



A Research Monograph

Social Enterprises:

Diversity and Dynamics, Contexts and Contributions

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Work Life Balance

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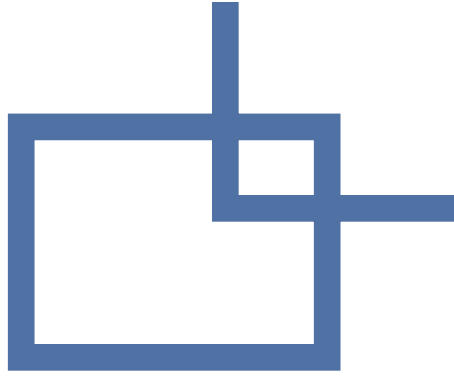
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Contents

Background: The State of Research into Social Enterprise	page 02
Typologies and Definitions	page 06
Legal Structure, Ownership and Financing	page 09
Governance	page 12
Social Entrepreneurs	page 14
Staffing and Skills	page 17
Operations and Marketing	page 20
Focus, Culture and Values	page 23
Development of Social Enterprises: Evolution, Success Factors and Sustainability	page 27
Performance Measurement, Benchmarking and Reporting	page 31
External Support Services	page 34
Sectors and Geographic Spread	page 36
International Differences	page 38
Relationships with Communities	page 40
Relationships with the Public Sector	page 42
Relationships with Private Sector Organisations	page 46
Contributions/External Impacts	page 48
Social and Political Implications	page 51
Conclusions	page 53
References	page 57

Background: The State of Research into Social Enterprise

In recent years social enterprise (SE)¹ has become an increasingly significant element of the economy within the UK and elsewhere. The exact scale and scope of SE is a matter of some debate which relates partly to the definitional issues discussed below. However, commonly quoted figures suggest that there could be as many as 55,000 SEs in the UK (equating to five per cent of businesses with employees) turning over £27billion².



There is also increasing interest in SEs within the public policymaking arena, underlined by increasing public investment into promoting and supporting them. Despite widespread agreement about the actual and potential economic, social and political importance of SE within the UK, remains an *'under-researched'* aspect of society, particularly in comparison to what could be termed *'mainstream'* or *'conventional'* commercial businesses.

As one indication of this, Desa searched the seven top-ranked academic business and management journals from 1985 to 2006 inclusive, and found no articles on social enterprise or social entrepreneurship³.



The comparative lack of research into SE has recently prompted a number of practical mapping exercises to attempt to better understand their scale, scope and nature. There has also been a recent upsurge of academic interest in the field³, and several reviews of the state of academic and practical knowledge about the sector as a whole, and particular aspects of it. The quantity and quality of research-based evidence and knowledge relating to SE has increased dramatically through several types of research initiative as follows (and the points below are illustrated with key examples rather than exhaustive reviews):

Over-arching reviews of the field. For example Kim Alter's, 100 page review of SE which seeks to create a unified classification and understanding of the field, based mainly on experience from Latin America⁴; or the review by Jones *et al*⁵ covering 111 SE orientated documents (from a Scottish policy perspective) which identified five key dimensions of the SE literature:

- i Definition
- ii Regulation
- iii Policy
- iv Support
- v Investment

Other authors have provided useful overviews as a precursor to describing specific research projects and findings⁶. The book *The Emergence of Social Enterprise*⁷ pulls together a range of European EMES research network projects and provides an overview of how the longstanding research traditions on co-operatives and not-for-profit and voluntary organisations have provided the foundations for the emergence of a new research focus on SE.

UK Regional studies. In addition to the report by Jones *et al* (which was undertaken from a Scottish policy perspective), there have been a number of studies investigating SE within particular regions. Examples include Gordon's research into SE in South Yorkshire⁸, the 2002 Social Economy Network/Welsh Development Agency review of SE in Wales⁹, or Lloyd's review of Social Enterprise in the English RDAs and in Wales, Scotland and Northern Ireland¹⁰.

SE sub-type reviews. There is a growing, and in some cases long-established, research literature dedicated to particular forms of SE such as FairTrade organisations, credit unions or cooperatives.

Key issue studies. There have been a number of studies taking an in-depth look at particular issues relating to SEs such as governance¹¹ or the 2003 Bank of England study into their financing¹².

Functional studies. Studies into specific management functions within SEs are emerging, particularly in relation to marketing^{13,14}, and human resource management¹⁵.

“There has also been a recent upsurge of academic interest in the field...”

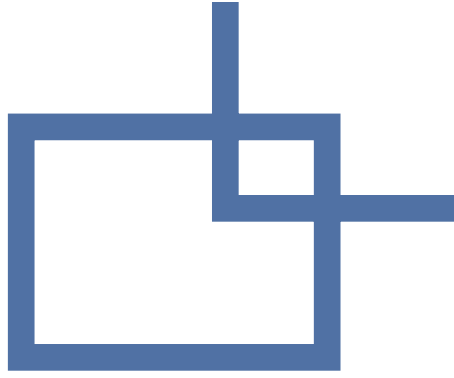
Research agenda setting studies. Haugh¹⁶ lists eight themes for future research. It is important to note that most of these themes are widely researched in mainstream entrepreneurship. These are:

- *Defining the scope of social entrepreneurship:* to help resolve some of the definitional problems referred to below and make international comparisons more feasible
- *The environmental context:* in terms of the political, economic, social, cultural and technological trends that influence social entrepreneurship
- *Opportunity recognition and innovation:* to better understand why SEs are able to innovate and seize opportunities and also the barriers that sometimes prevent them from doing so
- *Modes of organisation:* to better understand and make comparisons between different institutional forms and legal formats
- *Resource acquisition:* to understand the sources, management and sustainability of the physical, financial and human resources that SEs rely upon
- *Opportunity exploitation:* to understand how SEs are able to bring resources together, develop networks and develop and implement strategies to develop a viable organisation and exploit the market opportunity they have identified
- *Performance measurement:* to create appropriate ways to measure the multi-faceted nature of the performance and contribution of SEs, as discussed further below
- *Training education and learning about social entrepreneurship:* to understand how SEs learn and how we learn about them.

This monograph seeks to isolate a range of more specific research questions that emerge both from the literature on SE, and from the discussions sparked during the 2007 SEC/ESRC seminar series.

During 2007 Jeremy Taylor consulted widely in assessing the state of SE orientated research¹⁷, and considering how it might be developed in the future. His analysis reached a number of conclusions about the state of research into SE including that:

- The field is under-developed, and lacks capacity and critical mass. There are comparatively few UK academics specialising in SE research, with most research interest built around teaching programmes
- It suffers from a mutually-reinforcing combination of insufficient data, undeveloped theory, and unresolved definitional issues
- It has traditionally been weak in terms of many of the key ingredients for 'take-off' as a recognised sub-discipline of journals, conferences, courses, engagement from research-intensive universities, and high profile academic champions (which in turn perpetuate data and theory weakness)
- Existing research is dominated by small-scale, practice-led work
- Weak links exist with both mainstream business and management disciplines and with international research. In addition to the relatively mature research literature on SE that exists in America, there is growing interest in Europe in SE initiatives such as the social co-operative movement in Italy or the role of SEs as intermediate labour organisations in many European countries
- There is a lack of knowledge transfer between practitioners and academic communities beyond collaborations in the development and delivery of particular teaching and training courses, or through case based research projects.



Other commentators have made similar points to those raised by Taylor; for example Jones *et al*'s critical evaluation of the literature⁵ notes that: *'A major empirical weakness prevalent throughout the literature is the small size of data populations and samples, the short time scales of research (there is no evidence of any longitudinal studies examining the sector) and the validity of the extrapolations that writers then propose.'*

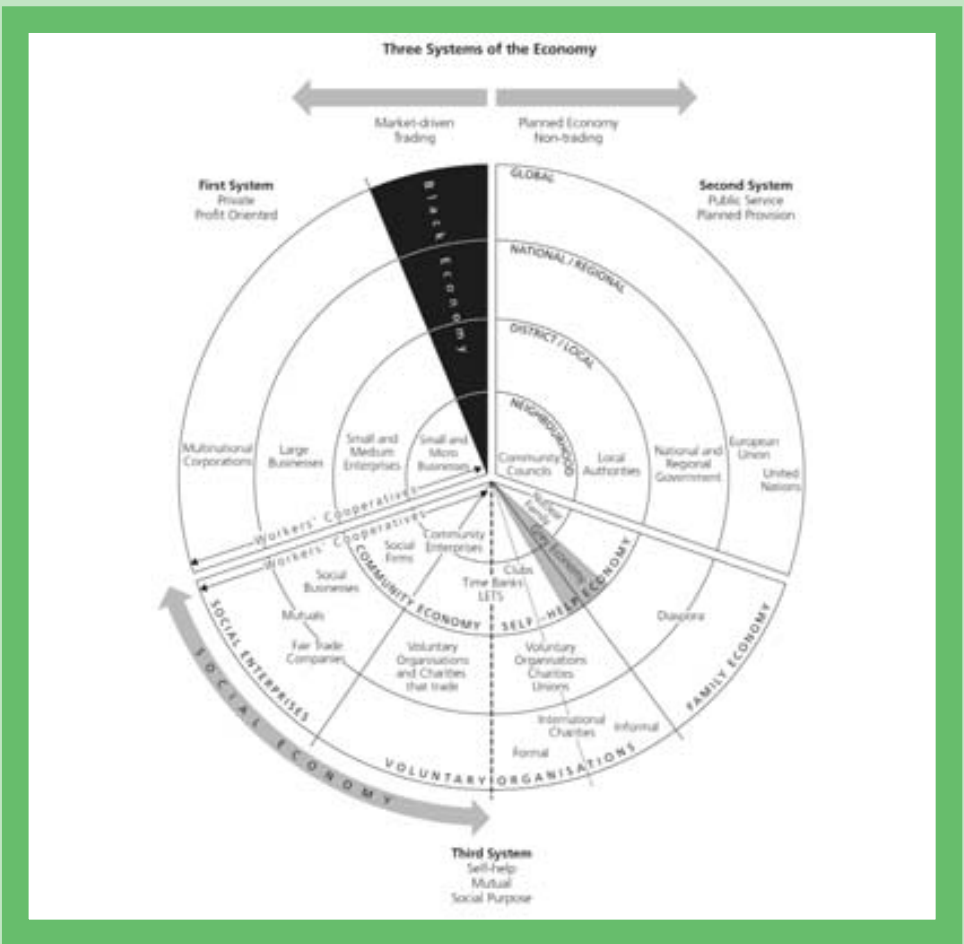
Although business and management literature has tended to dominate academic enquiries into SE, other disciplines are increasingly providing their own intellectual insight into the sector. Geographers, political economists and sociologists have all made important contributions to the literature. Amin and colleagues, for instance, have published significant studies from a geography perspective, including an analysis on the interplay between the social economy and local political climates that demonstrates SEs' ability to alter political relationships within communities to create new forms of democratic participation¹⁸. It has recently been argued that a dominant *'business case'* narrative for SE tends to neglect the *'social'* aspect in its conceptual and theoretical developments¹⁹. A similar case has been made regarding research into social entrepreneurship more generally, along with an accompanying warning that over reliance on existing conceptions could serve to stymie the development of more innovative and integrative models²⁰. Scholars from a business and management perspective perhaps accept the view of social enterprise as a natural *'solution'* to intractable social problems. Scholars from other disciplines are perhaps more likely to explore some of the fundamental tensions between commercial enterprise and social problems and the role of business and enterprise as causes of social exclusion in a capitalist system^{21,22}. Clearly a holistic understanding of SE will require research that is both of an interdisciplinary nature and that comes from deep within academic disciplines.

SEs such as cooperatives and community enterprises have a history spanning centuries, but during the past 20 years SEs have become an increasingly significant component of the economy in the UK. Social enterprises emerge as a response to market failures (particularly in terms of serving the needs of very specific or minority groups²³) or emerging problems with the funding or management of traditional public service provision^{24,25} and also as a result of increasing competition within the *'non-profit'* sector as costs rise and donation and availability tightens²⁶. SEs, the social entrepreneurs who establish and run them, and the social economy within which they operate have also become a focus for new research initiatives amongst academics, policymakers and a range of stakeholding organisations. Despite this upsurge of interest, SEs remain clearly under-researched in comparison to conventional businesses. This monograph seeks to consolidate and comment upon the growing national and international research evidence base concerning social enterprise and in doing so identify and analyse the gaps that exist and their implications in terms of future research priorities and opportunities. This analysis is also supplemented by a brief accompanying discussion paper²⁷, and both documents benefit from insights generated during the discussions within the 2007 Summer/Autumn joint ESRC/Social Enterprise Coalition (SEC) seminar series on SE.

This monograph is largely focussed on UK research and on the SE as an organisation as the unit of analysis, and aims to be relatively comprehensive in its discussion of SE research. It does not seek to be equally comprehensive in discussing social entrepreneurship and social entrepreneurs²⁸ at a more micro level, or in discussing the social economy or *'Third Sector'* as a whole at a more macro level. These would make equally good subjects for a research monograph and have recently been the subject of major edited collections including: *'Social Enterprise'*²⁹ *'The Emergence of Social Enterprise'*¹⁷ and *'The Third Sector in Europe'*³⁰.

