “the world’s leading platform for charity giving”. Its business is to facilitate donations to charities, particularly by individuals. The charges are a 5% fee to donors, and an annual registration fee to charities. The company was set up by two female entrepreneurs with the substantial support of a venture capitalist, who invested £6.5m. (£2m. loans and £4.5m. equity). “He’s never received a penny back”, says the co-founder Kharas (Blackhurst 2011. Evening Standard: Wednesday 16 March 2011. See: <http://www.standard.co.uk/business/markets/justgivings-co-founder-has-good-cause-to-make-a-profit-6578095.html> ).

JustGiving justifies their 5% fee by arguing that profits are reinvested in new tools. And indeed, they have developed giving through SMS messages, and a “Yimby” platform (“Yes in my back yard”, a slogan which indicates inclusivity, in contrast to “Nimbyism”—not in my back yard). It has also been argued (Tom Hoyle, commenting on Craig Dearden-Phillips article: Justgiving is a brilliant success story. Third Sector: 12 October 2009) that JustGiving’s founders gained a special dispensation from HMRC to reduce the gift aid paperwork.

JustGiving was launched in 2001 and is the registered trademark used by the company Giving Limited. It has four company directors, including its two founders Zarine Karas and Anne Marie Huby, together with its major investor, Bela Hatvany, a venture capitalist, whose address is listed as in St Tropez, France; the other director, John Huysmans, based in Massachusetts, is also identified as a venture capitalist (Canadian); the top management team comprises chief executive Zarine Karas and managing director Anne Marie Huby, are both based in London.

The annual accounts (year ending 2012) stated that “the immediate parent company is Pollcast ApS, a company incorporated in the EU. The ultimate controlling party is Bela Hatvany.” Pollcast is registered in Denmark, and their accounts for 2012 stated that it owned and controlled 66% of Giving Ltd. It appears that Pollcast has minority stakes in a number of US companies, such as

Smashies Pouches, Inc, Luvli Foods, Media Silos, Coreweb; and Pollcast is in turn owned by two New Zealand companies—Pollux Trustees Ltd, and Castor Trustees Ltd.

Originally there were 16 investors.

In 2014, there were eight different classes of shares, with different amounts of dividend payable, ranging from 0.01 GBP to 8.77 GBP. All shares have voting rights; there are 32 shareholdings (with 30 shareholders identified), which include the directors and other individuals (there are around hundred employees, and “all employees participate in a profit-sharing scheme and are eligible for share options”, and senior management are granted share options; Annual report 2013). Corporate investors include Medusa Resources Ltd, Vesta Group, Sun Technology Investors, Saints capital IV LP, and Downing Distribution VCT2; the major shareholdings are 2 million by Zarine Kharas (director), 7.5 million by Vesta Group, and Pollcast, but 28.5 million shares were transferred from Pollcast APS (the parent company based in Denmark) to Hatvany and Huysmans in December 2013. Thus it appears that with the transfer of the majority shareholding, this control is now direct.

Giving Ltd has had a policy of not distributing dividends, but reinvesting for growth.

The turnover was £273,000 in 2003; after several years of losses (growth/investment), it increased to £3.9 million in 2006, and £14m. in 2012, with a profit of almost 1.2 million. Staff are well rewarded with good salaries and terms, conditions and fringe benefits; the total pay for 5 company directors (year ending 2012) amounted to £468,000, with the highest paid director receiving £108,000.

Giving Ltd also controls the UK charity JustGiving Foundation (Registered charity number 1098313).



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