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To profit or not to profit? That is the wrong question

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To profit or not to profit? That is the wrong question

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Abstract

In social economy research, the issue of 'profit' (whether to make and/or distribute it) is a dominant framing concept. We argue that this dominance (even negatively referenced) maintains the hegemony of financial capital and the 'for-profit' paradigm. By refusing to accept a definition that labels organisations in terms of what they are not, scholars of co-operative development, social enterprise and voluntary action can better understand the value-creating activities of third sector organisations (TSOs) on their own terms. We argue that scholars and policy makers are complicit in maintaining the dominance of financial capital and the for-profit paradigm when they adopt for-profit/non-profit language in debates about their field. The counter-narrative we offer is based on engagement with work from the International Integrated Reporting Council (IRC) and FairShares Association (FSA). By comparing six capitals defined by the IIRC with the FSA's statement on 'six forms of wealth', we offer a new way to account for the wealth creation of co-operatives, (other) social enterprises and voluntary associations. This 'for-purpose' framework for TSOs "reclaims the conversation" by identifying the wealth creation of social enterprises in comparison with the wealth destruction of private companies locked into chrematistic accounting and reporting practices which focus on the pursuit of profit for its own sake. This allows the fundamental differences between for-purpose enterprises (primarily social) and not-for-purpose businesses (primarily financial) to be clearly articulated.

Keywords: for-purpose, for-profit, not-for-profit, not-for-purpose, co-operatives, social enterprise, social economy.

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Introduction

The issue of ‘profit’ (whether to make and/or distribute it) remains a dominant framing concept in western society, affecting the identities, practices and management education offers of Business Schools (Parker, 2018). We argue in this paper that this is to the detriment or co-operatives and (other) social enterprises who struggle to communicate their value through either ‘for-profit’ or ‘not-for-profit’ accounting frameworks. Nevertheless, the latter has developed an alternative way to account for financial activities that goes beyond explaining them in financial terms. Not-for-profit accounting can be a starting point for a new conversation about accounting systems for organisations that define their purpose in terms of meeting their members’ social, economic and/or environmental goals.

For this paper we ask the question “What can the concept of ‘for-purpose accounting’ offer social enterprise scholars? To build our argument, we return to Aristotle’s ethics and economics to define the differences between for-purpose accounting and for-profit accounting methods under IFRS (West, 2017). The dominance of ‘profit’ as a framing concept in studies of the social economy (even negatively referenced) is problematic because it maintains the hegemony of financial capital and the ‘for-profit’ paradigm. It renders the social economy invisible by using language that hides its contribution to wealth creation, and under-reports the social and economic value of charitable trading activities (in voluntary associations), co-operative and mutual enterprises, and socially responsible businesses (Ridley-Duff and Bull, 2016, 2019).

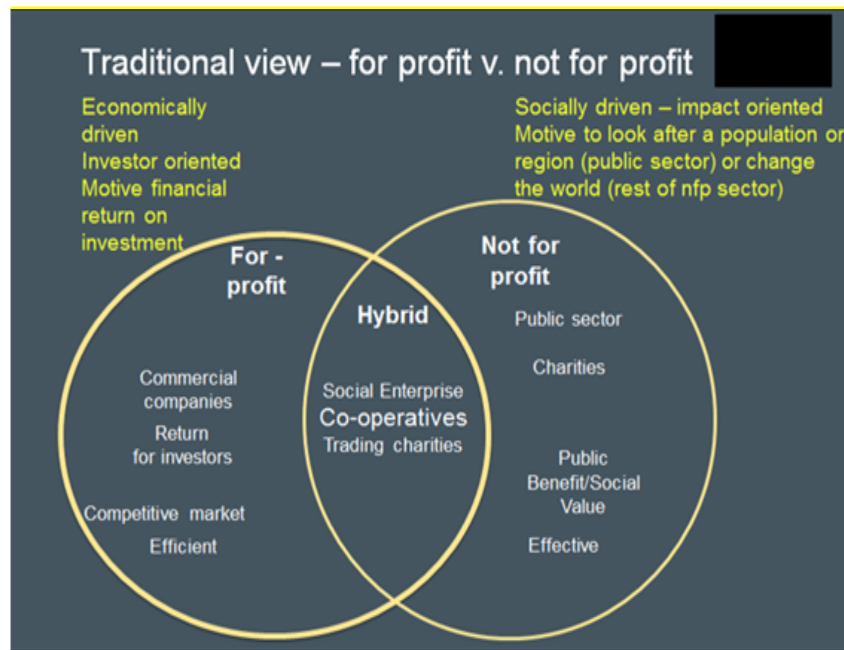
Our goal is to flesh out the concept of ‘accounting for purpose’ so that organisations that articulate their *raison d'être* in term of social/environmental goals and/or changes to relationships between people, property and their environment have a meaningful alternative to the language of ‘for-profit’ and ‘not-for-profit’ accounting. Importantly, the term ‘for-purpose’ does not depend on notions of ‘profit’ for definition. Its validity as a term enables it to capture contributions to wealth from all third sector organisations and social enterprises irrespective of where legal framing places them in existing for-profit/not-for-profit categories.

The paper is organised as follows. In the first part, we deconstruct existing accounting frameworks to expose their fundamental weakness – the inability to capture the value proposition of co-operative and mutual enterprises (and other social enterprises and responsible businesses) that blend social/environmental and commercial commitments (Emerson, 2000). We then compare two frameworks: one developed by the International Integrated Reporting Council (IIRC, 2013) to reform private enterprise accounting, and another developed by members of the FairShares Association to support social enterprise development (Ridley-Duff, McCulloch and Gilligan, 2018). Both illustrate shortcomings (and destructive impacts) from framing TSOs as ‘for-profit’ and/or ‘not-for-profit’ organisations. This analysis underpins a ‘for-purpose’ alternative that renders co-operative, social and voluntary enterprises as a coherent and inter-linked mix of member-driven organisations that generate ‘six forms of wealth’. Using the alternative framework, we conclude that a new articulation of the value creating activities of social enterprises (particularly co-operatives) can express wealth in terms of *access* to six types of capital.

An Aristotelian Perspective

Over the past forty years, two divergent accounting systems (for-profit and not-for-profit) have developed, one is profit oriented, designed to calculate returns for investors and the other is mission oriented, not designed to calculate returns for investors. So, we have two paradigms (Figure 1) based on the pursuit of profit and mission (not-for-profit) which are currently fighting it out in the social sector (Nicholls, 2010).

Figure 1 – Representations of For-Profit v Not-for-Profit



However, it is not a fair fight. Mission oriented accounting is described as not-for-profit accounting and so expressed as a negative: it is explained in terms of what it is 'not for', rather than what it 'is for'. Gray et al. (2006) argue that this makes it difficult to understand not-for-profit organisations. They call for research to understand alternative accounting systems on their own terms. Aristotelian thought can help us start to understand mission oriented – for purpose – accounting.

