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Social Enterprise as a Socially Rational Business

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Abstract

Purpose: This paper examines the discourses that influence policy and practice in social enterprises. In institutional circles, arguments are shaped by the desire to protect assets for the community, while entrepreneurial discourses favour a mixture of investment sources, surplus sharing and inclusive systems of governance. A critique is outlined that challenges policy-makers and academics to move beyond the heated debate on ‘business-like’ activity through a deeper understanding of the social relations entered into (and created by) different social entrepreneurial activities.

Design/Methodology/Approach: The paper is wholly theoretical. Firstly, contradictions are exposed through a review of practitioner and scholarly literature. Thereafter, empirically grounded studies are used to develop a theoretical model that accommodates and accounts for diverse practices. A broader perspective, that views human behaviour as a product of, and support system for, our socio-sexual choices, is deployed to extend understanding of social capital. By integrating this into governance theory, workplaces come to be seen as complex centres of community-building replete with economic and social goals. The concept of ‘social rationality’ is elaborated as an alternative way to understand the legitimacy of social entrepreneurial activity and management practice.

Originality/Value: The paper concludes by developing a framework and typology that theorises social enterprise as a heterogeneous business movement. Each form of social enterprise integrates *socially rational* thinking into its policies and practices. This suggests a different educational agenda for social entrepreneurs oriented towards the equitable distribution, and not accumulation, of social and economic capital.

Keywords: Social Enterprise, Governance, Social Rationality, Social Capital, Co-operative Practice

Paper Type: Conceptual paper

Introduction

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

This paper argues that focussing on 'profit' arguments obscures underlying similarities and differences in organizational practices across economic sectors. By drawing on Etzioni's (1988) decision-making model, as well as a variety of empirically grounded studies, the reasons behind diverse practices in social enterprise – as well as their different foci – are exposed.

In the next section, the underlying values that inform 'not-for-profit' and 'more-than-profit' discourses are discussed: both reflect ideological positions on the nature of business and the way that profits can be used and distributed. This reveals underlying contradictions that need resolution through new theory. This is followed by a section on the way social capital theory has been used to understand social enterprises. In particular, the desire for, and obligations that spring from emotional, sexual and family relationships are given more emphasis than in previous discussions of social enterprise. These concepts are then drawn together in a section that integrates the models of Billis (1993) and Turnbull (1994, 1995) into a new model. The new model is then applied to develop a new typology of the sector that accommodates and explains the diverse practices reported, as well as the unique position of co-operatives (and multi-stakeholder businesses) in the broader economy. The result is a framework that reflects the heterogeneity of social processes that drive social enterprise development.

Concepts of Social Enterprise

Pearce (2003) has produced one of the first key texts in the field. His accessible book, oriented toward practitioners more than academics, is frequently referenced in both popular and academic writing. Pearce explores the various shades of social enterprise definition and elaborates at length. While there is near unanimity regarding the primacy of 'social objectives', different individuals and agencies elaborate a variety of ways to achieve them:

> *…[in social enterprises] all assets and accumulated wealth are not in the ownership of individuals….1*
>
> *…[social enterprises are] independent…and provide services, goods and trade for a social purpose and are non-profit distributing…2*
>
> *…[in social enterprises] profits are used to create more jobs and businesses and to generate wealth for the benefit of the community…3*
>
> Pearce (2003: 32-33)

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

All these definitions share a tacit assumption that the purpose of a 'not-for-profit' orientation is to encourage high levels of reinvestment in economic activity. It is this aspect that has been widely promoted in the DTI's own definition of social enterprise as "a business with primarily social objectives whose surpluses are principally reinvested for that purpose" (DTI, 2002, cited in Pearce, 2003:32). While the DTI strategy, and Community Interest Company

(CIC) legislation, does not directly ban distribution of surpluses to individuals (by allowing, for example, staff bonuses and employee share schemes), ‘not-for-profit’ rhetoric pervades both policy documents and academic debate (Borzaga and Defourny, 2001).

Profit-making *per se,* however, is not the issue. Indeed, in all the above social enterprise definitions, there is an implicit assumption that profits are desirable so long as they can be channelled towards the collective needs of socially excluded groups, rather than already wealthy individuals. This view of social enterprise, therefore, is *re*distributive with strong ideological commitments against individual appropriation of wealth and an emphasis on the ‘common good’. Such communitarian sentiments place emphasis on collective over individual good to develop arguments for greater civic and social responsibility (see Etzioni, 1995, 1998; Collins, 1997; Tam, 1999; Lutz, 2000).