Typologies and Definitions

Controversy over definitions and classifications is a recurring theme in the SE research literature^{5,31,32,33} and featured regularly during the 2007 SEC/ESRC seminar series. In practice there may also be little to distinguish the conventional business with a strong emphasis on corporate social responsibility from the SE with a strong entrepreneurial ethos. Pearce's comprehensive model of the 'three sectors' of the economy³⁴ shown in Figure 1 provides a useful starting point and illustrates the relevant labels, actors and sectors:





Pearce's model also underlines the other strongly recurring research themes of diversity^{6,35,36} and complexity. The umbrella term 'Social Enterprise' includes a range of organisational types that vary in their activities, size, legal structure, geographic scope, funding, motivations, degree of profit orientation, relationship with communities, ownership and culture. A workers' cooperative marketing produce globally and an individual running a not-for-profit business within their local community may share the label SE, but relatively little else. One implication of this diversity is that some of the larger and more prevalent forms of SE (such as cooperatives and FairTrade organisations) have a far more developed research literature than exists for SE at a more generalised level³⁷. There are also different conceptions internationally.

The USA views SEs more as non-profit social organisations clearly delineated from commercial businesses although sometimes allied to them through activities like cause-related marketing³⁸, whilst the European view is more towards organisations engaged with, and sometimes challenging, the established business community³⁹. The combination of diversity and definitional difficulties acts to hamper attempts to measure the SE sector⁴⁰, to develop more differentiated policies and forms of investment to support its development⁵, and to develop propositions that can be generalised from specific research projects.

Lloyd³⁹ sees two other problems with what he calls this 'chaotic conception' of the social enterprise and the social economy agenda. The first problem is that ideas and claims for the sector can be dominated by the most articulate speakers because of the lack of clear definition, and the second is that because of the same lack of focus negative comments from sceptics are difficult to refute. Some commentators and contributors to the seminar series have argued that there is little value or point in trying to define SEs precisely (usually on the basis that 'you know one when you see one'),

or that it is more useful to talk in terms of 'ideal types' rather than clear-cut definitions⁴¹. However, as Jones *et al*⁵ stress, definitions are important both to differentiate SEs from other types of public or commercial organisations, and to help to differentiate between types of SE.

Shaw and Carter⁴⁰ review the problems of defining SEs, and propose four commonly shared (but not necessarily defining) characteristics which build on work by the SEC and Social Enterprise London⁴²:

- 1 *Multi-agency environments*: SEs operate within a wide range of contexts but often in complex environments of diverse stakeholders and client groups (although this is not a defining characteristic since primarily-for-profit businesses could exist in an identical stakeholder environment).
- 2 *Enterprise orientation*: SEs are directly involved in producing goods or providing services to a market. Virtue Ventures⁴³ emphasise that SEs generate social value while operating with the financial discipline, innovation and determination of a private sector business. In the UK, a distinction is often now made between 'established' SEs (50+% income from trade) and 'emerging' SEs (<50% or 25-49% income from trade)⁴⁴.
- 3 *Social aims*: SEs have explicit social (or environmental) aims such as job creation, training or the provision of local services. They have strong social values and sense of mission, often including a commitment to local capacity building and are accountable to their members and the wider community for their social, environmental and economic impact. Primacy of social aim is seen as a defining characteristic by many scholars with the generation of funds being the means to further the organisation's social ends^{45,46}. Others emphasise the balance between social and economic aims or the 'triple bottom line' balance between the social, environmental and economic³⁵.

4 *Social ownership*: SEs are usually autonomous organisations (although they can represent a sub-division of an organisation, such as a trading arm of a charity⁴⁷) often with loose governance and ownership structures, based on participation by clients, users, local community groups or trustees⁴⁸. Profits are distributed to stakeholders or for the benefit of the community rather than to individuals. However other authors emphasise that such governance arrangements describe those that are ‘social led’ rather than those that are ‘enterprise led’ and typified by a structured business organisational system, emphasis on business logic and businesslike methods⁴⁹. Some also challenge the assumption that SEs must necessarily be collective or particularly democratic in terms of structure and culture⁵⁰.

The principal reason for problems in defining SEs is the tendency of authors to describe SEs in terms of particular characteristics without any attempt to differentiate those that typify SEs from those that define them. For example not generating profits for distribution to shareholders is often used as a defining characteristic, yet some longstanding SEs such as Traidcraft and many newer ones set up as Community Interest Companies are intended to distribute an element of profit to shareholders. SEs are also often described as being small and democratic, and as being participatory in the sense of involving those who they were established to benefit in decision-making processes⁵¹. However there is nothing that prevents them from being large and there is an emerging concept of ‘Corporate Social Entrepreneurship’ relating to larger businesses⁵². It is also not uncommon for SEs to be established by social entrepreneurs who tend to be highly motivated individuals with a bold and clear vision⁵³, and such personality types may be inclined towards benign autocracy rather than participation and particularly democratic approaches.

Other defining factors of SEs suggested including a high degree of autonomy, a minimum level of paid work and a significant level of economic risk⁹⁹ are all characteristics shared by organisations that clearly are not SEs.

If we seek characteristics that actually define, rather than describe or typify, SEs, the only clearly defining characteristics are (a) the primacy of social aims and (b) that the primary activity involves trading goods and services. These dimensions reflect the delineations in Pearce’s model between SEs and the private sector on one side, and from the rest of the voluntary sector on the others. They are also encapsulated within the UK Government’s definition of a social enterprise as: ‘**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 owners⁵⁴. In short it concerns the use of business means to pursue social ends.

As a final caveat relating to the issues of definitions and profits, even with the clarity that a focus on these two defining principles brings, there is still room for debate about what the primary purposes of an organisation might be, and whether their commercial operation represents the core of the business or the means to a social end. A simple example would be Camelot, the UK national lottery operator. One stakeholder might focus on their role as a commercial business generating profit for shareholders, whilst another might focus on the generation of money for worthy causes and view that as the organisation’s *raison d’être*. Most people would assume that Camelot is primarily a ‘for profit’ business, and therefore is not a SE. However since it provides to social causes 56 times the money it returns to shareholders⁵⁵, a perfectly legitimate argument (if one unacceptable to many working in the SE field) can be made that Camelot is, in fact, a SE.

Legal Structure, Ownership and Financing

Legal structure is often viewed as helping to define a SE, although this is complicated by international variations in legal formats, frameworks, terminology and fiscal responsibilities and duties, which makes international comparisons and comparative research difficult¹⁶. Some argue that purpose rather than structure defines a SE³⁸ and in practice legal structure choice can be somewhat arbitrary⁴. There are a number of specific legal structures that are most commonly associated with SEs including a Charity (that trades), Trust, Community Interest Company (CIC), Company Limited by Guarantee, Company Limited by Shares, Community Benefit Society, Industrial and Provident Society and an Unincorporated Association.

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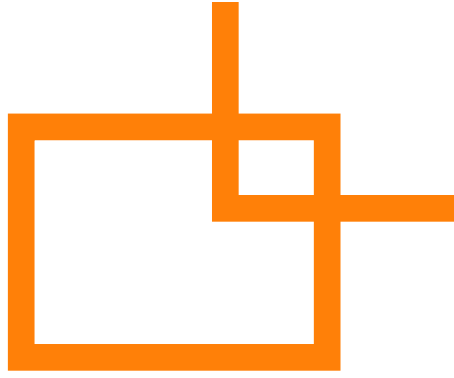
There are also forms of SE that belong to particular sectors such as Housing Associations and Credit Unions. In some cases a SE exists as a trading-orientated department or project within a larger parent organisation such as a charity⁴⁷. Some commentators have queried whether UK law actually provides legal forms that are specifically designed for non-profits, SEs and charities⁵⁶, but this has been addressed with the introduction of CICs as: *'A limited liability company which carries on a social activity and it must be able to generate surpluses to support its activities, maintain its assets, makes its contributions to community and in some cases make limited returns to its investors.'*⁵⁷

The definitions and legal structures applied to SEs may seem to be an *'academic'* question without practical value. However, the research literature and insights from the seminars revealed that how SEs are structured and how they are conceptualised, defined and labelled by stakeholders can determine the access they have to grant funding, loans, support services, contracts and other factors affecting success and sustainability⁵⁸. In some cases enterprises were hampered by an inappropriate legal structure or by giving themselves an inappropriate label, and there can be confusion amongst organisations as to whether or not they are a SE⁵⁹. Research into the issue⁶⁰ suggests that SEs' reasons for picking a particular structure are influenced by factors including: perceived tax advantages, access to grant funding, enabling cross-subsidy between trading divisions, retaining management autonomy and risk management. In practice SEs frequently simply took local, limited legal advice and/or followed a model used by another SE, leading Cox to conclude that: *'All parties to the development of organisational structures, whether they be social enterprise founders, local solicitors or specialist advisers, lack a clear organisational structure development methodology, or the right knowledge, examples and other tools to structure either discussion or advice to make it meaningful to non-specialists.'*⁶⁰

Research into the implications of different forms of legal structure on SE sustainability, the quality and availability of advice about establishing an SE (and how to improve it), the introduction and use of CICs, and into key stakeholder perceptions of particular enterprise forms, structure and labels would help to indicate the importance and implications of these issues. Recent years have seen significant changes to the legal measures governing SEs within the UK (such as the introduction of CICs), and these generate a number of questions relating to governance, accountability, regulatory oversight, ownership of assets and Directors' duties which are likely to require further research in future⁶¹.

The 2005 UK Survey of SE for the Small Business Service⁴⁴ considered only two forms of SE: Companies Limited by Guarantee (CLG) and Industrial & Provident Societies (IPS). In terms of structure and finance it revealed that 64 per cent had charitable status, of the remainder, five per cent were exempt or had exempted status, and five per cent were in the process of registering. Just over half (53 per cent) of SEs surveyed received at least some *'grants and donations'* the rest being dependent on earned income. However 11 per cent also obtained some income from sources such as membership fees and subscriptions, investments, rent or sponsorship.

To become established, and often later to develop and grow, SEs require finance to establish the organisation, develop its productive capacity and for working capital with which to start operating^{53,62}. A 2003 Bank of England report into SE financing¹² in considering equity finance, found little evidence of demand for, or supply of, conventional venture capital or business angel-type financing. This seemed to reflect the characteristics of the SE sector in not generating substantial profits for shareholders, an unwillingness to concede ownership to external investors, and a lack of a conventional *'exit strategy'* for investors⁶². This BoE report found that demand for debt finance is constrained by risk aversion and the availability of cheaper forms of funding (eg grants).



However, around 40 per cent of enterprises (mostly larger, more established ones) do use a range of external financing techniques involving banks and other lenders, such as the new Community Development Finance Institutions (CDFIs). Borrowing is used for a variety of reasons, particularly to address cash flow difficulties or the purchase or development of assets.



Grant funding is part of the typical SE funding mix, and its nature can influence commercial success and access to other funding. There is evidence to suggest that regular grant payments can improve the management of SEs, but in some cases up-front lump sum payments are important to meet start-up costs and manage cashflow efficiently¹². Some grant funders insist on restrictions on using assets purchased with grant money as collateral which can limit SEs ability to maximize the use of their assets and access other funding¹². The funding mix and the blending of grant and trading income are a relatively unique aspect of SEs and research into the implications of this mix for financial management, and the interaction between funding sources would form a useful focus for further research. There are also a number of research needs linked to funding for SEs including: a study of emerging forms of finance and the purposes of different types of CDFIs and their loan portfolios; the nature of the organisations that have borrowed short and long-term capital; and the interaction between funding opportunities and needs and organisational structure, culture and management processes. Lending and decision-making processes could also be analysed to identify success factors for funding, reporting and performance measurement requirements and to assess the effectiveness and performance of different types of social funders and forms of funding and funding mixes. How to overcome some of the practical and psychological barriers to greater use of debt and equity finance (eg by boosting awareness, providing guidance on funding sources, use of instruments such as Community Investment Tax Relief) could also usefully be investigated.

The SE literature identifies a growth in innovative forms of investment emerging as alternatives to grants or revenues including loans, 'near-equity' and 'patient capital'¹⁵, and in the USA there is the emergence of 'venture philanthropy' as a parallel to venture capital⁶³. There is evidence of demand for forms of long-term 'patient' finance, particularly during growth and expansion stages, in which investors are willing to accept lower financial returns in exchange for social outputs. Examples include social banking from providers such as Triodos, micro-credit based lending, initiatives like Quebec's Solidarity Funds (based on union bonds) and the Community Loan Fund. Measures to encourage the supply of patient capital will be needed to accompany efforts by SEs to identify and promote suitable investment opportunities¹². Methods of social auditing will also need to be developed that meet the needs of actual and potential investors, whilst not placing too onerous a reporting burden on SEs. For lenders/funders the sector is typified by small heterogeneous organisations which makes servicing them relatively resource intensive, which combined with lower than commercial returns does not make them strongly attractive to investors¹⁶.

Governance

Governance, concerning management roles, decision-making power and control mechanisms, is an important aspect of any organisation, but for SEs it represents another under-researched but rapidly developing area (although it is better researched in relation to certain organisational forms such as co-operatives than others). Mason *et al's* review of SE governance¹¹ reveals opportunities for further research into the applications of concepts such as stakeholder theory and stewardship theory to the governance of SEs, and a need to better understand how SEs seek and gain legitimacy⁶⁴, and the processes by which priorities are assigned amongst the competing needs of their different stakeholders.





Governance issues are important because they can influence eligibility for funding grants or public sector contracts, and poor governing board performance was one of two key problems that hampered the majority of Sharir and Lerner's sample of SEs. Interestingly, Low sees the pressures to become more 'business-like' as likely to push SEs towards the 'stewardship' style of governance associated with corporations and the role of shareholders⁶⁵. This is despite the emergence of CICs and their intention to promote the more democratic 'stakeholder' style of governance more prevalent in the voluntary sector; and to promote community ownership of SE assets. SEs provide the potential to offer local partners more involvement and greater community ownership and control and may develop more distributed forms of governance and local accountability for services⁶⁶. Smith, however, notes that in practice although CIC regulations tackle asset ownership, the regulations and the remit of the regulator fail to ensure that such SEs will be particularly democratic and participatory in terms of their internal organisation⁶⁷.