The Office for Economic Development (OED, 2017) has several definitions for "economic" which demonstrate two fundamentally different understandings of the word:

A. *The art or science of household management, esp. with regard to the proper organization of domestic resources; domestic economy, housekeeping.*
B. *Relating to the proper government or organization of a community or other body.*
C. *Commercially advantageous or expedient; (of a business enterprise) repaying (at least) the expenses of operation or use; solvent or profitable.*
D. *Relating to the generation of income; maintained for the sake of profit*

The definitions of “economic” can be divided into two groups. The first (definitions A and B) relate to the Aristotelian view of *oikonomia* – the art of allocating resources wisely in order to establish a good life for individuals and communities. Definitions C and D, however, align with the Aristotelian concept of chrematistics (*chrematisticke*) – the pursuit of wealth for its own sake (Dierksmeier & Pirson, 2009). For Aristotle the goal (telos or end) of human life is happiness (*eudaemonia*), in the sense of a well-ordered life, for the individual and the community. This is what a rational person pursues for her or his own sake; other things are means to this end. He argued that the pursuit of wealth is a means to *eudaemonia* rather than an end in itself. However, if pursued as an end in itself (*chrematisticke*) it leads to a vicious cycle of lifestyle excesses and imbalances.

Not-for-profit accounting, if it is recognised as accounting for the organisation’s mission (*for-purpose* accounting rather than not-for-profit) can be seen as an attempt to explain the allocation of financial resources to activities in pursuit of the organisation’s mission (i.e. its agreed objectives). This sort of accounting (for purpose, mission oriented, not-for-profit) replaces the Profit & Loss Account of commercial companies with a Statement of Financial Activities which explains where financial resources have been expended. It describes what sort of activities have been undertaken and ties them to a narrative which explains the social/environmental impacts of these activities. It recognises finance as subservient to the social and/or environmental aims of the organisation. Expenditure is justified not through the financial returns generated but through the positive social or environmental impact created. This sort of accounting can be seen as a tool of Aristotelian economics rather than a tool of chrematistics. But in order to see this we need to shift our perspective away from the dominance of profit (or not).

Marx, not normally given to crediting his sources and influences, acknowledges Aristotle when he distinguishes between making a living and making a profit (Marx, 2015, p. 109). Marx uses the Aristotelian distinction between use value and exchange value to recognise that trade is not necessarily ‘for-profit’; exchange can be coordinated to make a living too. Polanyi (2001, [1944]) also acknowledges a debt to Aristotle when he argues that economics is the art of making choices to allocate resources, use tools and select materials. He distinguishes between three economic spheres – household, state and market – three points of reference that inform social enterprise theory by emphasising combinations of mutual interest, general interest and (financial) capital interest in enterprise development (Defourny and Nyssens, 2017).

The existence of *three* interests, rather than two, is our first indication that existing accounting paradigms (for-profit, not-for-profit) fail to represent reality. They produce an unresolvable tension in the sub-fields of social enterprise and co-operative studies by forcing them to define themselves using language that cannot represent their ontological assumptions accurately (Nicholls, 2009, 2010; Ridley-Duff and Bull, 2019a). By reporting on the problems caused by chrematistic accounting and reporting, Dierksmeire and Pirson (2009) offer alternatives for social enterprises. We build on their critique in the next section.

To profit or not to profit: why is it the wrong question?

An international collaboration, focussed mainly on Europe but co-ordinated by Johns Hopkins University, USA and led by Lester Salamon, has re-written the definition of the third sector so that comparative statistics on third sector activities can be included in the System of National Accounts (SNA). This project was undertaken in order to make the third sector visible within the SNA to support policy making and government planning (Salamon & Sokolowski, 2018). This work is important as inclusion in the SNA demonstrates the importance of the sector and makes it easier for supportive policies to be developed. To this end, the European Union's Third Sector Impact project (TSI) re-wrote the definition for the UN *Handbook on Nonprofit Institutions in the System of National Accounts.* The project acknowledges how difficult it is to encompass the immense variety of organisations and activities within the sector and how complicated it is to establish which organisations on the 'boundaries' fall within scope.

The authors maintain the need for clear conceptualisations because:

> *…we all use models in our thinking all the time, even though we may not stop to notice it. When we say that we 'understand' a situation, political or otherwise, we say, in effect, that we have in our mind an abstract model, vague or specific, that permits us to parallel or predict such changes in that situation of interest to us" (Deutsch 1962:12). It is for this reason that Deutsch argues that "progress in the effectiveness of symbols and symbol systems is thus basic progress in the technology of thinking and in the development of human powers of insight and action" (Deutsch 1962: 10, cited in Salamon & Sokolowski, 2018:9).*

The TSI project surveyed a range of European countries and proposed three defining characteristics for organisations to be included in a re-written definition of the third sector:

1. **Privateness** — that is, forms of individual or collective action that are outside the sphere or control of government;
2. **Public purpose** — that is, undertaken primarily to create public goods, something of value primarily to the broader community or to persons other than oneself or one's family, and not primarily for financial gain; exhibiting some element of solidarity with others; and
3. **Free choice** — that is, pursued without compulsion.

(Salamon and Sokolowski, 2018, p. 25)

The search for a consensus which can be used internationally, particularly for National Accounts, is based on an argument that it should be possible because this has been done for the business sector.

> *Certainly, the business sector has every bit as much diversity as the third sector, with multiple legal structures, radically different lines of activity, gross variations in scale, complex interactions with government funding and regulatory regimes and widely divergent tax treatments. Yet, scholars, policymakers and statisticians have found reasonable ways to conceptualize this complex array of institutions and distinguish it from other societal components, and popular usage has bought into this formulation.*

(Salamon and Sokolowski, 2018, p. 24).

Our critique has two arguments. Firstly, Salamon and Sokolowski's definitional effort falls short at the first hurdle (underlying language) because it uses the terms 'private' and 'public' from the outset. This reinforces

the existing for-profit, not-for-profit distinction, inevitably compromising the ability of the definition to satisfy the variety of TSOs. Not only does this lead to confusion and multiple interpretations unhelpful to any clear definition, it ignores Ellerman's previous work (1990, 1997) on using 'non-state' or 'non-governmental' to distinguish 'private' in the sense of 'outside the control of the state', from 'private' in the sense of 'based on private property rights'. Ellerman argued successfully that there are 'private' organisations that pursue 'public' purposes. He relabels these 'social' on the basis that democratic governance and mutuality clearly distinguishes them from 'private' organisations that exercise control through private property rights.