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

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

A more robust model, argue Major and Boby (2000), is one that uses individual and collective ownership to entrench a variety of long-term interests that promote competition between short and long-term priorities. This binds the fortunes of all stakeholders to the sustainability of the enterprise. By doing this, thinking shifts towards the achievement of 'equilibrio' between different interest groups so that there is a balance between personal, collective and strategic goals. Equilibrio does not translate easily into English. In essence, it applies to the pursuit of balanced governance in a number of work-related debates (Whyte and Whyte, 1991). Oakeshott (1990:201) elaborates by illustrating each of the interests that are mediated: capital and labour; individual and collective interests; democratic and line management; enterprise and community interests (compare Morrison, 1991). There is evidence that such thinking is gaining momentum in the UK through the adoption of 'balance' as a guiding principle in the construction of social enterprise support tools (Bull and Crompton, 2006; Bull, 2006).

In summary, therefore, the 'not-for-profit' characterisation of social enterprise obscures a complex set of philosophical and moral commitments regarding who can profit from its operation and how these profits can be used. As a constitutional settlement (in the form of a Company Limited by Guarantee or Community Interest Company) it legitimises collective rights/responsibilities that may lead to marginalisation of individual and minority group interests. It is important to distinguish this argument from the 'non for private profit' argument made by others (see Nicholls, 2006). The 'non-profit' orientation here is regarded as a philosophical commitment to privilege the *collective* (a set of individuals who constitute an 'in-group') over other *individuals*, rather than the public over the private. Surpluses can be enjoyed collectively within the boundaries of the organisation or distributed to other *collectives* legitimised by the 'in-group'. This antagonism to individual rights and the individualisation of benefits, however, is not held across the entire social enterprise sector.

More-than-Profit Views of Social Enterprise

As Defourny (2001:23) acknowledges, "the NPO[4] literature is not able to embrace the whole reality of the social enterprise". Firstly, surplus redistribution constraints do not apply to all organisations that define themselves (or are defined by others) as social enterprises. Worker, marketing and consumer co-operatives distribute profits to individuals and have developed democratic know-how that encourages equity in the allocation of social and economic benefits (Rothschild and Allen-Whitt, 1986; Whyte and Whyte, 1991; Cornforth, 1995; Turnbull, 1995).

A clear distinction between co-operative and private businesses, however, remains. Dividends are payable to those who make *both* a financial and a *labour* investment. In worker co-operatives dividends are payable to those who both work and invest in the enterprise. In Spain, the concept of employment and wages has been eroded to the point where members receive monthly 'anticipos' (anticipated profits) that are adjusted at the end of each year (Whyte and Whyte, 1991). In marketing co-operatives, suppliers combine their product offerings to enhance their market profile. Without committing their produce, however, no dividends are received. In consumer co-operatives, benefits accrue only to those who buy their goods through the enterprise. A person must walk the aisles to earn dividends. In all cases, labour investments are expected from members in return for individualised benefits. Conventional private companies, conversely, do not require labour contributions before distributing surpluses to financial investors.

The realisation that some social enterprises are not ideologically hostile to declaring profits or sharing surpluses has prompted high-profile figures to talk of a 'more than profit' orientation. At the Social Enterprise Institute Conference in 2003[5], Liam Black (then Social Entrepreneur of the Year) asked the audience in his keynote speech to repeat after him 'profit is good' because it funds future social investment. This was echoed in the opening speech of Declan

Jones (Director of the Social Enterprise Institute) and closing speech of Jonathan Bland (Director of the Social Enterprise Coalition) who both asked for a 'more-than-profit' mentality.