In their research into Italian 'social co-operatives', Borzaga and Tortia highlight the ways in which the complex local environments that SEs tend to operate in often motivate them to adopt a multi-stakeholder approach to governance⁶⁸. In the absence of the comparative simplicity of conventional profit and business motivations, SEs emerge as a type of organisation that tends to evolve and adapt as they seek to solve social problems through close relationships with a range of local stakeholders and an ability to sense and respond to their needs and motivations. This is reflected in the business planning of SEs which tends to address the needs and interests of a wider range of stakeholders than is usual for conventional businesses⁵³. It is also often reflected in a relatively informal approach to dealing with governance issues which has commonalities with smaller commercial companies and family firms⁶⁹. Understanding the effectiveness of different approaches to governance for SEs is made more complicated by the difficulties involved in measuring and integrating conventional financial performance measures with those linked to social objectives. The challenge of integrating the emerging research evidence concerning SE governance with that of SE performance measurement represents an important avenue for future research work¹¹.

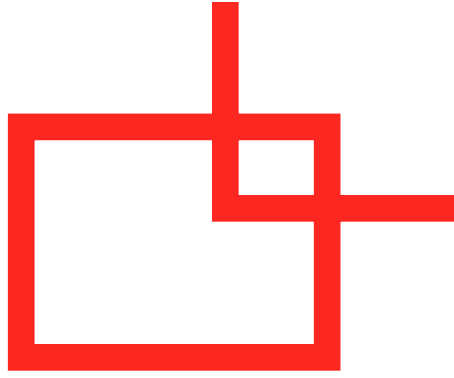
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Social Entrepreneurs

Central to the field of SE is the concept of the '*social entrepreneur*', although the term is another that is used imprecisely⁷⁰, ambiguously⁷¹ and with a subtly different meaning to '*entrepreneur*' than in the conventional business literature. Although social entrepreneurs are typically viewed as individuals who bring business and market based skills to the pursuit of social change, a social enterprise is not necessarily the vehicle through which such changes are pursued³.

Dees⁷² develops a somewhat idealised conception of the social entrepreneur as a bold and opportunistic change agent working to create and sustain social value, and working innovatively and adaptably to overcome resource constraints. Vega and Kitwell⁷³ similarly view them as innovators, particularly in terms of applying solutions to social problems that have not been tried by either the commercial, public or voluntary sectors. They also differentiate between types of social entrepreneur, including those whose passion for the social cause inspires them to become entrepreneurial and '*serial entrepreneurs*' who decide (or are persuaded) to apply their business skills to the solution of a social problem.





The nature, background, motivation and development of social entrepreneurs have been the subject of a variety of research projects⁷⁴. As individuals they tend to hold a dual identity as both entrepreneurs and activists, their motivations are often shaped by family background and past working experience³, they tend to be energetic, persistent, confident and inspirational as people⁷⁵ and have characteristics including empathy, moral judgment, a high degree of perceived self-efficacy, and a strong social support network⁷⁶. It may also be inappropriate to think of the social entrepreneur only as an individual⁷⁰, because entrepreneurship in some places and cultures may emerge more from groups and communities. Spear's research suggests that the image of the '*heroic individual*' social entrepreneur may be something of a myth⁷⁷, and that success often comes from teams and groups who used '*distributed entrepreneurship*' and '*circles of entrepreneurial activity*' involving a range of internal and external stakeholders. Research into the motivations of social entrepreneurs tends to be anecdotal and/or in the form of case studies⁷⁸ but suggests a variety of underlying motives that are often community-orientated and sometimes ideological⁷⁷, and evidence suggests that social entrepreneurs act decisively to fill market gaps left by the private and public sectors²⁵. Whether there are significant differences between social and mainstream entrepreneurs (beyond their degree of interest in addressing social issues) and the implications of any differences in terms of management policy, processes, culture or governance is a potentially important research opportunity¹⁶. Sharir and Lerner found that social entrepreneurs shared some motivations with their mainstream counterparts (relating to personal fulfilment, independence and creativity) but also tended to have relatively unique motivations linked to personal rehabilitation, community contribution or affiliation⁷⁹.

Parkinson and Howorth contrasted the language that social entrepreneurs used with that of mainstream entrepreneurs⁸⁰. They found significant differences, particularly in the emphasis placed by SEs on concepts of community, collectivism and localness and a desire to connect the entrepreneurial dimensions of the business back to the social and community needs they sought to meet. The Bank of England study on SE finance for example found that directors of SEs may be less willing (or able) than private entrepreneurs to provide a personal guarantee to banks or to invest his or her own capital in the enterprise¹².

The 2006 Global Entrepreneurship Monitor (UK) survey⁸¹ of over 42,500 UK adults illustrates the extent and nature of social entrepreneurship within the population and found that social entrepreneurs are:

- a distinct group with more positive attitudes than the general UK adult population
- less positive in their attitudes than mainstream entrepreneurs however; and prone to disillusionment and discouragement
- proportionately more likely to be women than for mainstream entrepreneurs
- often relatively young (4.4 per cent of 18-24s compared to, say one per cent of over 55s)
- often well educated, and those in full time education are highly likely to be involved
- more likely to be in a rural than an urban area
- in ethnic background more likely to be mixed ethnicity or Black Africans or Caribbeans than White (by a factor of more than two in both cases).

A number of these factors present opportunities for further research including tracking why disillusionment and discouragement arise and how to prevent it; understanding why certain groups tend to be proportionately more or less likely to get involved in SE and how those insights could be used to inform the development of policies to attract people to SEs and to provide support to them.

An emerging social trend with the potential to generate social entrepreneurs is that of 'downshifting', the adoption of a less pressurised and materially intensive lifestyle in search of an improved quality of life. Research from Prudential Insurance⁸² showed that 1.4million Britons had already purposefully reduced their incomes in exchange for a better quality of life, with a further 600,000 planning to do so in the next two years.

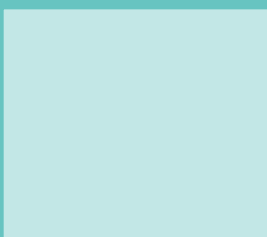
Just under a million 35-54 year olds were making serious plans to downshift; and around 440,000 under 35s planned to quit the 'rat-race' within the next three years. This typically involves the exchange of a conventional high-earning career towards a more personally rewarding form of activity, and there is an opportunity to attract 'downshifters' with strong business skills and experience towards a role in social entrepreneurship. The existing and potential future links between actual or aspirational downshifting and social entrepreneurship could provide another valuable research opportunity.

“An emerging social trend with the potential to generate social entrepreneurs is that of ‘downshifting’, the adoption of a less pressurised and materially intensive lifestyle in search of an improved quality of life.”

Staffing and Skills

A key feature of many SEs is the generation of employment opportunities, including salaried training of the long-term unemployed, people with learning difficulties, ex-offenders, those lacking in qualifications or other groups with relatively low employment rates (which vary amongst countries but can include women or older workers⁵¹). Borzaga and Defourny's collection of SE cases from fifteen European countries³⁰ illustrated the prevalence and value of this '*work integration*' role within European SEs.

As such SEs can provide a key stepping stone in providing stable jobs for those normally excluded and in getting people with the worst job prospects into permanent employment⁸³. Aiken and Spear's research on SEs from a work integration perspective defines six types of organisations with such a function: worker cooperatives, community businesses, social firms, intermediate labour organisations, quasi-state SEs and voluntary organisations with employment initiatives⁸⁴.



The work integration role means that SEs often share the objectives of UK policy initiatives linked to work opportunities for the disadvantaged, including various components of the *New Deal* scheme, and the *Work Preparation, Job Introduction* and *WorkStep* schemes. SEs can benefit from opportunities and funding through these schemes, but they must compete for resources alongside purely commercial enterprises⁸⁵. SEs' role in work integration does not however make them a panacea, and some research suggests that the jobs they provide can be relatively poorly paid and insecure¹⁸. The relationship between these schemes and the employment aims of specific types of SE could provide useful research opportunities, particularly from a policy perspective. The work integration role of SEs also provides another interesting point of comparison with mainstream firms for whom providing employment is the means to a commercial end, which is in contrast to those SEs who often seek to generate employment opportunities as an explicit social goal. How that influences the way in which SEs manage their businesses and human resources presents another interesting opportunity for further research in future.

The 2005 survey of UK Social Enterprise⁴⁴ (with its focus on the CLG or IPS forms) suggests that 475,000 people are employed by SEs, 63 per cent as full-time employees with almost all SEs employing some staff on a part-time basis (85 per cent). In addition to their employed workforce, SEs rely heavily on volunteer labour: Two-thirds of SEs make use of unpaid labour, involving almost 300,000 people volunteering their efforts. The extent of the mix of paid and volunteer inputs is another unusual feature of SEs and the implications of this in terms of the human resource management provides some important research opportunities since this produces unusual management challenges for the entrepreneurs trying to integrate, balance and manage efforts that have been donated as well as paid for.

In terms of the availability of staff and skills, the 2005 CIPD Survey on Recruitment, Retention and Turnover⁸⁶ found that 90 per cent of voluntary, community and not-for-profit organisations (an imperfect but reasonable proxy for SEs) had experienced difficulties in recruiting in one or more categories of vacancy. This survey also revealed that such organisations were less likely to engage in succession planning than commercial enterprises. Recruitment problems were less related to a lack of candidates than to problems finding candidates with the right skills and cultural 'fit' with SEs' social mission⁴⁵.

Although entrepreneurship training and education covering issues such as raising finance, marketing, business law and business planning are now widely available, there are only a few specialised courses for potential social entrepreneurs (or those interested in the social economy) for under-graduate and post-graduate students. Academically a small number of social entrepreneurship special interest groups have emerged in the UK and US.





There is a need for research exploring the links between the skills developed and needed by SEs and current sources of information and training including conventional business education, specialist provision, and information accessed via the practical guides available from many organisations. One potential future option is the closer integration of enterprise education through schools (such as the Young People's Enterprise Forum) and opportunities for schools-based SEs⁸⁷.

Haugh¹⁶ highlights the need for research that maps the emerging social and community enterprise academic curricula, patterns in student recruitment and performance, and internal and external course evaluation and validation to provide valuable benchmarking criteria for both academics and practitioners.

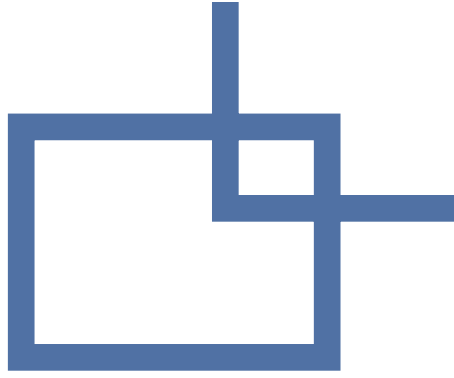
Royce¹⁵ highlights employment relations in managing job insecurity (due to the episodic nature of grant funding support for many SEs); human resource planning in effectively balancing a workforce composed of both paid staff and volunteers; and managing volunteers alongside sometimes vulnerable staff as particular HRM issues for SE. This is particularly the case for micro and small SEs who depend on volunteers for 81 per cent and 46 per cent of their staff respectively, and these issues provide a number of research opportunities. Royce concludes that the sector lacks a robust infrastructure to support coherent people management systems and that:

“Piecemeal support and advice through a raft of well-meaning board members, fragile networks and higher education institutes do not provide a strong framework for growth and sustainability in managing human resources in the SE sector.”¹⁵

Operations and Marketing

The diversity of SE in terms of size, structure and the sectors in which they operate make it difficult to provide any generalised view of the evidence base that exists regarding operations management within SEs. It may be reasonable to assume that in most markets the creation and delivery of commercial value, a SE will be unlikely to differ much from a conventional commercial enterprise of similar size, and so there may be little need for a distinctive research base compared to issues of financing, human resources and leadership. However, it is possible that the primacy of social aims and the need to deliver social value impacts on operational processes and their management.





Alter's typology of SEs⁴ suggests three key modes of operation:

- i *Embedded*: in which the entire enterprise is orientated to the delivery of social value (eg an employee owned FairTrade cooperative such as the US coffee firm EQUAL EXCHANGE)
- ii *Integrated*: in which the enterprise delivers social and economic value through activities that are separate but that overlap at times and share synergies (eg the One Laptop per Child project will both deliver social programmes directly and sell laptops commercially to fund them)
- iii *External*: in which the enterprise activities are not connected to the delivery of social value, but simply provide the funding for it (eg Charity Shops or products like ONE Water⁸⁸). Some European authors such as Defourny and Nyssens⁵¹ reject such ventures as a form of social enterprise, insisting that the economic activity must deliver the social benefit directly, but without explaining why this must be the case.

In terms of research into the marketing of SEs there tends to be intense personal promotion of a SE by the entrepreneurs involved in them, but they often lack the time, skills and marketing orientation to develop more formal marketing strategies, plans and activities. Other marketing weaknesses amongst SEs tend to include a poor understanding of pricing dynamics and a tendency to under-price products and a lack of emphasis on packaging/labelling quality and providing information for customers. SE also produce relatively unique challenges relating to a reluctance to market themselves at all (a tendency shared with some businesses in the creative industries) and a fear of marketing themselves as 'too successful' for fear it might jeopardise future grant support^{13,14}.