Secondly, Salamon and Sokolowski's definition fails to deal with the inadequacies of the way scholars, policymakers, statisticians and economists understand the business sector – as for-profit, pursuing a return on financial investment. This is too narrow a definition because it fails to recognise how businesses with genuine commitments to social and environmental responsibility frame and account for their use of the market in social change projects. In Aristotelian terms, by framing 'business' as the pursuit of wealth for its own sake (for-profit before any other purpose), and not as a method for wisely allocating resources to build good lives in a well-balanced society, it closes down the possibility of connecting business with social and environmental responsibility for purposes other than increasing financial wealth.

The counter argument (from a private sector perspective) is that rational agents acting in pursuit of wealth in free markets will bring about the best allocation of resources for society (Smith, 1776; Rawls, 1999). Here, the pursuit of wealth is seen as a means to the end of a well-ordered society. The problems we encounter are due to the markets not working as they could and should (Friedman, 1962; Keynes, 2008 [1936]). This argument could be powerful if we measured social and/or environmental *benefits* rather than reductions in damage brought about by for-profit business activities. But we do not. We measure the financial return on investment and earnings per share and frame our arguments for social and environmental responsibility in terms of enlightened shareholder interest and corporate social responsibility (Erdal, 2011).

The narrowness of the definition also matters for the second criterion – public purpose. This is a wider framing than "public benefit" because it allows for individual private benefit and even individual profit, so long as these are not the *primary* aim of a business. This more layered approach can encompass mutual interest, recognising that the interest of the individual might align with the wider public/general interest. This definition of 'public purpose' is closer to the idea of the common good which encompasses more than public benefits derived from the activities of altruistic donors (Pearce, 2003).

Problems with the Profit Distribution Constraint as a Criterion of TSOs

However, the next step in Salamon and Sokolowski's argument is to suggest that an adequate proxy for public purpose (which is difficult to prove) is a limit on the distribution of profits. This argument is on the grounds that if the purpose is not profit distribution, it must be public good. This sleight of hand shuts down the possibility of examining the notion of what is good for the public, what we mean by a good life, a well-ordered society within a broader concept of community based on solidarity (Laville, 2015). Given Erdal's (2014) claim that credible statistical evidence exists to support the argument that mutualised (not privatised or

nationalised) enterprises are correlated with *substantive* improvements in workers' health and life expectancy, profit distribution constraints are clearly not a good proxy for 'public purpose' (or even 'public benefit').

Furthermore, the benefits of mutualisation and collective action on environment management represent the core contribution that secured Oström (2009) a Nobel Prize for economics. If mutual enterprises produce better health outcomes, longer life-expectancy and improved environmental management (relative to state-owned, charitable or private enterprises), profit distribution constraints are clearly problematic as a proxy for 'public purpose'. With this one step (equating pubic benefit with no distribution of profits) Salamon and Sokolowski (2018) slip back into a binary either/or approach of "public benefit" (not-for-profit) and "private benefit" (for-profit).

The UN *Handbook on Nonprofit Institutions in the System of National Accounts* includes a limit on profit distribution as a criterion **because it is concerned with non-profit institutions, not TSOs**. Including this criterion when trying to broaden the conceptualisation of TSOs leads to the exclusion of organisations which use the market for social or environmental impact. These include "profit distributing" co-operatives as well as socially responsible businesses raising money from ethical investors to tackle environmental issues or producing goods that improve environmental management (Ridley-Duff and Bull, 2019b).

In short, a significant proportion of co-operative and (other) social enterprises operate on the assumption that they can impact on the market for the common good – they trade, but not primarily 'for-profit'. The distribution of profits (surplus, in co-operative terminology) could be - and most often is - described as refunds or deferred payments to participants producing local socio-economic benefits (Birchall, 2009, 2012; Erdal, 2014; Ridley-Duff and Bull, 2019a). Furthermore, socially and/or environmentally motivated businesses can be framed as vehicles for ethical investors to make an impact on the social and physical world, not just as a vehicle for generating financial returns. For example, Yunus's (2007) 'Type 1' social business involves use of market institutions to secure patient capital with no (or limited) financial returns. Yunus's 'Type 2' social businesses are 'for-profit', but rights to hold equity are reserved for people who have previously been excluded from wealth. The rising value of equity lifts them out of poverty.

Using a limit on the distribution of profit as a proxy for 'public purpose' moves our attention away from the real world – the social and/or physical repercussions of organisational action, the complex and contested fields of 'the social' – and back into an abstract financial world. It obscures the possibility of blending social and/or environmental purpose with raising finance from investors. It precludes the possibility of using market activity or interventions (trading but not 'for-profit') to change relationships and outcomes in the real world. It unquestioningly assumes that market activity must be in pursuit of a financial return on investment to the exclusion of social and/or environmental aims.

We contend that asking TSOs whether they distribute profits or not as part of the process of defining them is wholly inappropriate (i.e. the wrong question). What matters is *how* surpluses (as opposed to profits) are raised, *to whom* they are distributed, *why* they are distributed (if they are), and *what impact* distribution has on the wealth of organisation members and their host communities (in both financial and non-financial terms). Salamon and Sokolowski's use of the dominant mission-market axis is part of the dominant hegemony (for-

profit/not-for-profit). It prevents the emergence of a counter hegemonic movement capable of repurposing markets to benefit society (Polanyi, 2001; Roy and Hackett, 2017).

This is not an argument that there is no merit in a project to broaden the conceptualisation of the third sector and to raise its profile with statisticians and policymakers. However, claiming that this definition, based on the mission/market, non-profit/for profit divide, is adequate for defining the third sector and/or social economy is dangerous because it draws a boundary right through the heart of the sector and divides 'for-purpose' organisations on the basis of only one type of wealth contribution. It results in a phoney paradigm war (between advocates of for-profit and not-for-profit social enterprise) that ignores how mutual enterprises produce shared (individual and collective) benefits.

Defourny & Nyssens (2017) response to the proposals in the new UN Handbook show that TSOs cannot be adequately conceptualised in binary terms. They argue that the social economy approach, drawing on the co-operative tradition, emphasises democratic processes of governance which the not-for-profit tradition ignores. They recommend revisiting Gui (1991) who understands the third sector as non-capitalist, (i.e. not primarily investor-oriented or concerned with the accumulation of financial capital). They recognise that social enterprises are emerging from all three sectors defined by classical economics (and represent this in a triangle with three axes). They find models from the mutual, private and public sectors that define the field of TSOs. Using Defourny and Nyssens triangle, the three axes along which trading may occur become visible. Along each axis trading may be primarily for profit or primarily for social purpose. It also gives some recognition to the emergence of new forms of organisation.

Their work focusses our attention on interests and purposes, offering a more flexible and nuanced understanding of the third sector and the place of co-operatives within it. It takes us some way towards realising alternatives. In the next section, we build on this by problematising the 'capital interest' in Defourny and Nyssens (2017) triangle, and argue that work to define six capitals (and six forms of wealth) requires revision to their representation of the economy and social enterprise theory.