This flexibility is reflected in the definition used by the Social Enterprise Coalition:

> *A social enterprise is not defined by its legal status but by its nature: its social aims and outcomes; the basis on which its social mission is embedded in its structure and governance; and the way it uses the profits it generates through trading activities.*
>
> (NEF / SAS[6], 2004:8)

Based on this definition, not only co-operative enterprises, but also majority employee-owned, and multi-stakeholder enterprises, can be included under the social enterprise banner (Gates, 1998; Allen, 2005; Brown, 2006). In these organisations, individual investment and payouts are permitted. External investors may also be allowed a 'reasonable' return on an equity investment. Fair trade networks provide examples of supply chains based on trading relationships between worker, marketing and consumer co-operatives that deliver produce to supermarkets and retail outlets (see Jones, 2000; Allen, 2005). Gates (1998:13) argues that this combination of investor, worker and consumer ownership can alter management practices:

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

Gates stresses the role of individuals (and intellectual autonomy) in shaping decisions. In a way that echoes anarchist economics (see Veblen, 1898; Ward, 1966; Rothschild and Allen-Whitt, 1986), contemporary liberalism views individual voluntary action as a way to check the development of formal collective power. By enhancing individual rights and autonomy, monopoly control over resources, information and debating forums is subjected to continual challenge.

The view that pursuing social goals can be compatible with economic efficiency, and that individual empowerment can create a stronger collective, brings social enterprise into a common discourse adopted by *some* private sector businesses. Viewing social enterprises as double (or triple) bottom line businesses places them in an alliance with parts of the private sector. As John Young of Hewlett-Packard states:

> *Our basic principles have endured intact since our founders conceived them. We distinguish between core values and practices; the core values don't' change, but the practices might. We've also remained clear that profit – as important as it is – is not why the Hewlett-Packard Company exists; it exists for more fundamental reasons.*
>
> (Cited in Collins and Porras, 2000:46)

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

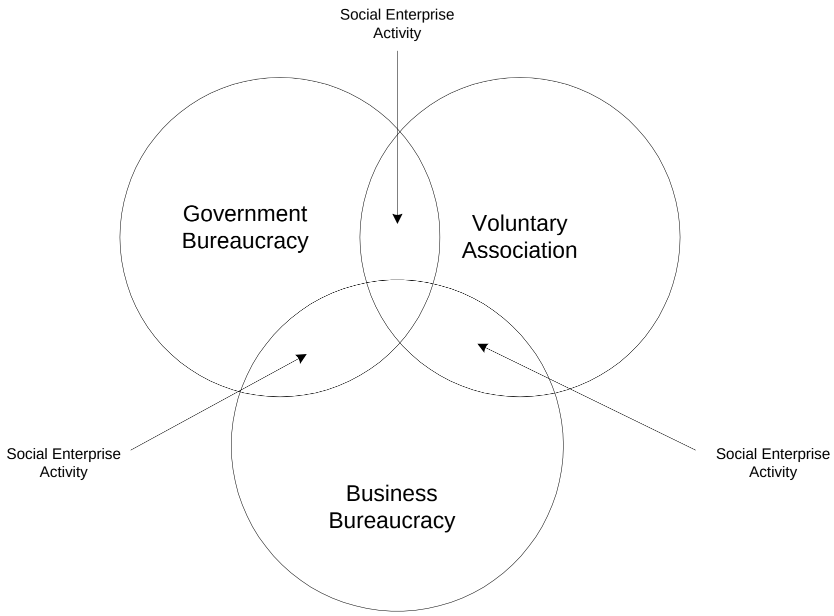
> *…Merck elected to develop and give away Mectizan, a drug to cure "river blindness," a disease that infected over a million people in the Third World with parasitic worms that swarmed through body tissue and eventually into the eyes, causing painful blindness. A million customers is a good-sized market, except that these were customers who could not afford the product. Knowing that the project would not produce a large return on investment – if it produced one at all – the company nonetheless went forward with the hope that some government agencies or other third parties would purchase and distribute the product once available. No such luck, so Merck elected to give the drug away free to all who needed it...at its own expense.*[7]

When asked why it had done this, Merck executives pointed to the need to accommodate the views, and maintain the morale, of its scientists (Collins and Porras, 2000).