In the case of SEs who employ a workforce that is in some way disadvantaged, whether and how to highlight this dimension in the marketing of the enterprise represents an ethical conundrum which has received little research attention until very recently¹³. The potential benefits of, barriers to, and strategies for, developing more formalised marketing cultures, plans and activities represents a potentially valuable area for future research, since the primacy of their social aims and social contribution presents a potential source of differentiation and competitive advantage. However, many successful SEs have succeeded by relying on conventional commercial channels (selling online or through wholesalers or local retailers) for growth. The role of retail channels for producer SEs and the potential opportunities E-commerce present could also form a focus for future research. For many SEs there is an opportunity to market not just the product, brand and the organisation behind them, but to promote the social cause that the enterprise seeks to contribute value to. This provides not only the obvious opportunities of cause related marketing links with commercial firms, but integration with the emerging discipline of social marketing and efforts linked to the social cause. Social marketing involves the application of business marketing thinking and techniques to the pursuit of social goals, as compared to SE which involves the dedication of an organisation and the development of business processes to pursue social goals.

The use of partnerships is another key characteristic of SEs. The decentralisation and privatisation of social services has created opportunities for SEs to establish same-sector and cross-sector partnerships to deliver social services locally, and to offer training and employment opportunities to the disadvantaged and excluded.

Partnerships and collaborations bring benefits and challenges to all those involved³⁸ and can allow the development of unique co-operative marketing strategies involving different parties within a particular supply chain⁸⁸. The SE may gain from access to resources, may improve financial performance from market engagement, and generate intangible benefits from enhanced legitimacy. A partnering commercial organisation may gain reputational benefits from consumer perceptions of enhanced corporate social responsibility, improved access to special expertise and future talent, and increased employee motivation derived from links with SEs⁸⁹. There are however risks associated with partnerships between SEs and for-profit organisations, including reputational damage when the partnership is not successful, and loss of independence and control that may arise from power imbalances between the partners. Research that investigated the benefits, challenges, barriers and facilitating factors associated with same-sector and cross-sector partnerships would be very useful for practitioners and policymakers and might develop theory useful for managing successful SE partnerships and collaborations.

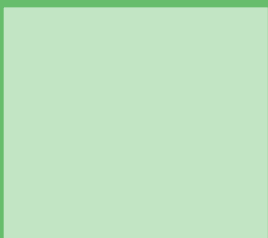
One important operational issue is that of capacity, and whether existing SEs can provide or develop the capacity to deliver the level of social value that local communities and policymakers aspire to. For example in the field of community waste services there is some debate over the extent to which SEs can develop their capacity to handle rapidly expanding expectations⁹⁰, and there are concerns that bureaucratic and other obstacles frequently limit the ability of SEs to expand their capacity rapidly⁹¹. In response to this, there are new and emerging business models for SE which allow successful approaches to be replicated relatively easily. One of these is the emergence of the '*social franchise*' in the USA in particular in which a SE business concept is replicated geographically through a franchising operation⁹².

“Social marketing involves the application of business marketing thinking and techniques to the pursuit of social goals...”

Focus, Culture and Values

SEs share with commercial enterprises the opportunity to address a wide range of societal needs and provide benefits to a range of stakeholders. SEs tend to have complex goal sets which combine economic goals with both direct social (often community focused) goals linked to their specific social mission and more indirect social goals linked to the building of social capital⁵¹. The primacy of social aim of the SE means that instead of customers and shareholders acting as the primary stakeholders, there are a range of stakeholders whose needs a SE can primarily seek to address including:

- The organisation's workforce (eg through workers' co-operatives or ILOs)
- Members (eg co-operatives and mutuals)
- Producers (eg FairTrade organisations)
- The community (through Community Enterprises)
- Disadvantaged groups within the community (or society more broadly) including providing services to disadvantaged consumers (eg Charity trading arms)
- The environment (eg environmentally orientated SEs such as recycling businesses).



Among the SEs (CLG or IPS) covered in the IFF survey⁴⁴, 95 per cent described their mission in terms of helping people while 23 per cent had a focus on the 'green' environment (five per cent solely). Of the SEs with a social focus a third were involved in health and social care: mostly daycare, childcare, welfare/guidance or accommodation services. Others were involved in community or social services (21 per cent), real estate/rental activities (20 per cent), educational services (15 per cent) and in wholesale/retail (three per cent) with a few in areas such as leisure services. The key beneficiaries were identified as people with disabilities (19 per cent), children/young people (17 per cent), the elderly (15 per cent), and those on low incomes (12 per cent). The provision of employment opportunities was a focus for 28 per cent and the sole focus of nine per cent of SEs. Environmental orientated activities included recycling (the focus for 42 per cent of green SEs), improving urban environments (29 per cent), conservation (23 per cent) and environmental awareness raising (20 per cent).

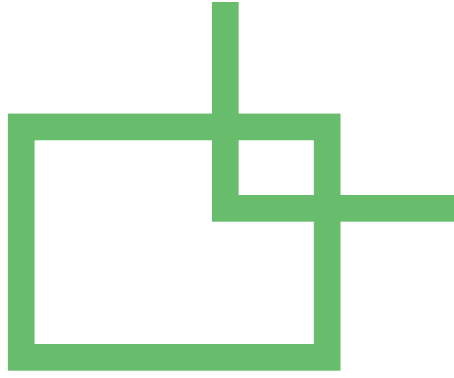
For SEs, there are many opportunities to address disadvantage, poverty and social exclusion, and many have been created to deliver health care, arts, cultural, employment, housing, social care, education, environmental, and recycling services. Pearce³⁴ provides a categorisation of market opportunities in disadvantaged communities that SEs can address:

- i local development and regeneration (managed workspace, business incubation, enterprise training programmes, business advice and support, local development and infrastructure regeneration)
- ii working with the state to provide services which were formally provided by the state (eg housing, leisure and recreation, child care and domiciliary care)
- iii providing services to the community in response to market demand

- iv market-driven businesses that provide goods and services in direct competition with the public and private sectors.

A common notion within the literature about SEs is that they represent a hybrid organisation incorporating elements from the commercial sector and others from the voluntary sector²⁶. A key focus in terms of the differences between SEs and conventional commercial sector organisations or voluntary sector organisations involves the issue of culture. Shaw and Carter's comparison between SEs and their for-profit counterparts, revealed both similarities and differences in culture⁴⁰. One key difference observed was in risk aversion. Social entrepreneurs rarely invest or risk personal finance in their ventures (or to seek profit for personal gain). Personal risk for social entrepreneurs exists, but relates more to their investment of personal local credibility and reputation, rather than financial risk. Success and failure are therefore less a function of financial performance, and more a question of the loss or enhancement of personal credibility and reputation, and of social and human capital. Both social and commercial entrepreneurs believed that their role was central to the success of the enterprise, but social entrepreneurs were generally motivated to share the credit for success more widely to reflect the contributions of volunteers and others.

Although both for-profit and social entrepreneurship requires creativity and innovation, in the social context, this is manifested mainly in managerial actions by applying novel solutions to intractable social problems rather than through innovations in products, services or technologies (therefore innovations in social housing tend to revolve around innovative financing solutions and stakeholder relationships rather than on new types of building or building materials). This perhaps explains why there is considerable debate within the research literature on SEs as to whether or not they are particularly innovative. It has been noted that one slightly paradoxical aspect of SEs is that they tend to



be innovative and entrepreneurial by nature (at least in process terms), but they are not widely involved in research and development activities and spending⁵. Some authors seek to stress the innovative and entrepreneurial aspects of SEs by using the alternative label ‘social entrepreneurial venture’⁵³.

Another interesting cultural aspect of SEs is their relationship with commercial business and commercial business practices. Within the UK there appears to be a cultural shift underway amongst SEs as they expect to receive less grant support in future and perceive a need to further develop traded income⁹³. Despite this there is an observed reluctance amongst many to trade with private sector organisations, stemming partly from the culture and ethical values of many social economy organisations⁹. This reluctance can inhibit growth and diversification. Parkinson and Howorth found that when social entrepreneurs used the lexicon of conventional entrepreneurship, it tended to be in a way that disparaged the mainstream and was used to distance the SE from it⁸⁰. Phillips similarly suggests that culturally SEs demonstrate:

“a wariness bordering on antipathy towards mainstream business approaches”⁴⁵

Values are important for any organisation, and the argument that social values fill a vacuum left by the absence of a profit motive within SEs is too simplistic and fails to recognise the importance of concepts like organisational mission and values in commercial organisations.

However, the question of how SEs maintain and manage their social values, particular often in the face of emerging pressures to become more ‘commercial’ is an interesting one. Aiken examined the nature and evolution of organisational values within SEs⁹⁴ and found that operating in commercial markets did not necessarily constrain the values that underpinned the SEs studied (although in one case there were pressures to change certain process-linked values such as co-operative working).

Interestingly Aiken’s case study companies found less pressure on organisational values facing SEs operating in commercial markets from those operating in the public sector. This perhaps suggests that SEs can compete by being ‘different’ in commercial markets, but must compete by being seen to conform and to reduce perceived risk when serving the public sector:

In relation to focus and values, a recurring issue within the SE literature is the treatment of the issue of ‘profit’⁷¹. Some commentators view SEs as being essentially not-for-profit^{35,99}, involving limited profit distribution^{46,51}, or to be at least for-more-than-profit⁹⁵, whilst others focus on the generation of profit as a key means by which the enterprise’s social mission can be tackled⁴⁸⁸. It is worth noting that the SE literature tends to take a somewhat simplistic view of conventional commercial enterprises by assuming them to be both primarily for profit and profit maximising. This is worth challenging. The mainstream literature suggests that businesses do not tend to be profit maximising because there is often greater prestige, reward and security for managers who deliver growth in the business and its share price. Although this is connected to profits, it is more a question of profit satisfying than maximising.



There is also an assumption that mainstream businesses exist principally to generate profits for shareholders. Although this might apply to some businesses, particularly large publicly quoted companies, it is likely to be less true of many of the smaller and more entrepreneurial businesses that represent closer comparators to SEs. There are many small businesses operating in areas such as agriculture, handicrafts, entertainment and the arts where it would do them an injustice to view them as *'primarily for profit'*. Many work for the love of their craft, to maintain a traditional way of life, and to create livelihoods for themselves or others.

Even though such enterprises are not SEs in addressing social needs beyond the needs of those with a direct stake in the enterprise (owners, employees and customers) in terms of culture, structure and many of the challenges they face in surviving, growing and developing, they potentially have much in common with SEs. This point was noted by Jones et al⁵: *'We would recommend that the similarities between family firms and social enterprises merit some investigation particularly in relation to succession planning and new forms of (external) investment... There is a significant mainstream enterprise literature concerning family firms and it would seem realistic that issues concerning the sustainability and the scale of the family firm are relevant at least in part to social economy organisations, particularly if as we surmise, there are similarities between how family firms and social economy organisations behave. If the policy context is to improve social economy contribution to public service delivery, it would seem logical to examine the operation of family firms where there are (perceived) similarities and lessons to be learned.'*

The organisational cultures of SEs, how they evolve, how they differ from commercial enterprises of similar sizes, how they accommodate both paid workers and volunteers all represent potentially valuable areas for future research, as does consideration of how SE cultures and values impact on the experience of their members and on the commercial fortunes of the enterprises in the marketplace.

Development of Social Enterprises: Evolution, Success Factors and Sustainability

There is less research into the evolution and development of SEs than for conventional commercial enterprises, and the focus tends to be on the establishment and initial growth of the SE⁴⁵ (although Bull *et al*^{96,97}, have sought to connect conventional models of organisational life cycles with SEs and highlight the need for research to better understand SE evolution and life cycles). Several specific points of origin for SEs are suggested by the research evidence including:

- specific market failures or failures/changes in public service provision
- through individuals or informal groups wanting to provide new services to address unmet social needs usually on a local basis^{40,53,76} or through self-help ventures³³
- existing organisations such as voluntary groups seeking to diversify their income sources^{47,98}
- philanthropic venture capitalists establishing a new social venture³³
- a redefinition of the role of organisations (usually from the voluntary sector) due to the changing relationships between the consumer, intermediate structures in civil society and the state⁹⁹.



Despite the research that exists about the founding and early growth of SEs, Desa notes that there is relatively little research about where the initial ideas come from, and how particular opportunities are identified and evaluated³.

The stages that SEs pass through as they grow and develop in terms of organisational development, and the changes and challenges involved in different phases, is less well researched than for conventional businesses. Bull *et al's* tracking of the evolution of three SEs⁹⁷ revealed that despite differences in origin, history, market and business structures, there were commonalities in the development stages that the SEs passed through and common success factors such as an entrepreneurial management team and an organisational structure capable of adapting and growing. The emphasis on social entrepreneurship within the SE literature tends to focus on their establishment as new community social ventures representing hybrids between conventional commercial enterprises and more traditional third sector organisational forms. There are fewer studies such as Chew's examination of how charities establish trading arms as CICs⁴⁷, that chart the evolution of SEs from other pre-existing forms of organisation. Studies of organisations (rather than individual entrepreneurs) that make the alternative journey from for-profit enterprise to SE seem particularly scarce. Logic suggests that this will be rarer, since it is more difficult to change your underlying purpose than the means by which you pursue it, although there is no reason why a commercial enterprise couldn't experience an epiphany and be inspired to reinvent itself as a SE.