Alternatives to the narrow focus of for-profit accounting

We highlight three responses to the narrow focus of for-profit accounting (chrematistics). Firstly, social and environmental sustainability reports could be added to existing financial reports to respond to calls for integrated reporting in which financial reporting is seen as no more important than social and environmental. This response includes 'triple bottom line' and 'multiple capitals' approaches to accounting (IIRC, 2013). Secondly, there is a call to examine techniques for "fair value" accounting under IFRS. This can be criticised as a further colonisation of accounting by market-based valuations through abandonment of internally generated information from historically based book-keeping. The result would be systems in which historical cost accounting can no longer balance (moderate) valuations based on a volatile fluctuating market. The eradication of another perspective on value of the business narrows the lens even more, favouring market-based valuations (Biondi, 2011). Lastly, there is a more radical critique, that accounting is itself an engine of capitalism because double entry book-keeping is designed to calculate profits generated through the conscious

adopting of trading strategies that produce a financial surplus (Chiapello, 2007). It is a system of following financial capital through an organisation with a view to calculating increases – the pursuit of financial wealth for its own sake (i.e. irrational chrematistics).

We now examine each of the above to broaden the scope of the debate about accounting and prepare for a new approach based on the wealth created by social, environmental and financial impacts. We also set out the problems of extending the 'capital' metaphor from financial aspects of organisations to cover social and environmental aspects to argue for a reconceptualisation based on 'six forms of wealth'.

Expanding accounting to cover people, planet and multiple capitals.

John Elkington coined the term "triple bottom line" in 1997 (Elkington, 2004) to capture thinking that emerged in early discussions of sustainable development and social enterprise (Elkington, 1978, Spreckley, 1981; Ridley-Duff and Bull, 2019b). The idea is exactly what it says - that there are three arenas in which business needs to report – economic (profit), social (people) and environmental (planet). Triple bottom line reporting has been adopted in international projects such as the Global Reporting Initiative (GRI) where corporations and some large non-governmental organisations voluntarily report against a range of social and environmental indices as well as financial (Boiral and Henri, 2017). Adoption of GRI reporting has gained considerable ground over the last twenty years since the creation of the GRI project. Voluntary disclosures are gradually being incorporated into national laws so that more corporations report on social and environmental impacts as well as financial results (Marimon et al, 2012; Milne and Gray, 2013; KPMG, Survey 2017).

Interestingly, reports are required to disclose changes since the previous year so that progress can be measured. For instance, accidents in the work place will be reported for two years so the reader can see if they have increased or decreased. By taking several years' figures, trends in organisational behaviour can be mapped. GRI requires extensive engagement with a range of stakeholders to set environmental and social priorities, provide a high degree of transparency, through information systems capable of articulating social and environmental impacts well as financial changes (Adams and Frost, 2008).

Critics see this as just enhanced corporate responsibility reporting and argue that it can too easily be manipulated to give a good impression without having much effect on behaviour (see Moneva et al, 2006; Milne & Gray, 2013; Bowen & Aragon-Correa, 2014). Nevertheless, GRI requires quite extensive engagement with stakeholders (those who can affect and be affected by the organisation). It can, therefore, be seen as a practical shift towards stakeholder theory to set priorities (social, environmental, operational, financial) for the organisation (Turnbull, 1994). Opening up decision making to this wider stakeholder pool *potentially* embeds social and environmental considerations into strategic planning. In practice, corporations may use this reporting as a form of legitimation without necessarily seeking to change their behaviour, by manipulating which stakeholder voices are heard or even which topics are discussed with stakeholders (Milne & Gray, 2013). It is, however, one base for changing accounting practice that builds on the idea of a triple bottom line.

Multiple capitals

The triple bottom line can be described as a 'flow' based approach. In contrast, the multiple capitals approach is 'stock' based. The 'capitals' are seen as stocks of wealth which organisations can call upon for their activities (as flows). Typically, this is to increase their 'stocks' at the end of a reporting period. The multiple capitals approach calls for a deeper integration of social and environmental concerns into strategic planning and action (Coulson et al. 2015). The main organisation promoting the use of multiple capitals in corporate and organisational reporting is the International Integrated Reporting Council (IIRC) which argues that integration of social and environmental concerns helps to counter the dominance of financial reporting and redress it by viewing organisations holistically. Adams *et al.* (2015:291) argue that:

> *opening up what is capital and integrated thinking on how we conceive of multiple capitals and their relationship is critical to debate on sustainable development and practice.*

The use of a multiple capital metaphors opens the possibility of debate about the importance of social and environmental 'assets' which do not normally figure in corporate reporting. Thinking about the relationships between social, environmental and financial capitals gives prominence to the social and environmental which are otherwise ignored by business and national accounts that concentrate on the financial (or economic).

Initiatives such as The Economics of Ecosystems and Biodiversity (TEEB) and the Natural Capital Coalition (of which several professional accountancy bodies are members) publish their goals to 'mainstream the values of biodiversity and ecosystem services into decision-making at all levels' and 'achieve a shift in corporate behaviour to conserve and enhance rather than deplete our natural capital' (www.teebweb.org). The development of multiple capitals helps to drive corporate engagement with urgent action on fossil fuel consumption and climate change (De Villiers et al, 2014).

The necessity for and danger of metaphors

Adams et al (2015, p.292) recognise that capital is being used metaphorically here and are aware of potential pitfalls. However, they still contend that metaphors can be used to draw together things which would otherwise be considered apart (if they are considered at all).

> *While literal language assumes an accepted meaning, metaphorical language assumes a more relational, arguably philosophical, conception where words and their meanings are defined by comparing and contrasting their meanings to one another. Putting distinct capitals together and considering how one capital might be transformed into (an)other(s) highlights the importance of understanding their relational meaning to one another and their collective product as an articulation of the world.*

In short, putting the capitals alongside one another allows for the possibility of recognising inequalities in the way that they are treated and seen as interchangeable. This can reveal unequal power relations which would otherwise remain hidden. Talking in terms of multiple capitals does not mean that we should be monetising them or express them in financial terms. As Adams *et al.* go on to state:

> *To be too focused on monetisation would bring us back full circle to the notions of money and ownership as the only true meaning of capital. Using the word 'capital' in the broad sense, the IIRC's Integrated Reporting <IR> Framework classifies capitals as financial, manufactured, intellectual, human, social and relationship and natural [...] Inherent within this classification is a reminder that we can, and do, store wealth (or value in <IR> terms) in forms other than money, and that those stores of value can be used by an organisation to create further value for itself and/or for others.*

Adams et al. (2015) acknowledge using metaphors may only allow a partial understanding of the things being compared because the comparison is pulling out the aspects that the things compared have in common. It remains easy to lose sight of other aspects of the things being compared, particularly those aspects where they differ from one another. By seeing all the capitals in terms of maintenance, decrease and increase, we may miss that such measuring works well for finance (profit or loss leads to increase or decrease in financial value of the organisation) but not for measuring the wisdom of our resource allocations and their impact on society and the environment.