Stories of "great" companies driven by social values rather than profits create problems for those on both sides of the Atlantic seeking to distinguish social from private enterprise on ethical grounds (Collins, 1997; Laville and Nyssens, 2001). Moreover, it compromises those who would argue that co-operatives are a 'truer' form of social enterprise than other models. Mainstream businesses, and not just those currently identified as part of the social enterprise sector, can lay some claim to effective stakeholder involvement, commitment to diversity, and practices that address social exclusion as part of their strategy for economic and social success (Kotter & Heskett, 1992; Collins, 2001; Vinten, 2001; Wieland, 2005). Does this mean that 'social enterprise' is a meaningless concept? Not necessarily. As Collins (2001) analysis of private business illustrates, the current distinctions between private and social enterprise may be artificial and not grounded in differences at the level of empirical findings. Collins distinguishes between the practices that underpin 'good' and 'great' companies, and shows how 'great' companies are more social in orientation by including staff from across the organisation, and from outside the ranks of management, in key debating and development forums. This commitment to pluralism (embracing and acting upon the views of people whose interests differ) is a hallmark of their social structure. The question, therefore, is not whether the concept of social enterprise is meaningless, but whether there is a theoretical framework that can tie these findings together and explain them coherently.

The works of Billis (1993) and Turnbull (1994, 1995) are helpful here. As Seanor and Meaton (2006) discuss, Billis's model (Figure 1) describes three organisational worlds: one rooted in voluntary association; a second deriving from market trading; a third rooted in public service. These three worlds each have their own culture and rules for workplace organisation: they accommodate and establish different governance practices and value commitments. Moreover, they can overlap with the result that hybrid organisational forms develop to serve multiple interests. Seanor and Meaton (2006), in presenting their paper, suggested that social enterprise activity (and enterprises) are located at the cross-over points between the three worlds[8]. Taking the model one step further posits a view that social enterprise does not fill gaps in a market economy, but *several* gaps where tensions arise between *multiple* ideologies rooted in different ways of living.

Figure 1 – The Locus of Social Enterprise Activity - Based on Billis (1993)



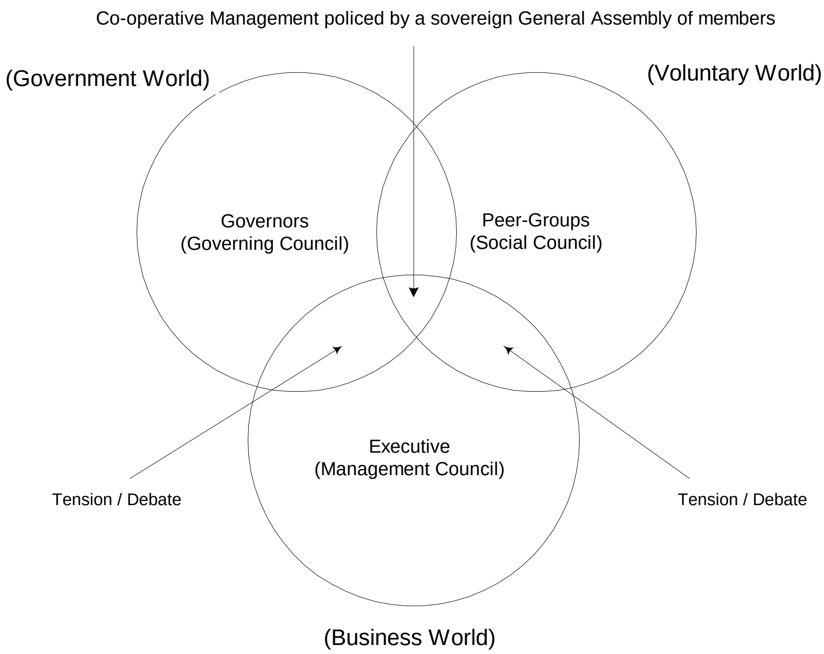
This model, suggesting that social enterprises locate themselves at the cross-over points between 'worlds' has more explanatory appeal considering the findings of other studies as well as the contradictions set out earlier. It goes beyond Defourny's (2001) argument that social enterprise occupies space between voluntary (non-profit) and co-operative (profit-making) businesses. It also moves beyond the model propagated by Pearce (2003) that sees social enterprise as a sub-set of the social economy. In its place is a model that not only accommodates trading for a charitable purpose, but also corporate social responsibility and public sector enterprise.