One factor that has been the focus of research attention, are pressures to 'professionalise', generally interpreted as becoming more like mainstream enterprises in culture, operations, marketing and management. To some extent this reflects the fact that as businesses, SEs have to compete, not only through meeting the needs of customers by offering goods and

services at competitive price and quality levels, but they must also compete for human resources, managerial skills, financial resources and strategic relationships¹⁰⁰. The professionalisation challenge is particularly pronounced for certain types of SE such as for FairTrade organisations where there is an intense debate over whether future success depends on placing more or less emphasis on the social aims and contributions of the FairTrade organisations^{101,102}. Several scholars express concern about the extent to which certain models of SE are becoming accepted as norms or ideals in a way that may reduce the diversity and innovation within the sector^{50,96}. Dart's analysis based on institutional theory predicts that in future SEs will evolve: *'Away from forms that focus on broad frame-breaking and innovation to an operational definition more narrowly focused on market-based solutions and businesslike models because of the broader validity of pro-market ideological notions in the wider social environment.'*⁶⁴

Finding the correct combination of skills and motivations appropriate for both an entrepreneurial venture and the pursuit of a social cause, within a single individual social entrepreneur can pose difficulties¹⁰³. This means that to be successful SEs may have to rely on building teams with the requisite shared values and skills profile¹⁶, and there is a need for research into how such teams can be developed. Externally, informal (usually local) networks are often an important success factor for SEs, particularly in terms of starting up, acquiring resources, accessing advice, and recruiting employees and volunteers. At present, relatively little is known about the nature and role of such networks in SE operations and success, and this represents another significant research opportunity¹⁶. In a similar vein, advantages have been identified linked to the clustering of SE activities both spatially and sectorally. Co-location of SE organisations presents significant opportunity for economies of scale, shared costs and risks and promoting inter-trading.



However, research into the potential benefits of, and mechanisms for, delivering co-location of SEs in pursuit of closer integration, knowledge transfer and synergistic relationships amongst them is currently lacking.

In a study of SE within Wales⁹, the key success factors identified were: location and quality of infrastructure, availability of seed and core funding, quality of staff and volunteers, and supportive local conditions. Conversely problems with these issues were identified by struggling enterprises as barriers, along with the potential for tensions between trading and social objectives; shortages of information and support; and an unhelpful policy context. A lack of up-to-date and reliable data on the scope and scale of the sector; a lack of effective inter-trading and horizontal links between SEs, the lack of a common social economy ethos and identity, and an inadequate policy framework were also identified as restricting the development of the field as a whole. Since the publication of that research, there has been a considerable amount of policy development relating to SEs and the success of new policy initiatives will represent an obvious focus for future research.

A study of SE in Israel showed a number of factors as significantly contributing to long-term success⁷⁹. These included a strong and dedicated managerial team with previous managerial experience; a strong capital base and social network to support start-up; acceptance of the venture by the public and of its offering by the market; and long-term co-operation with another organisation. Although an understanding of such generic factors associated with success can be helpful, the research of Amin *et al* suggests that there are not easily replicable models of successful SEs because success is often the product of non-transferable place-specific factors⁸, such as an active local civic culture, a supportive local authority, or the presence of key individuals to act as 'animateurs'.

Several potential factors are acknowledged as barriers that hinder SEs from fulfilling their potential, including funding arrangements and lack of assets; market access (the tendering process for SEs service delivery is not viewed as a 'level playing field' compared to conventional tendering processes); and a lack of clarity over the type of support mechanisms that should be offered to SEs¹⁰⁴. The relationship between different elements of the funding mix can also act as a barrier to entrepreneurial behaviour with non-trading charities and voluntary groups deterred from engaging in enterprise for fear that any profits generated will lead to a reduction in funding from other sources⁷¹. In some cases SEs share an attitude common amongst some mainstream small business of not particularly wishing to grow (perhaps due to fears over loss of control or identity) or of being unwilling or unable to grow beyond their origins as a local enterprise or linked to local or to very specific (and therefore supply-constrained) products⁴⁵. SEs perceived that the greatest threat to their sustainability over the next 12 months as being reductions in grant funding, followed by changes in legislation and competition from other providers⁹.

Access to secure and sustainable funding remains the key determinant of SE success, and in some countries this has been addressed through the development of SE microfinance initiatives. Access to capital is a constraint SEs continue to face for four reasons¹⁰⁵:

- i SE managers are financially risk adverse and hence often steer clear of options to leverage or borrow funds in order to capitalise their enterprises
- ii For the SE manager wishing to borrow, a lack of collateral, credit history, and perceived financial competence/stability can restrict access to finance and/or raise finance costs. Evidence suggests that SEs are more likely than SMEs to be rejected for finance, though many of those rejected by one lender appear then to be successful with another¹²

- iii Capital markets for non-conventional businesses are immature and underdeveloped, and there is little availability of financial instruments appropriate for capitalising non-profit businesses
- iv Ownership and regulatory issues can bar non-profits from access to financing in some countries where they cannot issue equity or distribute profits.

Other factors hampering the access to finance include: small size, weak management team, a lack of readiness to meet the needs of investors or a willingness to share ownership (and the GEM survey suggested the latter was more of a problem than inadequate business planning which is often cited as a factor)⁸¹. Sharir and Lerner found poor preliminary planning to be a key problem in the majority of their sample of social ventures, although good planning was not significantly correlated with success⁷⁹. Amongst a recent survey of Black and Minority Ethnic Community SEs, business planning was found to be widely used, although its nature and quality was not assessed. The issue of business planning for SEs was identified as a useful subject for further research⁵⁹.

It would seem that the hybrid nature of SEs as a form of organisation make them particularly challenging to manage¹⁰⁰, yet relatively little is known about the specific management competencies needed to successfully manage them. The emphasis on '*entrepreneurship*' has tended to focus attention on the roles of enterprising individuals and their characteristics, particularly in establishing SE ventures, but not on the development of management teams, competences and skills needed to develop and run them.

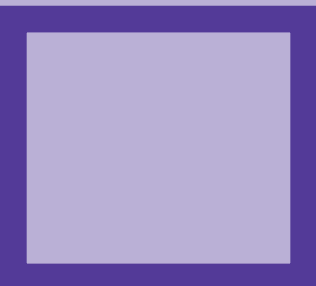
Those managing an established SE face challenges in managing the identity of a hybrid organisation, integrating the typical mix of employees and volunteers, balancing different currents within the income stream and responding to market pressures from customers and competitors and to pressures from customers and sponsors to '*professionalise*'. All this has to be accomplished in a way that keeps a diverse range of stakeholders happy, avoids accusations of '*selling out*', and yet keeps the organisation's vision firmly on its original social mission and goals. This also has to be achieved without reference to the well-established '*routemaps*' for organisational development that are available to mainstream businesses. There is considerable research concerning the establishment and growth of SEs and the factors related to their success and failure. By contrast the more established, mature and successful SEs tend to be held up anecdotally as success stories, but are less often the subject of systematic and analytical research efforts. This leaves a number of unanswered questions regarding the organisational development processes at work in mature and successful SEs and the types of risk and challenge that they may face. There is, for example, a risk that successful social enterprises will attract predatory attention from commercial enterprises keen to enhance their social credentials (eg the acquisition of the Ethos water brand and the social enterprise behind it by Starbucks in the USA).



Performance Measurement, Benchmarking and Reporting

The challenge of measuring and valuing in full the social and economic contribution of SEs as a management and decision-making challenge is a recurring theme in the SE research:

“when considering social capital investment it is extremely difficult to define or capture the total return on investment, and/or to measure the performance of the investment in financial terms. Whilst it is possible to measure the amount of money that SEs generate and return to the economy (eg salaries, credit, contract for services or goods), it is far more difficult to measure the wider civic or social impact that SEs have and the benefit gained (financial or otherwise) by a community. Further, SEs often provide public services that are not commercially attractive, yet these services might be the lifeblood that makes a community and defines the richness of the culture and sustainability of a region.”¹⁰⁴

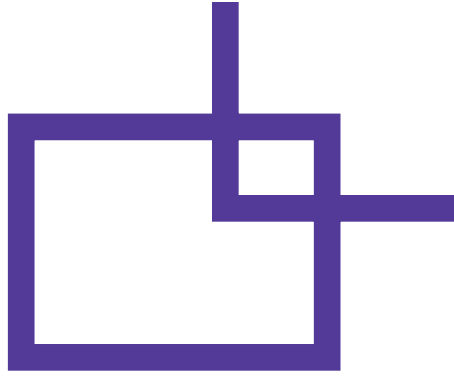


The diversity amongst social enterprises in terms of organisational form, objectives, sectors and scale all conspire to make performance measurement difficult, and as Paton¹⁰⁶ notes, the existing research base dedicated to performance measurement within SEs is almost non-existent. Performance measures are becoming important to SEs as they become more exposed to the same pressures facing commercial organisations to be more transparent and to disclose information about their performance and the value they create. In addition to pressures from stakeholders such as employees, Government, NGOs and others, SEs also face increased pressure to become more transparent about their operations due to changes in funding mechanisms and a general move in recent years to 'professionalise' the sector and to demonstrate the effectiveness of SEs^{90,107,108}.

The transfer of approaches such as 'kitemarking' and 'best value' from the commercial and public sectors may provide some strategic and operational benefits, but are difficult to link conclusively to improvements in actual management practice¹⁰⁶. An insight from the seminar series that is reflected in the research literature, is the challenge of measuring many of the intangible social benefits associated with SEs, particularly on issues like the development of trust and a sense of community. A number of methodologies are being proposed as a means to track, measure and balance the social impact and social value creation of SEs to allow performance measurement against both financial and social objectives. Examples include the *Blended Return on Investment* approach¹⁰⁹; *Social Return on Investment (SROI)*¹¹⁰, which measures economic value creation and monetises social returns; the *Ongoing Assessment of Social Impacts (OASIS)* comprehensive measurement system; the *Expanded Value Added Statement* method¹¹¹; Flockhart's *Investment Ready Tool* diagnostic; and an adapted form of 'Balanced Scorecard'¹¹².

The development of a comprehensive set of indicators that capture the performance and social, economic and environmental value of SE represents an opportunity to communicate with internal and external stakeholders, demonstrate their 'added value', generate competitive advantage over funding contenders, and to make more informed strategic decisions^{90,107}. However, SEs are deterred from developing more comprehensive indicator sets due to perceived problems of relevance, complexity, lack of support, 'fit' and fears about time and cost involved¹¹³. There are also problems in the tendency for performance measurement tools to be transposed from commercial businesses with insufficient adaptation to reflect the different business models, scale, priorities and types of value generated amongst SEs^{96,114}. Research also demonstrates that the adoption of more comprehensive performance criteria for an SE has a number of implications in terms of integration with working practices, organisational structures, strategic development and reporting⁹⁰. Research that provided a clearer understanding of the interplay between these factors, and the potential barriers to the development, adoption and use of improved ways to capture and report the value and contribution of SEs would be extremely valuable.

Direct empirically-based studies that provide evidence of positive benefits produced by SEs remain in short supply, particularly in contrast to the amount of attention the sector has received in recent years. Indeed, the basis of much of the existing claims appear to be at best descriptive case studies that often lack either empirical grounding or rigorous comparative elements. Such studies are clearly required to shed empirical light on the added value of SEs, particularly in comparison to other models⁵. A recent comprehensive review of literature on the issue¹¹⁵ concluded that the development of a detailed methodology for studying SE impacts is possible, although a number of provisos need to be resolved.



These issues notwithstanding, it is suggested that detailed estimates for the social and economic impacts of SEs in different contexts can be calculated at the local level and then used to draw inferences about larger sector impacts. Such approaches require reliable comparative mapping data.

There are a range of methodologies applicable for measuring these aspects, each with their own strengths and weaknesses. A number of social accounting and auditing methodologies have been developed that aim to measure non-conventional impacts. Such studies aim to provide tools and frameworks that move beyond conventional accounting practices to include measures that incorporate 'soft' impacts, usually socially or environmentally based. These often compliment non standard economic impact measures such as multipliers or displacement measures to form the basis of broad impact assessment approaches¹⁰⁷.

A key methodological problem with measuring impacts is the need for baseline data. Hart and Houghton suggest greater use of quasi-experimental approaches which employ 'non-equivalent' controls or make comparisons pre- and post- involvement, although there remain clear challenges to identify controls suitable for comparative analysis¹¹⁵.

In a review of international SE policy and impact evaluation studies, Barratt¹⁶⁶ concludes that: *'There is currently no example of a definitive approach to social and economic impact assessment of SEs at a national level. Rather, systematic impact assessment is relatively new to the SE field. At the local and individual level, impact measurement is becoming established. However, the work currently underway is yet to be standardised or organised in a level that can be meaningfully benchmarked or analysed at a national level'*. This is an opinion shared among commentators¹⁶.

Although this is an area that has an existing focus and ongoing research projects^{93,115}, the importance placed on this area of understanding means that it should remain a research priority.

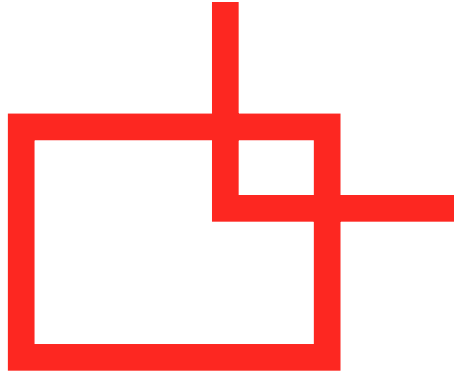


External Support Services

The provision of appropriate and effective support services is another critical factor for the wellbeing of the SE sector and success of individual SEs⁵³. The current UK Government SE Action Plan states that their current approach (although largely limited to England) is *“to make sure that business support interventions are accessible and appropriate to SEs, and, where there is a clear need for specialist support tailored to SEs, this should be linked as much as possible into mainstream services.”*¹¹⁷ A number of publications identify a poor perception and uptake of business support services among SEs, something also acknowledged by the Government who recognise:

- the need for SEs to be able to access high quality business support
- the fragmented, inconsistent nature of the current infrastructure
- the weakness of the mainstream business support infrastructure in engaging with, and responding effectively to, SEs¹¹⁸.