Whilst this is helpful, it does not yet depart from chrematistics. If we still proceed on the basis that increasing, decreasing and transforming six different capitals is still in the service of the overall goal of increasing financial capital, this closes off the possibility of other ways of thinking about economic organisation (and what we mean by the term). For Aristotle, Marx and Polanyi, economics was not *necessarily* about *increasing* financial capital. It could also be understood as the wise(r) allocation of resources in pursuit of a good life and a well-ordered society. Wise allocation would entail an increase *non-financial wealth.* The goal is to express these in terms favoured by social enterprise researchers, such as the creation of social capital (Laville and Nyssens, 2001) and the (re)generation of natural, human, social and intellectual wealth (Ridley-Duff, Wren and McCulloch, 2019).

For-purpose accounting

Increasing the depth or breadth of social, ecological and biological connections raises the dilemma of how we balance them against one another. A system of economic organisation in pursuit of the wise allocation of resources needs a vision of 'wise allocation' to guide it. It has to go beyond itself for justification. What comes into view is the purpose – the end(s) which are being pursued by groups of people increasing, decreasing and transforming capitals within a given economic system. The increase, decrease or transformation of capitals is the process by which the resources are allocated towards the ends that are pursued (but are not ends in themselves).

Furthermore, and more significantly, if we ignore aspects of non-financial capitals which do not adhere or fit easily into the framework for financial capital, we may fail to understand their value to an enterprise's (and society's) wealth creating capabilities. For example, Oström observed that social capital is increased rather than decreased through use (Oström, 2000). The same argument can be applied to human capital: the more we use our skills, the better they become. Unlike financial capital, which is depleted before it is re-accumulated later, returns on investments of social and human capital may be immediate, significant and lasting.

Beyond the 'Capitals' Metaphor

There were several objections to the use of the capital metaphor during the consultation leading up to the publication of the IIRC background paper. These were made on the grounds that describing relationships and resources as stores of wealth precludes discussion of their nature. It is an unnecessary abstraction which glosses over differences between relationships and resources and generalises particulars which are not necessarily commensurate. The dynamics of activities may be ignored because they are reduced to maintenance, decrease or growth. For example, the mindset of cooperators engaged in the formation of mutual associations in the 1840s was to change the quality of relationships between people, and between people and their places of work. Wealth in this wider sense came from shifting discussions of quantity to *quality*.

The categorisations of the six capitals used by the IIRC can also be challenged as too narrowly focussed on the individual enterprise (legal entity) and ignoring the wider social and environmental impacts of organisational activity. Table 1 shows a comparison of the IIRC's description of capitals compared to the FSA's 'six forms of wealth':

Table 1: Six Capitals (IIRC) v Six Forms of Wealth (FairShares)

Label	IIRC Six Capitals	FairShares Six Forms of Wealth
Financial	1. The pool of funds that is available to an organization for use in the production of goods or the provision of services, obtained through financing, such as debt, equity or grants, or generated through operations or investments.	6. The money used and/or generated by an enterprise/project that resides in the monetary system with access and control framed by regulations and property rights.
Manufactured	2. Manufactured physical objects (as distinct from natural physical objects) that are available to an organization for use in the production of goods or the provision of services, including: buildings, equipment, infrastructure (such as roads, ports, bridges, and waste and water treatment plants).	5. The quality and accessibility of manufactured goods (tools, machinery, premises, services) in the eco-system for enterprise, with rights of access framed by contracts, contract law and property rights.
Intellectual	3. Organizational, knowledge-based intangibles, including: intellectual property such as patents, copyrights, software, rights, and licences, "organizational capital" such as tacit knowledge, systems, procedures and protocols, intangibles associated with the brand and reputation that an organization has developed.	4. The number, quality and availability of workers' ideas and designs that reside in people, products and artefacts, with rights of access and use framed by government legislation, contracts, patents and copyrights.
Human	4. People's competencies, capabilities and experience, and their motivations to innovate, including their: alignment with and support for an organization's governance framework, risk management approach, and ethical values; ability to understand, develop and implement an organization's strategy; loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate.	2. Workers' health, skills and abilities which reside in people, with access and control through education systems, professional practice bodies and individual capacities for learning.

Label	IIRC Six Capitals	FairShares Six Forms of Wealth
Social and Relational	5. The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective wellbeing: shared norms, and common values and behaviours; key stakeholder relationships, and the trust and willingness to engage with customers, suppliers, business partners, local communities, legislators, regulators, and policy-makers (an organization's social licence to operate).	3. Networks of people in high trust relationships that reside in relationships between people, with access controlled by social norms within the communities they identify with and/or belong to.
Natural	6. All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes: air, water, land, minerals and forests; biodiversity and eco-system health.	1. Access to land, air, water and minerals and natural processes (chemical reactions) which resides in nature, with rights of access and use framed by (inter-)governmental legislation.

Sources: IIRC Framework, 2013: pp. 11-12, downloaded from http://integratedreporting.org/ on 1st May 2019 and FairShares Model V3.0a: 'Six forms of wealth', downloaded from: https://fairshares.coop/fairshares-model, 1st May 2019. The table above contains summaries – see the originals for full descriptions. The importance of access (as a measure of wealth) is operationalised in the FairShares Wealth Audit.

An analysis is instructive because there are striking differences between the IIRC and FairShares Association conceptualisation of wealth despite the use of common terms. Firstly, the IIRC framework places financial capital first in its list and discusses all other capitals using financial metaphors. The FairShares Association places natural wealth first. Indeed, aside the ordinal positions of human and social/relational, the ordering of concepts in the FairShares Association's 'six forms of wealth' is the *opposite* of the IIRC list.

Secondly, the IIRC descriptions focus on the *existence* of things that are proxy indicators for a type of capital (as if it is their existence that constitutes wealth). In the FairShares Association framing, *access* to things (not just their existence) within the wider eco-system for enterprise is what creates wealth. The distinction is important because it is access, not ownership, that matters most (Ellerman, 1990). For example, the IIRC framework implies that having patents and copyrights will *increase* wealth. The argument is different in the FairShares model as **it is the way that patents and copyrights are shared and accessed that determines whether wealth is increasing or decreasing within networks of people in an enterprise eco-system**.