Problems remain. Firstly, Billis attempts to integrate the personal world into the model. The contention that the personal world only overlaps the 'voluntary association' world (Billis, 1993:166) is not sustainable in the face of recent work. In social capital debates the role of intimate relationships and family ties was originally seen as important in organisation development, but is sidelined when applied to social enterprise (Coleman, 1988; Putnam, 1995; Evers, 2001; Laville and Nyssens, 2001). In social network theory, attention is drawn to the continued dominance of intimate relationships and friendship networks as a way of explaining recruitment and selection outcomes in employment (Barnes, 1954; Granovetter, 1983). Research into employee involvement not only highlights the emotional highs of embracing a strong 'community' orientation (Kanter, 1985), but also how the activity of 'championing' participative management can be a strategy of individuals attempting a rapid climb of corporate ladders (Marchington, 2005). Last, and certainly not least, emotional commitments (to other people as well as social norms) have a pivotal place in Etzioni's analysis of corporate governance practices (Etzioni, 1988).

Secondly, the position of co-operatives in the Billis model is neither clear nor compelling. As Pearce (2003) points out, co-operatives exist not just as local level community enterprises (in the 'Voluntary Association' world), but also as national and multinational corporations (Ransom, 2004). Co-operative practices (whether labelled as such or not) have also been repeatedly associated with sustainable success in the 'private' sector (Kotter & Heskett, 1992; Cheney, 1999; Collins, 2001). As a result, it may be better to see cooperativism as an expression of a pluralist (decentralising) approach to governance rather than a particular type of business.

It is here that the work of Turnbull (1994, 1995) is most enlightening (see Figure 2). His analysis of the governance model in use throughout the Mondragon Cooperative Corporation[9] is grounded in the finding that power is distributed to three distinct interest groups: those pursuing social and family interests (workers), those engaged in governing practices (governors), those organising production practices (managers). It is not coincidental, perhaps, that Turnbull's governing model so closely follows the earlier models of Dunlop (1958) and Billis (1993) . Dunlop identified three groups (workers, employers and community institutions) that compete to influence workplace practices and the system of rules that govern them. Turnbull (1994) illustrates how these groups share power *internally* at Mondragon. The sovereign power of a unitary board is replaced by a General Assembly (with all stakeholders as members). Figure 2 illustrates how divergent ideologies and interests can be accommodated through these pluralist practices within the context of a single organisation. Pluralism in governance legitimises divergent interests (and interest groups) and their social practices but also creates the mechanisms through which tensions can be resolved through debate (either in forums that bridge the boundary between two groups, or in a general assembly where all interests are reconciled).

Figure 2 – Superimposing Turnbull's Model of Governance onto Seanor and Meaton's Extended Model



The pluralism articulated in the above model runs counter to the arguments developed by Dart (2004). Dart suggests that the task-oriented focus and business rhetoric dominating social enterprise can be viewed as the encroachment of business practices into both the 'government' and 'voluntary association' worlds. In his view, therefore, social enterprise is moving *away* from the pluralist practices characteristic of 'great' business and co-operatives *towards* a unitarist outlook that privileges 'business-like' approaches. Dart contends that this discourse is growing, and is likely to continue undermining alternative approaches. If this is the case, the 'business model' for social enterprise is in need of re-examination to establish whether it is appropriate to use liberal economic thinking as the basis for the social economy.

In this section there has been an exploration of the ideological commitments that motivate particular forms of social enterprise activity. The "not for profit" argument emphasises the collective over the individual, while the “more than profit” argument depends to a greater extent on individual rights and powers to challenge corporate control (whether in the social or private sector). Rather than attempting to argue that one is better, or more legitimate, there is an attempt to legitimise and explain variations through the adoption of a pluralist outlook. The work of Billis, Turnbull, and Seanor and Meaton have been suggested as a foundation for new theory regarding the boundaries and nature of the social enterprise sector..

Before this can be fully developed, however, it is necessary to address how sexual desires, interests and obligations have been ignored in discussions of social capital. The next section develops the argument for a broader framework that recognises and accommodates courtship, friendship, child-raising and caring responsibilities as themes that need accommodation in any definition of social enterprise..

Social Capital and Social Rationality

The concept of ‘social capital’ was popularised by Coleman (1988). Later, Putnam (1993, 1995) applied the concept to the process of ‘civic engagement’ in support of Habermasian ideas about debate in public forums (Habermas et al, 1974). Coleman and Putnam each consider the private and public aspects of social capital building. Nevertheless, in applying the concept to social enterprises, the public aspect is emphasised (Evers, 2001; Laville and Nyssens, 2001) while the private aspect is ignored.