There have been a number of studies that have attempted to address the issue of appropriate support services. It is clear that many support needs are shared with conventional small businesses, for instance in areas such as marketing, IT and business planning¹¹⁹ and that part of the problem with uptake and effectiveness appears to be associated with a 'wariness' about being associated with mainstream business activities and ideologies⁴⁵. This last point may be connected with the often expressed notion of '*not being understood*'. Studies have repeatedly shown that SEs feel that many mainstream support agencies and networks have problems understanding the concept of SE and the principles on which they are based^{45,58,120}. Indeed, evidence points to the fact that many SEs rely on their own networks which are developed through personal contacts and are often locally specific. Support between SEs also appears to be commonplace and particularly valued⁹⁸.

Models of peer-to-peer support are seen as one solution to the problem of advising SEs and these would appear to warrant further research^{58,121}. As a recent study by the Initiative for Social Entrepreneurs observes¹²¹, much of the knowledge and expertise required by these organisations already exists within the sector. Potential exists, therefore, to investigate how to encourage this area of support without it hampering the performance of the enterprises giving the support. Again, this approach would appear to mirror similar activity among conventional business support priorities, although a high degree of mission focus (or altruism) within the sector would seem to suggest it could be more effective in this sector. An associated concept is the need for a better understanding about the value of locally or regionally specific support structures¹¹⁹ or the role that SE '*incubators*' might be able to play^{53,79}. Similarly, policymakers need to understand the role of sector specific support and how it can be effectively integrated into policy frameworks. The need to better understand SE development lifecycles with a view to providing more effective support has also been raised¹²².

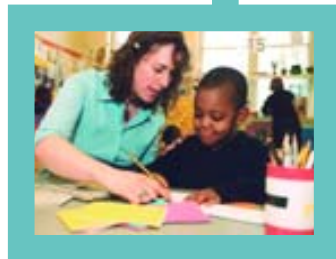
“There have been a number of studies that have attempted to address the issue of appropriate support services.”

Sectors and Geographic Spread

Understanding the sectoral and geographic spread of SE is important for policymakers and support agencies. The situation in the UK has been largely clarified through a series of survey-based mapping exercises, usually conducted by commercial research companies on behalf of support agencies. Such studies are valuable because, from a policy perspective, they provide evidence on which to plan appropriate sector support services.

They are also important for identifying the impact of the sector at various scales and can aid broad strategy development and provide information for referral services from potential private and public sector partners. However, the support planning based motives for these mapping exercises mean that they may not capture all the relevant aspects of SEs to better understand their distribution, development and diversity.





The most significant national-level cross-sectoral surveys have been carried out by the Global Enterprise Monitor¹²³ and IFF Ltd⁴⁴, on behalf of the Small Business Service. These studies have identified significant differences in levels of SE activity across regions. The IFF survey (with its focus on CLG and IPS) for example, identified the largest number of enterprises in London. SEs were also over-represented in the South West and in urban rather than rural areas⁴⁴. Other studies tend to focus on either sub-sectors or limited geographical areas (which are then sometimes used to infer statistics about the UK as a whole). At the European level, research has identified approximately 1.3 million social economy organisations across 15 EU states, providing about 9 million FTE jobs. Eighty per cent of these jobs are within social services, health, education and research, and culture and leisure time sectors¹²⁴.

In terms of drilling down within sectors, our current understanding is, understandably, somewhat influenced by public policy interests and associated research commissioning opportunities. Therefore, we are increasingly able to understand SE presence and dynamics in the health^{125,126} and housing sectors¹²⁷ for example. Waste^{90,128} is another area which has benefited from research enquiry. There appears to be a danger of overlooking sectors that have not, as yet, received strong direct policy interest but may well be providing added value, whether in terms of direct social, economic, environmental impact (or by providing a better academic understanding of SE potential, entrepreneurship and alternative business models). Such sectors, for example, may include agri-food, charity shops, personal and institutional finance. Typically SEs tend to operate in low margin, highly labour intensive sectors that often attract little commercial sector interest. There are signs, however, of a growing SE presence in non typical sectors as the concept of SE matures. There is currently an undeveloped understanding about SEs engaged in commercial sectors producing and marketing products such as *Fast Moving Consumer Goods*⁸⁸.

Some studies identify a sector that is growing considerably, for example official figures for Scottish SEs have risen from 1,100 in 2005 to 3,000 in 2007¹²⁹. How much of this rise is due to redefinition of existing organisations is difficult to ascertain. Mapping and survey work has also provided evidence of clustering of SEs. Smallbone *et al*¹¹⁹ identify evidence for clustering around particular support agencies and also amongst similar types of SE.

Despite its importance and ongoing activity, there are a number of methodological problems that hamper this area of research enquiry including the lack of a standardised SE definition (see section 2). There are also practical problems associated with reliance on self-reporting surveys. Despite the former DTI producing guidance for mapping work that aims to reduce these problems, a number of commentators have identified the need for further research in this area. A recent review of the Small Business Service's SE Strategy however suggests a need for further national mapping work at a policy level⁹³. At an academic level, however, it has been suggested that research effort should be aimed more at in-depth case-study based work¹¹⁵. This would suggest that mapping and survey work should remain largely the domain of policymaker and support agency funded work.

It is apparent that there are major differences across geographical areas and sectors, and understanding the sectoral variations and geographical spread of SEs can assist our understanding of the dynamics of SE formation in relation to variations in policy provision, socio-economic conditions and funding provision¹³⁰ (for example some research suggests a relationship between CIC formation and the presence of certain types of funding provision). The current academic literature, however, is a long way from being able to explain how these factors influence SE formation and spread.

International Differences

A number of academic publications have sought to highlight the variation between countries concerning the role of SEs, how these organisations are regarded and supported, and how research and general enquiry into the sector has been typically conducted. Research has tended to focus on comparative studies of SE in North America and Europe, and research outside of ‘*western*’ nations appears underdeveloped in conventional literature (although there is an emerging literature relating to the use of SE in international development³¹, and from regions such as Latin America where SEs number, role and contribution have been expanding rapidly⁴). The differences that are observed amongst countries tend to reflect differences in levels of social and economic development, in specific legal frameworks, in the nature of welfare systems, and in the historical development of the social economy³⁶.



The main lesson from these comparisons is that even among seemingly similar political systems there appears to be substantial differences in the role and understanding of SE and, indeed, the social economy more broadly. The comparison between the USA and EU developed by Kerlin³² (and summarised in Table 1) demonstrates the degree of variation between nations, both in terms of the kinds of organisations that are regarded as SEs and the social and political governance structures within which they operate. Perhaps the clearest point of contrast is the observation that, in the US, the nature of the social economy seems to be strongly bound with the relatively narrow notion of the non-profit organisation existing for the social good, and having motives of civil society rather than having the economic inclusion and reform focus that prevails in much of Europe³⁶.

It has been suggested that this situation reflects the political discourse of Anglo-Saxon Neo-Liberalism³⁹ in which the legitimacy of existing institutions largely goes unchallenged and in which an essentially functionalist

approach is taken to the social economy. In Europe, by contrast, the principle of the social economy would seem to take a more polar view, in which economic and social motives combine to create new forms of organisation, some of which have highly developed economic strategies aimed at developing social inclusion and supporting the economy as a whole. The US approach has been summarised as *'the adoption of a 'business-led' approach, involving the application of (big) business principles to management and enterprise activities'*¹¹⁶.

The value of international comparative research is largely based around shared learning, although the lack of international consistency over definitions of SE tends to hamper international comparisons of this nature³². More generally, it has been noted that although comparative studies exist, they have concentrated on the origins and understandings of SE in different nations. As yet, a systematic analysis of social enterprise and entrepreneurship in relation to national and international macro-economic trends has yet to be produced¹⁶.

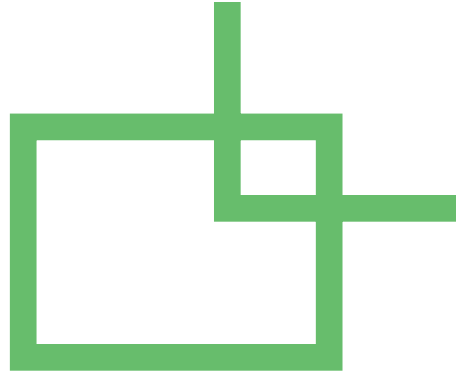
Table 1 Comparative overview of social enterprise in the United States and Europe³²

	United States	Europe
Emphasis	Revenue Generation	Social Benefit
Common Organisational Type	Non-profit	Associations/Co-ops
Focus	All Non-profit Activities	Human Services
Types of Social Enterprise	Many	Few
Recipient Involvement	Limited	Common
Strategic Development	Foundations	Government/EU
University Research	Business and Social Science	Social Science
Context	Market Economy	Social Economy
Legal Framework	Lacking	Underdeveloped but improving

Relationships with Communities

Although a SE does not have to be a *community enterprise*, there is a strong link between SEs and communities and some authors' conception of SE make community involvement and ownership a virtual pre-requisite to the status of SE. One of the key policy drivers for the development of the sector is the notion that SEs can provide economic regeneration benefits in disadvantaged communities and in doing so contribute to the stability and vibrancy of local communities⁴⁵. Amongst the IFF survey of CLGs and IPS, a quarter specifically saw themselves as existing to help the communities within which they were located. Policy and advocacy documents often identify a series of benefits that SEs can provide to communities suffering from aspects of social exclusion. Academic studies have also approached this subject. It has been suggested, for example, that SEs located in disadvantaged areas have a potential competitive advantage due to their degree of embeddedness in the community¹³³.





This often means that SEs are well known within their communities and are able to develop positive reputations with local consumers. Indeed, many SEs are formulated with the specific aim of maximising direct community involvement. Simon Clark Associates identify two key areas where SEs provide direct benefits to their communities (a) access to management skills – through being able to identify local needs and fashioning locally appropriate responses; (b) infrastructure – by providing facilities and services that aid the establishment of community assets such as new enterprises or other local income-generating projects¹³⁴. In developing countries in particular, there are suggestions that a lack of mature capital markets and infrastructure can make it particularly vital for SEs to be designed, developed and managed with a close understanding of, and integration with, the local community³.

In the rural context, research conducted by Defra and others identify a series of specific benefits provided by SEs to rural communities¹³⁵. On the whole, however, there appears to be relatively little academic research that provides evidence for the direct community benefits for SEs beyond anecdotal evidence and qualitative case-study based work. Although existing evidence and broad theoretical reasoning appear to support the case for SEs (along with social entrepreneurship and the social economy in general), in terms of supporting community development, particularly through building institutional capacity and business/community development skills of local organisations¹³⁶, there appears a research need to explore these issues in more detail. A point worth noting is that the discussion of SEs and communities

is almost entirely linked to geographical communities of place, yet there is also the potential to discuss SEs that are connected to *communities of interest*. Agricultural cooperatives represent something of a hybrid between communities of place and of interest, but in the future, with the growth of E-commerce, there is the potential for social enterprises to emerge that are connected to, and connect, geographically dispersed communities of interest.

The academic literature has identified the fact that existing evaluation studies on aspects of regeneration have not yet identified the specific contribution of SEs to regeneration and economic inclusion, although this appears largely due to the fact that these objectives have not been included in research aims. Hart and Houghton comment that: *'while there is no research which offers the focus required, there is a wealth of literature on area-based and group-based evaluations which can provide guidance and context for research on the contribution of SE.'*¹¹⁵

Research addressing SE and community development links in closely with a number of other research priorities focused around assessing the socio-economic contributions of SE. There is also an emerging explicit debate about the potential role that social enterprises can play in the development of more sustainable communities within more sustainable economies and societies¹³⁷. The potential for integration between research relating to sustainable communities and social enterprise provides future research opportunities and can be aligned to the emerging related concept of *sustainable entrepreneurship*¹³⁸.

Relationships with the Public Sector

Understanding the interface between SE and the public sector, and the potential of the sector as an agent for public sector service delivery, are clear priorities for policy-orientated SE research. This relates to the current political climate in the UK which is actively encouraging SEs to play a larger role in public service delivery and indeed the civic community more broadly. SEs can clearly be effective providers of public sector services. A successful example of a SE operating leisure facilities for a London borough is thought to have directly led to some thirty other local councils in the UK contracting their leisure services to SEs. In addition, three of England's top ten councils' recycling services are run by a SE¹³³.





Within the sector it has been acknowledged that in the UK, the development of many UK SEs appears to be a practical response to existing policy drivers and the opportunities these policy drivers are providing. Within the waste sector; for example, it is apparent that external policy drivers exert substantial pressure and motivation for SEs to emerge and engage with conventional players in the sector¹³⁹. Indeed, much SE activity in the UK appears to be in sectors traditionally associated with public service delivery, such as health, social care, child-care and training⁴⁴.

According to the New Economics Foundation, three areas where SEs may offer better *value for money* for public institutions than other suppliers are in:

- i meeting more than one objective with the same expenditure
- ii having a competitive advantage in delivering particular goods and services
- iii delivering innovative solutions and stimulating new markets¹⁴⁰.

In some cases SEs may simply have a unique competitive advantage in the delivery of particular goods and services such as targeting hard to reach groups or developing relationships that require a high degree of trust⁴⁰. The Office of the Third Sector asserts that: *'SEs often share the concerns faced by public policymakers, and are equally engaged in finding solutions to tackle social inequalities or environmental problems... At their best, SEs can bring valuable engagement with service users and are often motivated to pioneer new approaches to meet the needs of their clients.'*¹¹⁷

The UK SE Strategy *A Strategy for Success*⁵⁴ identifies agents for local service delivery as one of the key policy drivers in the SE agenda along with competitiveness, enterprise support and social cohesion. The potential role of SEs as deliverers of services for the NHS is a key contemporary policy dynamic which has been directly supported by the establishment of 25 Department of Health sponsored *Pathfinder* projects and the provision of a SE Fund of around £73million over four years. Despite this policy interest however, sophisticated empirically-based research evidence about the existing role and potential for SE as providers of health care is currently lacking^{125,126}. Lyon's findings suggest that opportunities for SEs to develop in the area of healthcare provision are often severely constrained, particularly by issues related to scale and the way in which service contracts are awarded¹⁴¹. This is an observation that also appears to apply across other sectors where SEs deliver public services.