> *Intellectual wealth is increased if workforce members develop clearly articulated design ideas that can be shared across social networks (or with third parties) in an accessible and usable form. If they are not shared - or they are shared in a way that restricts or hampers others' ability to use them effectively - then intellectual wealth is depleted.*

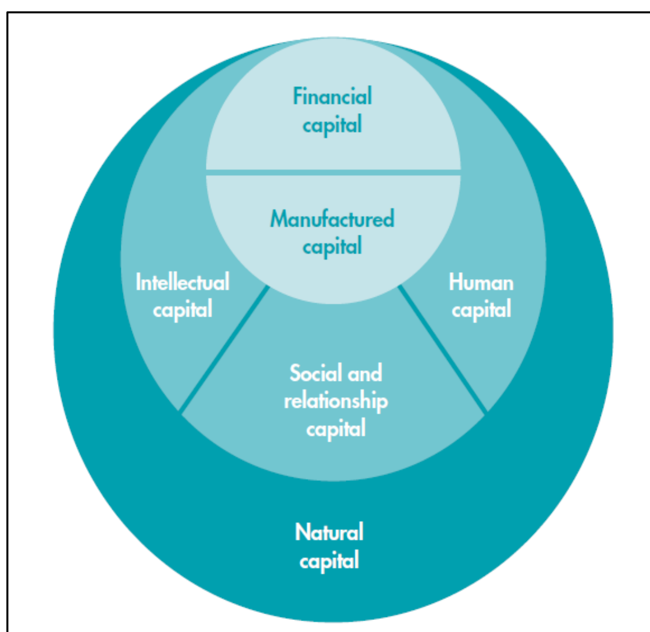
Six Forms of Wealth, '4. Intellectual Wealth', downloaded from:
http://www.fairshares.coop/wp-content/uploads/2018/01/V3.0-06-SixFormsOfWealth-Final.pdf

The *existence* of capital does not indicate whether it is being used and shared in ways that increase *access* to it. For the former, the existence (and ownership) of capital is the proxy for wealth whereas in the latter, it is the arrangements for stakeholder access that are the indicators of wealth. Indeed, in other FSA descriptions, the issue is 'quality and accessibility' (of manufactured wealth) and the 'number, quality and availability' (of

intellectual wealth). From a social accounting perspective, the financial value of such items may be less important than measuring levels of access. For example, a nearly public library (or electronic access) can provide access to intellectual wealth without the user having to own all the publications within it.

Thirdly, human capital is framed differently. The IIRC description covers all the skills and abilities a worker may possess but does not consider the worker's health. As the health of bodies and minds are important to the deployment of skills, this is a nuanced but significant difference that avoids abstracting skills and abilities from the people who possess them.

Figure 2 - IIRC Representation of Six Capitals



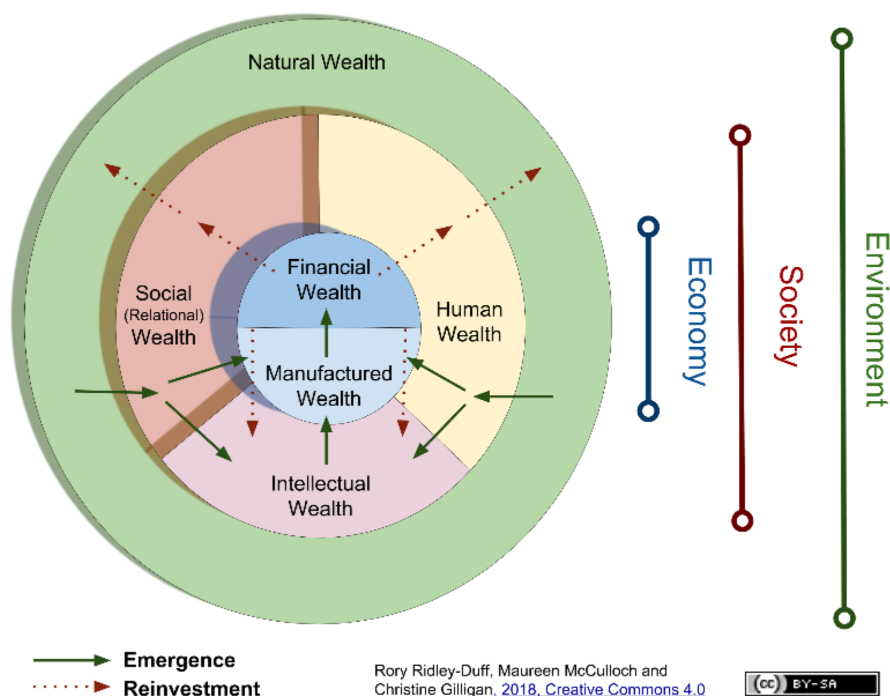
Both reports provide recognition that some capitals depend on others, as illustrated in Figures 2 and 3. Figure 2, taken from the Consultation Draft but *dropped* from the final IIRC framework, offers one way to visualize the capitals. They state that it is not intended to imply a hierarchy and perhaps this is why it was dropped. Nevertheless, it shows that the <IR> framework engaged in discussions of the inter-relationships between capitals. (IIRC Consultation Draft 2012:13).

Figure 3 published by the FairShares Association is more explicit about dependencies between different forms of wealth (capitals). This offers a conceptualisation of the emergence of one type of wealth from others, but also the recursive relationship formed by the reinvestment of financial wealth in intellectual, human, social and natural capital to sustain their generative powers. A second difference is the way 'six forms of wealth' connect back to the triple bottom line, clarifying the embeddness of the economy in society, and society in the wider environment.

Social enterprise (and third sector organisations) as for-purpose enterprises

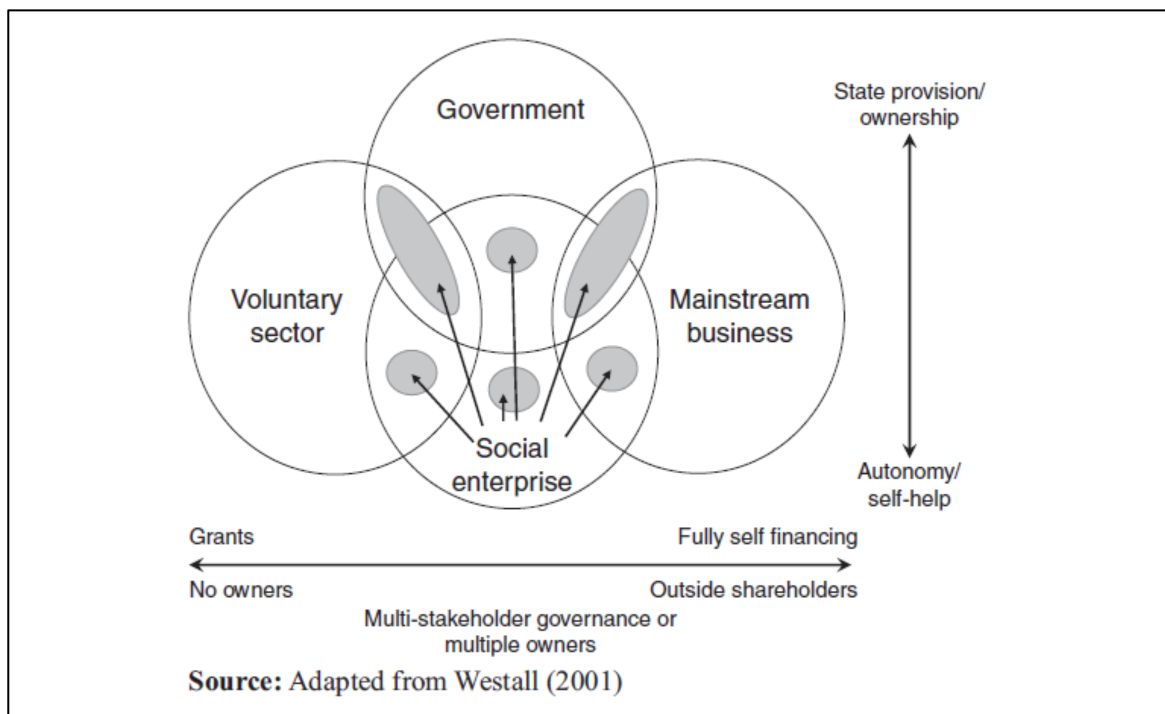
A theory of wealth based on *access* to six forms of capital (Figure 3) enables us to see value that chrematistic accounting systems hide. Westall (2001) advanced the idea of an emergent space in which mutual organisations and multi-stakeholder enterprises were refining new operational models and practices. She articulates how overlaps between government and the voluntary sector, government and the mainstream business sector and between mainstream business and the voluntary sector can be *generative* (of diverse forms of wealth), particularly when reciprocity and mutuality is the motive. In Defourny-Nyssens triangle terms, this translates into wealth created by organisations emerging from the central part of the triangle (requiring another layered dimension) as well as those moving to the centre from each corner.