Both draw attention to the way that sustainability (regardless of economic sector) is promoted by engagement *across group boundaries* (i.e. in the cross-over areas of the Billis model). The ability to develop relationships between, and not just within, social groups is regarded as paramount. Kay (in Pearce, 2003) highlights that social capital can be deployed by one social group (or network) *against* others and is not, of itself, necessarily something deployed for the common good. His rhetorical style, however, supports the idea that shared values create solidarity between like-minded entrepreneurs. If there is an ideological commitment, it is towards a new type of unitarist outlook amongst a new executive group rather than an advance towards a more pluralist form of social organisation (compare Darwin et al, 2002; Johnson, 2006).

Furthermore, the claim that strong cultures based on ‘shared values’ produce superior organisation performance is questionable. The emancipatory promise held out in the 1980s (Ouchi, 1981; Peters & Waterman, 1982; Kanter, 1985) has not been unequivocally validated by later research (Kotter and Heskett, 1992; Kunda, 1992; Willmott, 1993; Thompson and Findlay, 1999; Ridley-Duff, 2005). Moreover, recent analysis of the social enterprise sector not only fails to reveal widespread commitment to shared values, but considerable heterogeneity and mistrust between different constituencies (Wallace, 2005; Seanor, 2006; Seanor and Meaton, 2006).

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

Timberlake (2005) helpfully distinguishes between human and social capital to draw attention to the individual character of the former and the collective character of the latter. She also pursues a debate about the way gender dynamics impact on access to social capital. Neergaard et al. (2005) go a step further. In considering the gendered behaviours of entrepreneurs, attention is drawn not only to the way relationships exist on several levels, but also how support is offered by close family and friends. Both Timberlake (2005) and Morrison (2006:195) also draw attention to the social motives of entrepreneurs, and engagement in "lifestyle entrepreneurship". Here, the social entrepreneurship label is applied even when tackling social exclusion is not an objective. While these studies re-open the question of friendship and family relationships as an integral support mechanism, none move away from the perspective that social capital has an instrumental character to be deployed by the entrepreneur for business gain.

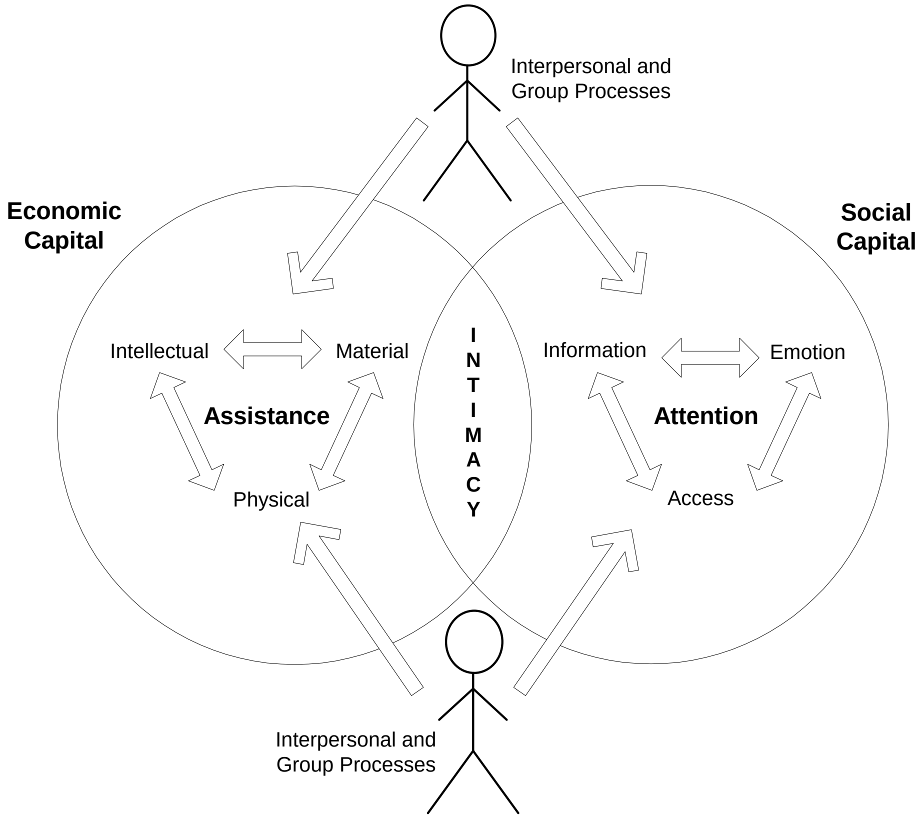
In Ridley-Duff (2005), the process by which social capital is built (and destroyed) is tracked using ethnographic research techniques in two social enterprises. The counter-intuitive finding here was that social capital is developed through discussion of individuals' *private*, not public, lives and is most rapidly destroyed by attacking a person's private, and not their public, life. The distinction between private and public was not so much blurred as intricately woven into a seamless fabric. People talked about work at home, and home at work. Many people were found to engage more at work, and outside the home, because their personal lives were unsatisfying, or in pursuit (or defence) of family/friendship networks that would be strengthened by work commitments and civic activities. Conversely, people were found to withdraw from the workplace and civic engagement when attending to courtship and family-raising needs.