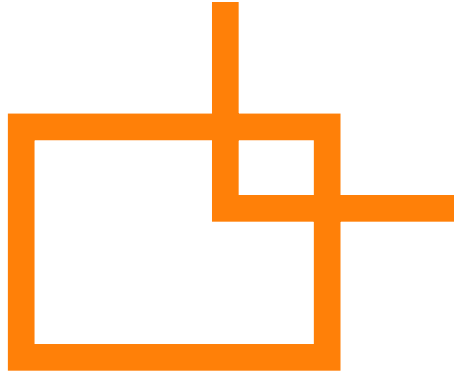
Certain parts of the UK SE sector appear heavily dependent upon state funding and earned income from the public sector, particularly in the areas of social care and Local Government services. In some respects the SE sector has become a creature of public funding and an alternative to in-house public services¹⁴². Success for many SEs is not simply a function of being enterprising and offering competitive products and services, but depends on developing trust and support within the public sector. However, research suggests that in practice although many in the public sector are fully supportive of the aims and motivations of SEs, they remain somewhat uncertain of their ability to deliver services in a reliable, professional and *business-like* way^{143,144}.

Public sector procurement represents a key aspect of the nexus between the social economy and the public sector that is worthy of further investigation. It is widely acknowledged that public procurement has evolved along lines that present barriers for SEs. These include the highly aggregated nature of many public contracts, the resource demands of taking part in tendering processes and the emphasis on demonstrable benefits based on narrow criteria typically centred on economic value. This issue has been recognised by policymakers in recent years, leading to the publication of guidance and best practice publications to encourage greater SE involvement in public procurement processes¹⁴⁵. Public sector procurement in the UK is strongly influenced by European legislation, and the 2005 social enterprise policy colloquium provided a number of recommendations to promote the development of SEs across Europe¹⁴⁶. These included raising the profile and understanding of SEs; integrating community benefits into procurement decisions; clarification and standardisation in the use of social and environmental clauses in contracts; and a greater commitment to public-social partnership working at all levels.

The 2007 ESRC/SEC research seminars highlighted that important needs for further research on the SE/public sector procurement interface exist, particularly in the areas of contract design and learning, and on the influence of a variety of factors on tendering processes and decisions. These factors include SE size and experience, policy guidelines and the perceptions and understanding about SEs amongst those managing the tendering processes and making decisions. There were some concerns expressed that the nature of SEs left them vulnerable to contract negotiations in which prices were driven down to break-even or below full-cost levels, which acted to deprive SEs of surpluses with which to develop the business or fully meet their social aims.

A concern has been raised in the literature that by becoming increasingly caught up in competing for tenders against large organisations, there is a risk that successful SEs may be liable to mirror the organisations they sought to replace and thereby lose some of the broader benefits that are bound up in their SE nature¹²⁵. Aiken and Slater found that within both the waste and recycling and the work advice and support sectors, the diversity of SEs was threatened by public sector contract aggregation, standardisation and centrally imposed performance and efficiency targets¹⁴⁷. Other commentators have raised the issue of the need to better understand the relationship between user and buyer often present in public sector service provision^{133,141}. One of the seminar insights reflected the dynamics of public sector tendering processes in which SEs tended to assume that their social contributions would give them an advantage over more *one dimensional* commercial competitors, whilst from the perspective of the purchaser, a SE might appear to be less attractive due to concerns about their capacity, sustainability or professionalism.





Assessing the added value of SEs providing public services presents its own set of methodological issues. These are based largely around the fact that added value requires a comparative assessment between SE and other forms of provision for the public service in question. A recent review of literature on this issue has identified clear problems with data inconsistencies among impact studies that restrict the potential for comparative studies that address the value added of different delivery models. Moreover, the existence of national data sets that could be used for such work is currently limited¹⁵. Existing methods such as cost-benefit studies, unit cost of service and customer satisfaction levels are able to provide partial pictures of SE performance that can assist benchmarking exercises, although they largely fail to capture the broad performance contributions of SE¹⁵. In terms of spreading good practice models, even the duplication of successful models of SE can be extremely difficult²⁷. Case study approaches tend to dominate research more generally into SE/public sector dynamics, particularly in the form of best practice case studies. There is potential to move beyond basic SE level case studies and towards sectoral or thematic case study approaches that can provide a richer empirical understanding. The issue of SE relationships with the public sector is also closely linked with the need to understand and quantify external impacts of SEs (see Performance Measurement, Benchmarking and Reporting on page 31).

Broader questions need to be asked about the long term impact of greater public service provision by SEs. Not least, what will be the effect of greater market opportunities for SEs on traditional private sector providers and other types of third sector organisation? It has been suggested that the private sector may adopt elements of SE activities in order to compete for public sector contracts²⁵. Similarly, other forms of third sector organisation may be forced to become more socially entrepreneurial as support focuses on SEs and traditional funding sources are replaced by income based arrangements. There are also risk issues associated with developing an over reliance on SEs as service providers²⁷, and in some cases their nature as a business enterprise may make them more vulnerable to downturns in market conditions and therefore ultimately a less secure source of service provision. Nonetheless, there appears to be potential for greater SE involvement in public sector delivery, not only in health but also education, waste and other environmental services. As these opportunities develop there will be a parallel need for research enquiry to better understand how SE business models develop and can be replicated in order to maximise opportunities across different sectors.

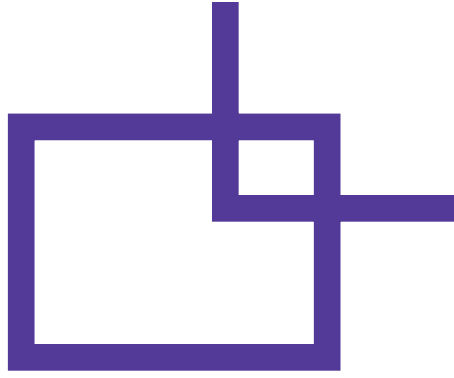
“Public sector procurement represents a key aspect of the nexus between the social economy and the public sector that is worthy of further investigation.”

Relationships with Private Sector Organisations

It has been observed on many occasions that SEs, at least in a UK context, tend to favour relationships with public sector and other non-profit oriented organisations. The corollary of this is that relationships with the private sector appear rather underdeveloped, and this is reflected in the UK based academic literature. A key research issue therefore is the need to identify what barriers, if any, there are to the development of stronger and more direct relationships with private enterprises.

Are there inherent issues that stymie this relationship, or is this merely a case of the public sector being the natural partner to meet the kinds of objectives that social entrepreneurs and SEs hold? One type of SE/private sector business relationship that almost every SE will need to engage in is with solicitors, accountants and specialist consultants during the process of business formation and development. Accountants appear to be the most common form of private sector support consulted, whilst solicitors are often involved in advising on regulatory issues and constitutions. Lyon and Ramsden suggest that the nature of SEs means that they are more reliant on solicitors than conventional businesses at the start-up stage⁹⁸.





At a more strategic level, successful partnerships between SEs and the private sector have the potential to generate reciprocal reputational benefits. The SEs benefit because it helps to dispel any perceptions of unreliability or any lack of business acumen or professionalism. Private firms can also benefit from reputational benefits in CSR terms, along with other aspects such as access to alternative sources of expertise and the potential to bolster their own employee motivation through linking in with social causes¹⁴⁸. Haugh notes that there are also potential risks associated with such direct relationships with the private sector, particularly around a potential for loss of independence, power imbalances and the fall-out from failed relationships. She goes on to suggest a need for research that focuses on the potential benefits, challenges, barriers and facilitating factors associated with such relationships¹⁶.

A literature review carried out by Community Action Network on behalf of the (former) DTI confirms that there has been very limited published research focused on the collaborative potential between SE and business¹⁴⁹. The authors go on to identify a series of challenges to the furthering of private and SE partnerships which may provide research opportunities.

These include:

- Commercial and 'reputational risk'
- Gaining internal acceptance and support from within the private business
- Size and scale clashes
- Cash flow problems for the SE
- External factors causing delays that may risk the viability of the SE
- Communication problems caused by differences in business language¹⁴⁹.

Relationships with the private sector are also not necessarily collaborative. Haugh has identified the issue of the potential for interaction between SEs and private businesses through direct competition for market share¹⁶. It is widely recognised that SEs often enter market segments that the private sector has either abandoned or ignored. In some cases however, SE activity in market development may create market conditions that become attractive to the private sector and therefore encourage direct competition¹⁶. In other cases, SEs may choose to enter directly into competition with the private sector, possibly to target the opportunities that a growing commercial market segment represents for generating revenue in support of a social goal¹⁸⁸.

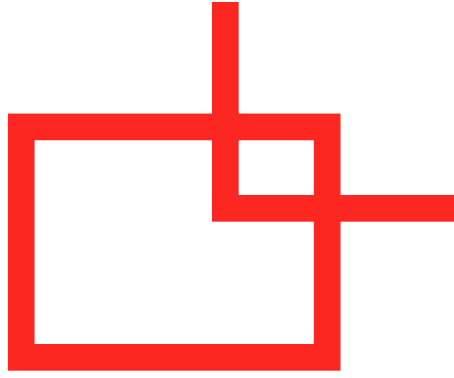


Contributions/ External Impacts

Improving our knowledge about the range of positive external contributions that SEs can make beyond those of traditional commercial or public-sector providers is again of direct relevance to policy interest in the sector. It is also relevant for SE practitioners, their clients and, importantly, latent social entrepreneurs who are perhaps considering entering into the sector. The range of positive impacts an individual SE can provide depends upon its activities, its resources, the environment it exists within and its core aims. Nonetheless, claims on behalf of the sector are wide ranging. The Office of the Third Sector's own summary assessment of the contribution to society of SEs, for example, sets out the range of benefits attributed to the sector:

“How do SEs contribute to society?

- They tackle some of society's most entrenched social and environmental challenges
- They set new standards for ethical markets, raising the bar for corporate responsibility
- They improve public services, shaping service design and pioneering new approaches
- They increase levels of enterprise, attracting new people to business.”¹¹⁷



Direct, empirically based, studies that provide evidence for these kinds of benefits are, however, underdeveloped. Indeed, the basis of much of these claims appear to be at best descriptive case studies that often lack either empirical grounding or rigorous comparative elements which could shed light on the added value of SE compared with other models⁵.

A recent comprehensive review of literature on the issue concluded that the development of a detailed methodology for studying SE impacts is possible, although a number of provisos need to be resolved. These issues notwithstanding, it is suggested that detailed estimates for the social and economic impacts of SEs in different contexts can be calculated at the local level and then used to draw inferences about larger sector impacts¹⁵. Such approaches require reliable comparative mapping data. It should also be noted that some of the other contributions associated with SEs, such as building confidence and trust within communities, although hard to doubt are also largely unmeasurable¹⁰⁶.

SEs are being hailed by some as the economic engine of the future¹⁵⁰, despite the fact that the economic added value of the sector remains poorly understood¹¹⁹. They are also frequently cited as employment generators, particularly to disadvantaged groups. To this extent, they appear often to be providers of relatively low skilled jobs, a fact that has drawn criticism from a number of commentators questioning the value of providing this type of job opportunity^{18,151,152}. Aiken suggests a number of important areas of research need in relation to SEs to understand their contribution to employment more fully:

- There has been little analysis of if, how, and where SEs can deliver training and employment to disadvantaged groups and the institutional, financial, and management barriers to developing this role
- The distinction between 'disadvantaged' and 'non-disadvantaged' workers can be extremely blurred in some localities
- Worker involvement? Aiken found low levels of worker involvement in governance issues in many types of SEs. Particularly when compared with forms such as co-operatives
- Contracting environment: squeezing smaller SEs? There appears, in certain sub-sectors, to be a tougher contracting environment arising which is tending to squeeze the margins for smaller, local and community-based providers, making it harder for them to offer good or empowering working practices¹⁵³.

Other literature raises the point that although SEs are often judged on the basis of job creation, from a UK perspective this element is infrequently a core aim of the organisation¹⁵². Evers and Laville highlight that the job creation potential of SEs (and the rest of the 'Third Sector') is often overestimated and that the process of creating jobs is slower than in the commercial or public sectors¹⁵⁴. There are also important issues of capacity, and whether SEs are capable of meeting the expectations that policymakers have of them, particularly in thorny issues such as tackling the problems of social exclusion in marginalised neighbourhoods¹⁸. Ridley-Duff proposes a move away from the traditional economic rationality applied to the discussion of SEs to reflect their social aims and origins by discussing them in terms of 'social rationality'⁹⁵. This would help to focus the debate on the legitimacy and management of SEs and how they develop and distribute social capital to stakeholders, rather than on the generation and accumulation of economic capital.

One of the major UK-wide surveys concluded that the environmental contribution of SEs can be defined in one of two ways (a) helping the environment in the traditional sense through 'green' activities such as recycling (b) encouraging the sustainable use of resources, or helping the 'built' environment through a range of services⁴⁴. A survey of Scottish SEs reported that nearly half had environmental sustainability as a core business purpose. In addition, 51 per cent reported that they undertake environmentally orientated procurement practices compared to only 28 per cent of the conventional business population in Scotland²⁹.