Figure 3 - Six forms of Wealth (FairShares Model v3.0a)



This notion of emergence, of multiple forms of organisations refining the way they express their purpose, frames the field as one that is not just emerging from 'other' sectors, and not just comprised of hybrid organisations, but also as something to be understood, on its own terms, as generative of new purposes, ideas and actions. It adds another layer of complexity to an already diverse sector by including organisations that challenge the value systems of the other sectors to express wealth as the creation of, and access to, intellectual ideas, skills, social networks and organisational governance arrangements. Instead of understanding the sector as made up of hybrid organisations which are trying to combine the public benefit perspective of traditional non-profits (on a mission) with the commercial imperative of the for-profit sector (in markets), we can see (and become part of) an embryonic sector that is driven by a value system that is expressed in terms of the way it transform access to, and facilitates sharing of, six forms of wealth. It is this intention to open up (or provide shared access to) more forms of wealth that binds together different (cooperative) social enterprise approaches and provides the basis for claiming they generate *ethical* capital (Bull et al., 2011; Bull and Ridley-Duff, 2018). We can illustrate this using Westall's work (Figure 4).

Figure 4 – Emergent Social Enterprise in the Social Solidarity Economy



Source: Adapted from Westall (2001)

Figure taken from Bull (2018:594)

We think this framework for auditing wealth is helpful to all types of 'for-purpose' organisations whether they take on the form and/or identity of co-operatives, social enterprises or voluntary associations. In all cases, 'the market' and 'altruism' are eclipsed by the goal of generating (or managing access to) six forms of wealth (Figure 3) to meet the needs of members and/or users and/or customers and/or beneficiaries. In this pursuit, whether the legal form is 'for-profit' or 'not-for-profit' matters less than the capacity of the organisation to generate and/or organise access forms of wealth needed by members and beneficiaries. Furthermore, if an enterprise satisfices both member and beneficiary needs, it generates more wealth than one designed to prioritise the needs of only one stakeholder.

If we link Westall's (2001) diagram to Defourney and Nyssens (2017) triangle and overlay the six capitals, we can articulate substantive differences between mainstream business and social enterprises by exposing how the latter is more firmly embedded in particular types of wealth creation. Mainstream business tends to detach from society in order to focus on financial and manufactured wealth, whereas social enterprises are more likely to use manufactured and financial wealth to steward nature and/or develop human, social and intellectual wealth.

Figure 5 – Flipping Westall's four sectors on their side

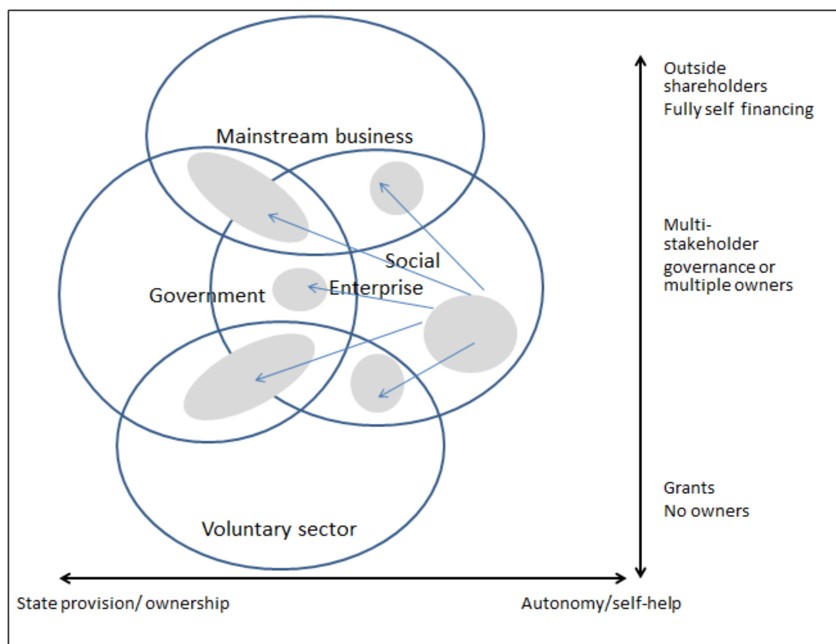
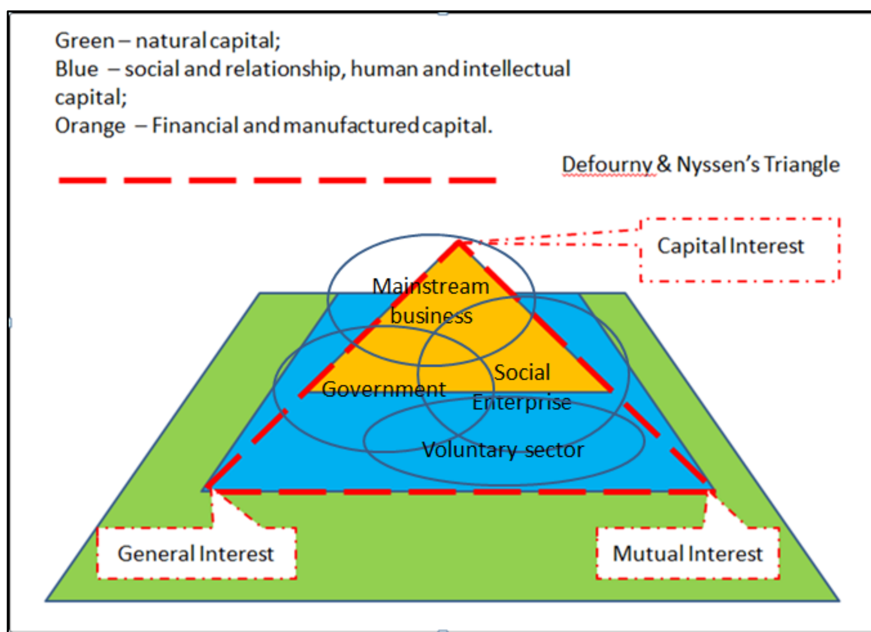


Figure 5 flips Westall's model on its side whilst Figure 6 superimposes it onto a flipped version of Defourny and Nyssens triangle. The colour coding denotes different forms of capital/wealth.