The study reinforces the view of Farrell (1988) and Hearn and Parkin (1987:57) that sexual behaviour is "an ordinary and frequent public process rather than an extraordinary and predominately private process". For these authors, the way we walk, talk, dress and converse, the jobs and tasks we choose, as well as the way we perform them, are sexual strategies for maintaining and deflecting sexual interest. In Ridley-Duff (2005, Chapters 4 - 6), the way this subterranean world of sexual identity underpins workplace organisation, entrepreneurial behaviour and group conflict, is further exposed. Social capital building, therefore, is infused with interpersonal dynamics through which we project, develop and protect our social status and sexual identities (compare Goffman, 1969; Farrell, 1988; Collinson, 2003). Even when we are not seeking sexual contact at work, our *workplace* activities and attitudes are guided by the need to maintain sexual and family relationships outside work, or service the outcome of past sexual relationships (i.e. obligations towards children and former partners).

In the context of a debate about social capital, we are inevitably faced with a view that human behaviour in all spheres of life – both inside and outside the workplace - is a product of (as well as a support system for) our sexual attitudes and choices. Theorising about social capital without linking the process to identity building, relationships and obligations, denies the extent to which organisations are complex centres of community-building where we satisfy a wide range of economic and social needs (Watson, 1994; Collinson, 2003).

This is a significant departure from task-focussed economic models and profit-maximising behaviour of 'rational man' derived from the writings of Smith (1776) and Friedman (1962). In traditional liberalism, the integrity of cognitive processes within each person is emphasised (see Gaus, 2003). Group influences are denied, diminished, or regarded as a corrupting influence rather than a driving force. The marginalisation of social thinking in economic theory finds expression in 'utility value' (Jensen and Meckling, 1976) 'opportunistic behaviour' (Williamson, 1975) and threats to efficiency and profitability (Donaldson, 2005). Even in Etzioni's (1988) model (one of the first to accept normative-affective elements as dominant rather than peripheral in *business* decision-making) the importance of sexual goals and obligations is understated. A social enterprise, when its members tackle social exclusion either inside the organisation (through its governance arrangements) or within the wider community (through its actions and social network), self-consciously engages in *both* economic and social capital development. The way this occurs is summarised in Figure 3.

Figure 3 – Developing Social and Economic Capital



based on Ridley-Duff, 2005:271

The above model draws on the concepts of economic rationality and social rationality (Ridley-Duff, 2005). These should not be confused with rational choice theory (Homans, 1961, Blau, 1964, Coleman, 1973), although there are some overlaps. Economic rationality is here used to describe behaviour that is task-oriented and makes no presumption that tasks are pursued as a matter of self-interest. The behaviour is considered economically rational if an action *deliberately* affects the likelihood of completing a task (regardless of the effect on the parties involved and whether this helps task completion). For example, a deliberate act of industrial sabotage would hinder task completion, but would still have an underlying rationale.

Similarly, social rationality is used to indicate behaviour that is relationship-oriented but makes no assumption that approval is sought. Social rationality accepts that sometimes a change in a relationship is itself the end that is sought. In this case, economic rationality (task-oriented behaviour) can be a means rather than an end. The behaviour is considered rational if it deliberately impacts on the level of intimacy in the relationship regardless of whether all parties perceive the outcome as positive. While there are some echoes to the concepts of economic and social exchange, there are two key differences. Firstly, economic and socially rationality can be applied at the individual, group or organisation level (i.e. it is regarded as both individual and collective in nature).   Secondly, the recursive nature of economic and social rationality implicates them in identity building and underlying social interests.