SEs are also often cited as agents for developing new markets in areas that commercial business either ignore or have no interest. According to Leadbeater, in this sense SEs may be seen as an important source of disruptive innovation, particularly in areas such as environmental services and technology¹⁴².

SEs clearly appear to be able to act as pioneers in consumer markets. Their success in developing ethical markets such as fair trade for example has been widely noted. Nicholls has recently raised two research questions that warrant further inquiry in this area: Where can SEs leverage their influence most in growing existing ethical markets? And what new and emergent ethical markets could be developed by SEs?¹⁵⁵ It should also be acknowledged that SE impacts may not always be positive, particularly regarding aspects such as the quality of jobs and services and increased levels of risk for partners¹⁶. There have also been concerns raised by some that the greater involvement of SE in health provision within the UK could contribute to further moves of healthcare provision from the public to the private sector¹²⁵.



Social and Political Implications

The attractions of SEs and their development to policymakers are obvious. They contribute to all the magical 'E' factors of economic development and regeneration, employment, enterprise, efficient delivery of public services and empowerment of communities. It is therefore not surprising that the focus of both policy interest and research has been on the impact of SEs in relation to economic growth, to the creation of jobs and the provision of goods and services, or to place-specific contributions to regeneration and community development. The US conception of SE and their research tradition in particular focuses on the economic role of SEs and on economic analysis, but SEs also have broader social and political implications that are often left under-discussed. Dart provides a sociological analysis from the perspective of institutional theory to demonstrate that as well as the economically rational explanations for the growth in SE linked to market failure and unmet needs, they can also be explained by the growing prevalence and perceived legitimacy of certain socio-political ideas concerning markets, enterprise, innovation and social welfare⁶⁴.

Similarly Nicholls and Cho's critical analysis of social entrepreneurship from the perspective of organisational sociology suggests that in discussions of social enterprise there is a tendency to accept concepts like social benefit and entrepreneurship too uncritically without considering exactly what they mean or represent, who defines them, or the legitimacy of classifying some types of organisation as 'social' and 'entrepreneurial' and others not¹⁵⁶.

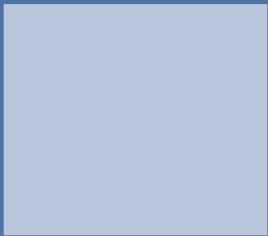
Arthur *et al*, argue that the emphasis on insights from the business, economics and management disciplines and the 'business case' view of SE is hampering the development of a better and broader understanding of their social role and contribution¹⁹. They suggest the need for a greater theoretical and research contribution from other fields such as social movement studies and radical geography. SEs are seen as having an important role in generating and developing social capital by promoting collective action, mutual trust, civic commitment and democratic values²³. Smith, building on the concepts of 'associative democracy' developed by Hirst, portrays SEs as potentially democratising the provision of goods and service because they can escape the selfish motives of the private sector, whilst adopting their innovative and market responsive methods to avoid the tendency towards relatively large, bureaucratic, centralised and unresponsive organisations in the public sector⁶⁷.

SEs provide opportunities, alongside other organisations that rely on volunteers, for people to become more socially 'involved' outside of the worlds of paid employment or politics and as such can contribute to social cohesion²³. They are also seen to have a role in regional development that can go beyond conventional economic measures to include social and environmental benefits¹⁶. Over recent years the role of social enterprises in place-based regeneration has become increasingly of interest to policymakers. Community-based social enterprises, in particular, are recognised as having the potential to promote key regenerative aspects beyond job creation, and SEs can play a role in coordinating bottom-up regeneration strategies through the formation of Development Trusts and similar organisational forms. These types of social enterprise are established to drive regeneration at the local level and tend to focus more on economic development compared to more traditional forms of SE organisation with roots in the non-profit and voluntary sector^{19,157}. There is however a broader debate around the implications of promoting 'enterprise' among disadvantaged communities and, in effect, encouraging communities to take responsibility for their own economic (and social) development. There has been criticism of the language and approaches used in promoting SE within some disadvantaged communities on the basis that it has implied culpability for a lack of 'enterprise' on the part of such communities^{21,22}.

“Over recent years the role of social enterprises in place-based regeneration has become increasingly of interest to policymakers.”

Conclusions

One key focus for future research into SE needs to be their distinctiveness. There are many ways in which SEs tend to differ from what could be regarded as their conventional, commercial counterparts and from other types of third sector organisations. The key defining difference from commercial sector organisations reflects the contrast in their primary objectives (towards the satisfaction of the needs of direct stakeholders, ie shareholders, customers and managers through the generation of customer satisfaction, profit and growth as ends, versus the furthering of social or environmental aims which may or may not be served through the generation of profit). This makes comparative research involving commercial, primarily-for-profit enterprises and social, primarily-for-social benefit enterprises crucial to determine where the differences and similarities lie. A clear understanding of these issues will answer the questions of (a) how much conventional wisdom from existing business school research can be translated and applied directly to SEs and (b) where the unique features of SE lie and where future research efforts need to concentrate.



A distinctive feature of SEs that influences the entire research agenda dedicated to them is their status as an organisational hybrid⁴⁵. SEs are typically portrayed as organisations that exist between private and public sector organisational forms and with characteristics that reflect both. Dees produced a SE hybrid spectrum model shown below in Figure 2. The implications of this model are that in terms of key organisational dimensions and their relationships with key stakeholders, SEs will occupy a hybrid position which represents a blend or a compromise between the conventional commercial and public or non-profit positions. Whether SEs of different types and in different sectors and contexts tend to develop a hybrid position on all organisational dimensions, or whether they can create a unique ‘mix and match’ blend of characteristics which are each more typical of either commercial or non-profit sector organisations could be another interesting focus for future research.

Defourmy and Nyssens⁵¹ define the hybrid nature of SEs more specifically as forming a ‘crossroads’ between co-operatives and non-profit organisations. Evers *et al*²³ by contrast take a broader perspective to portray SEs as ‘three-dimensional’ hybrids, which combine elements of the goals sets and mixed resource structures from each of three different spheres – the market, the state and civil society (reflected in terms of resources as income, grant support and voluntary contributions⁵¹). Hockerts goes so far as to view the hybrid nature of SEs, and their ability to create public benefit through running a profitable business that incurs private costs, as counterintuitive to the point of virtual paradox, and comments that: *‘Management research has no theoretical explanation for these phenomena, nor does it offer guidance for social entrepreneurs who need to navigate the fault line delineating for-profit strategies from the domain of public and non-profit management.’*³³

Figure 2 Dees’ Social Enterprise Hybrid Spectrum¹⁵⁸

		Purely Philanthropic ← → Purely Commercial		
Motives, methods and goals		Appeal to goodwill Mission driven Social value	Mixed motives Mission and market driven Social and economic value	Appeal to self-interest Market driven Economic value
Key stakeholders	Beneficiaries	Pay nothing	Subsidised rates or mix of full payers and those who pay nothing	Market-rate prices
	Capital	Donations and grants	Below-market capital or mix of donations and market-rate capital	Market-rate capital
	Workforces	Volunteers	Below-market wages or mix of volunteers and fully paid staff	Market-rate compensation
	Suppliers	Make in-kind donations	Special discounts or mix of in-kind and full-price donations	Market-rate prices



Another key focus for future research into SEs is the tension that exists between the maintenance of the primary social objectives of the SE with the pressures to adopt increasingly entrepreneurial and 'business like' practices and language. Tension between the social and economic goals was present in the self-perceptions of SEs found by Seanor *et al*⁶. The implications of this tension is a recurrent theme across much of the SE research as these organisations try to keep the appropriate balance between their 'social' and 'enterprise' dimensions¹⁵⁸.

A number of authors have commented on the role of social, organisational and market 'isomorphic' forces in the SE environment which promote certain models of SE over others and push SEs away from their natural diversity⁹⁶. The use of best practice case studies, the requirements of lenders, the advice provided by business support agencies and public procurement practices are just some of these isomorphic forces. Nicholls and Cho¹⁵⁶ highlight the irony of a sector that is celebrated for its creativity, diversity, innovation and ability to disrupt existing systems of service delivery being straight-jacketed into the relative homogeneity of organisations found in both the commercial and voluntary sectors which SEs span across. Howorth *et al*, in looking at the role of SE in community development⁸⁰ found that over-emphasis on the business case and 'business-speak' in promoting SE could lead to some within SEs to feel 'locked out' by a world-view and vocabulary they didn't share. Similarly Paton observed that social enterprises operate in a world of meaning that is different to the conventional managerial discourse based on economics and enterprise¹⁰⁶.

He warns that the unquestioning use of the language and ideas of conventional business could undermine the strengths that SEs have sought to nurture and lead to the neglect of the social and political issues that form their *raison d'être*. From the viewpoint of the deprived communities that SEs may be established to help, conflicts may arise because the communities are viewed by themselves or the social entrepreneurs

as insufficiently 'enterprising'. Maintaining a dynamic balance between the 'social' and 'enterprise' dimensions appears to be crucial in terms of the long-term sustainability of SEs and their social contribution.

The other thread that runs throughout the research literature concerning SEs is their diversity in terms of origins, aims, organisational characteristics, ways of operating and managing, development paths and market sectors. This diversity has a number of implications. It makes it important that SE scholars move beyond presenting definitions of SEs that represent only one particular type (or sub-set). SEs are often not-for-profit, community based, employment focussed, small, entrepreneurial, innovative, collaborative or democratically run. Such characteristics may be typical and even desirable, but they do not make an organisation a SE and the absence of any one of them does not preclude other forms of organisation from being considered a SE.

Acknowledging the diversity within SEs, moving beyond the definitional debates and recognising particular sub-types of SE for what they are, will allow a more nuanced understanding of the distinctiveness of particular types of SE, and the differences and similarities that exist amongst and between them, to emerge. This in turn will help in identifying more clearly areas of commonality with different types of conventional/commercial enterprises, and in identifying opportunities for the effective transfer of knowledge from the mainstream business literature. This could help to address the systematic weakness that Jones *et al*⁵ note in the current SE literature, of a failure to transfer applicable knowledge from the literature on the private sector. This process of knowledge transfer will need to be approached with care however. In an increasingly globalised economy the diversity of business forms and practices within the commercial sector is eroding rapidly, meaning there is relatively little risk involved in seeking to apply lessons from the management research literature of the USA for example, to commercial enterprises in the UK.

By contrast the nature, role and traditions of SE are very different in the two countries, meaning that considerable care would be needed in seeking to transfer lessons from the American SE literature to the development of SEs within the UK.

In many respects, where SE may have much to learn from conventional business wisdom will come from small firms, family businesses in particular, and from commercial businesses which also try to balance non-commercial dimensions or values (eg many commercial firms in creative industries). The comparative studies by Austin *et al*⁴³, Brown and Murphy¹² and Shaw and Carter⁴⁰ all provide important contributions to this understanding, but further comparative research is needed. There is also an argument that as an under-researched sector SE suffers from a tendency towards myth and assumption, and that an important role for future research is in challenging these⁵⁰. Finally it is worth noting that although some quantitative research is now emerging, the majority to date has been qualitative and dominated by the use of case studies³³. As the population of SEs expand, so should the opportunities for meaningful quantitative studies to generate more systematic data.

There is a real need for more and better research to build an evidence base that will assist policymakers, social enterprises, social entrepreneurs and communities to develop SEs that can fully deliver their potential contributions in social, economic and environmental terms, to create more sustainable and socially just communities and societies. As Alter⁴ expresses it: *'Today we stand at a juncture: the market for social enterprise is vast, yet the current pool of self-identified social enterprises is small, fragmented, and somewhat elite. A large group of non-profit leaders and donors are either unfamiliar with the term or do not see the validity of analysing the market for potential social enterprises. Paradoxically, at the practitioner level, whether born out of financial necessity or program innovation, the phenomenon of social enterprise is exploding. Herein lies an extraordinary opportunity to build the field. At this juncture practitioners and thought leaders alike are working to advance this emerging field, distilling 'good practices' and sharing lessons among organisations committed to developing the social enterprise practice.'*

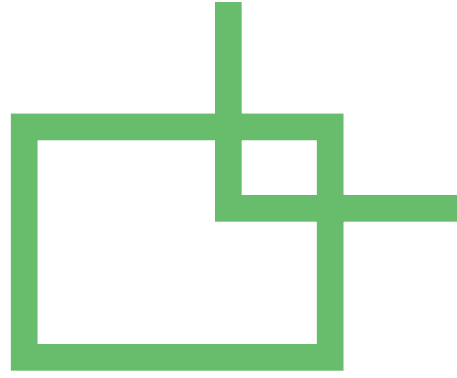




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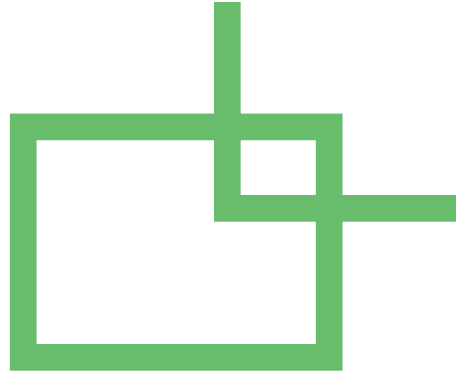
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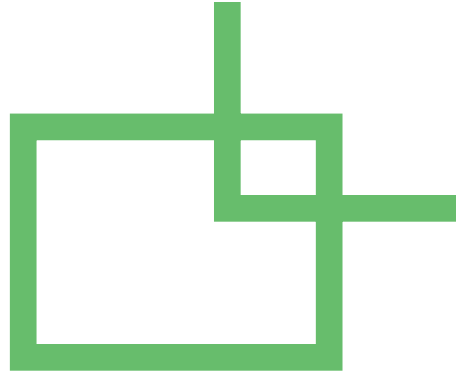
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