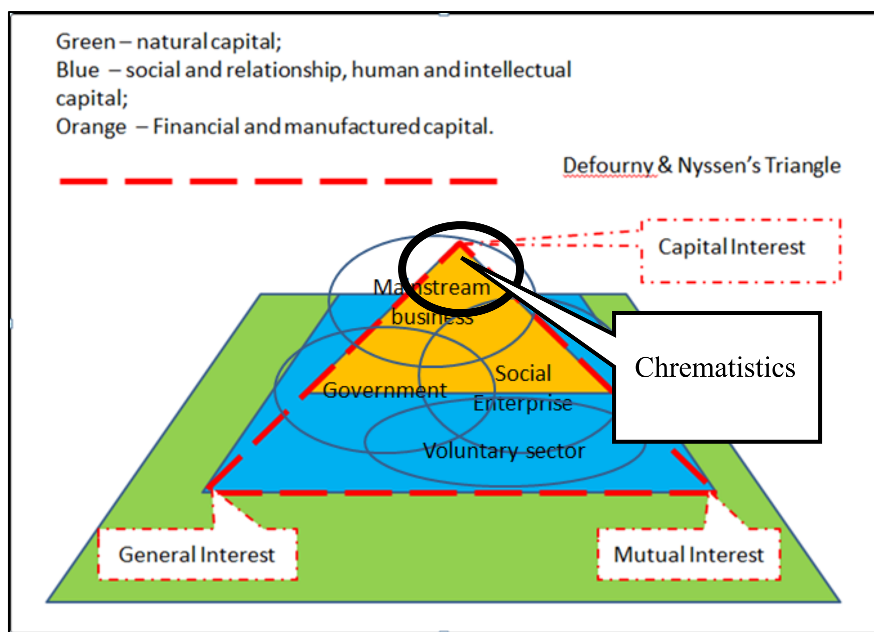
Figure 6: Westall's sectors, Defourny and Nyssens triangle and multiple capitals



This clearly problematises Defourny and Nyssens' (2017) notion of 'capital'. With so much work, and growing international agreement, on the promotion of sustainable development through accounting for 'six capitals', does the term 'capital' in their social enterprise model mislead or reinforce the status quo? Would it be clearer if it expressed as 'financial interest'? Is the underlying dynamics to advance 'private interests'? We

are inclined to the former as it seems in line with the way 'capital' is understood as 'financial capital' in accounting systems.

Figure 7. Placing Aristotle's chrematistics in Westall's & Defourny & Nyssens' frameworks



The tip of the triangle of financial and manufactured capital which rises out of and above the planes of social and natural capital can be seen as the domain of chrematistics, the area where financial concerns escape societal and environmental concerns and are pursued for their own sake. It is this area which should be considered in the negative – as not beneficial for society or the environment – rather than the much larger area which prioritises social and natural wealth. In defining our accounting as for profit or not for profit and classifying organisations accordingly, logically we are classifying the larger set in terms of the very much smaller sub-set. Profit is just one purpose amongst many. This paper is arguing that we should understand the larger set – social and environmental wealth creation – as the positive and the pursuit of financial wealth (for its own sake) as the negative. We should classify organisations as for social or environmental benefit or not, rather than for profit or not.

Normalising social/environmental objectives, and regarding financial and manufactured capital as instrumental rather than ends in themselves, improves our understanding and conceptualisation of the for-purpose sector (and builds a paradigm that is fit for purpose). Beyond the CSR argument of the business case for social and/or environmental activity lies the social and/or environmental case for business. In discussing and debating the social/environmental case for business, this framework enables us to ask better questions about the definition of TSOs. Rather than ask if an organisation is 'for-profit' or 'not-for-profit', we can ask instead if it facilitates access to wealth in ways that enable organisation members and stakeholders to pursue social/environmental purpose(s).

Conclusions and relevance

We have argued that scholars in the field of social enterprise studies and the wider voluntary/third sector should reject the term 'for-profit' and 'not-for-profit' in favour of 'for-purpose'. Anything less, and it remains complicit in maintaining the dominance of financial capital and a for-profit paradigm. By accepting a definition that labels organisations in terms of what they are not for, rather than what they are for, the status quo is preserved. Our perspective is that wealth is the by-product of access that an enterprise (network) secures for its members, users, customers and beneficiaries to six forms of capital. Access (and therefore wealth) depends on the quality, trust and equity in social relationships an enterprise creates amongst its primary stakeholders. In human societies, relationships between people and their environment are the building blocks for sustainable wealth generation. In short, accounting for social access granted to (six forms of) wealth is a better measure of an enterprise's value to society than the surplus it reports on its balance sheet or the profits it declares on its Profit & Loss statement.

Under capitalism, financial ideas (such as dividing organisations into those that exist for-profit and those that do not) results in 'not-for-profit' as a proxy for public purpose. Accounting systems that only value and report on activities that result in the accumulation of *financial* capital end up hiding rather than revealing the six forms of wealth because they ignore the value of *access* to, rather than the existence of, wealth. In Figure 6, we articulated a changed understanding of economy, society and environment by framing financial wealth as a sub-set of the wealth that comes from stewarding nature to provide improvements in the access and quality of natural, social, human, intellectual and manufactured capital. In focussing on *access* to capital, rather than capitals themselves, accounting can express *social*, rather than financial, competence.

We call for the rejection of the term 'not-for-profit' and 'non-profit' in studies of social enterprise and TSOs to avoid complicity in the hegemony of the 'for-profit' paradigm. For-purpose accounting, which reports the *access* that organisations offer to six forms of wealth provides an alternative framework for social economists to account for the wealth created by co-operatives, mutuals and associations. This reclamation of the conversation will enable all types of social enterprise to demonstrate their value, their shared purpose, and their fundamental difference to not-for-purpose (just-for-financial profit) organisations.

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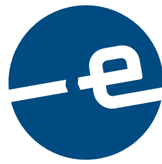

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