The 'world view' promoted here is that humans have both physical and emotional survival needs. The former (physical life) is accommodated through economically rational (task-oriented) behaviour in which social rationality is deployed instrumentally. Emotional survival is accommodated through socially rational (relationship-oriented) behaviour in which economic rationality is deployed instrumentally. Both types of behaviour can be a means or an end. The determining factor depends on the interests pursued and the meaning-making processes that bring them about (compare Habermas et al, 1974).

Economic rationality (how we trade physical, intellectual and material assistance) affects the level of economic capital. How we trade access to people, information and emotions ("social rationality") affects the level of social capital. The way that economic and social capital are conceptualised in Figure 3 argues that social capital is primarily a socio-emotional process – and end in itself – which is sometimes deployed politically in pursuit of a task. If so, it is possible to reframe *social* enterprise as a business that operates from (or at least accommodates) socially rational perspectives to serve wider socio-emotional purposes.

This clarifies several things. Firstly, the mutuality believed to underpin social capital is fragile if personal bonds have not been cemented by reciprocal *emotional* exchanges (compare Kay, 2003). Measuring inter-trading activities, therefore, is not necessarily a good indicator of social capital (although it can be one possible outcome). The longevity of trading relationships, and the number of disagreements or conflicts of interest that have been navigated successfully, are better measures (compare Neergaard et al, 2005).

Secondly, the model clarifies the recursive nature of economic and social behaviour. Any behaviour, when reciprocated, represents a thread that joins two people and potentially increases/decreases intimacy. Most relationships develop slowly over time and are carefully constructed subsets of threads, formed or broken as a result of changing dependencies and restricted opportunities for intimacy.

Groups of threads can be viewed as "bonds" that strengthen a relationship. Changing patterns of interaction and thread building/breaking accounts for changes in behaviour, personality, motivation and performance. As Neergaard et al. (2006) point out, the *content of relationships and the multiplicity of levels on which they operates* need to be known in order to understand how social capital affects behaviour. This perspective has explanatory value when considering how behaviours change over time. It is more dynamic than genetic or social inheritance explanations and accounts for rapid changes in behaviour that arise from changed intentions and opportunities at both inter-personal and inter-group levels (compare Goffman, 1969; Blumer, 1969).

Clearly, further consideration of sexuality at work is a line for future enquiry and theory. The argument in this paper limits itself to two key points. Firstly, the *social capital* literature would benefit from paying greater attention the subterranean impact of sexuality in social capital development. Secondly, the *social enterprise* literature would benefit from taking a holistic perspective on the social motives and purposes that underpin entrepreneurship.

This brings us back to the Billis model. The extension originally proposed by Seanor and Meaton (2006) highlights the hybrid forms of organisation that can be viewed as socially enterprising. What remains is further exploration of the impacts on social enterprise practices and to integrate the socio-sexual world into the model. In the next section, therefore, the argument is developed to synthesise these ideas into a final version of the model and use it to build a more robust typology of social enterprise.

Implications

The perspective articulated in this paper is that places of work provide the means by which communities of people sustain themselves and maintain their viability (compare Watson, 1994; Berry, Broadbent and Otley, 1995; Cheney, 1999). In contrast to the rationalist view (Friedman, 1962) of business organisation as the means by which a visionary entrepreneur completes a task or mission, or enables the consumer to purchase a good or service – the outcome is much more prosaic. People organise for survival so long as their organisation meets their survival aspirations (and those of their families and dependants). From this perspective, *social* enterprises increase their legitimacy when they self-consciously tackle social exclusion and bring people back into (or create) a viable community**.** While it may appear self-evident, it should not be ignored that community survival requires that the community reproduce itself.

The personal world identified by Billis (including socio-sexual aspirations) operates as an integral part of workplace practices in all three 'worlds'. Seanor and Meaton (2006) demonstrate that social enterprises come into being, are expanded and scaled down, as a direct response to the aspirations and reactions of the people who run them. When a social enterprise ceases to serve the multiple purposes of its members, the motivation to continue erodes (and sometimes evaporates completely) unless new people can be brought in to reinvigorate the organisation[10].

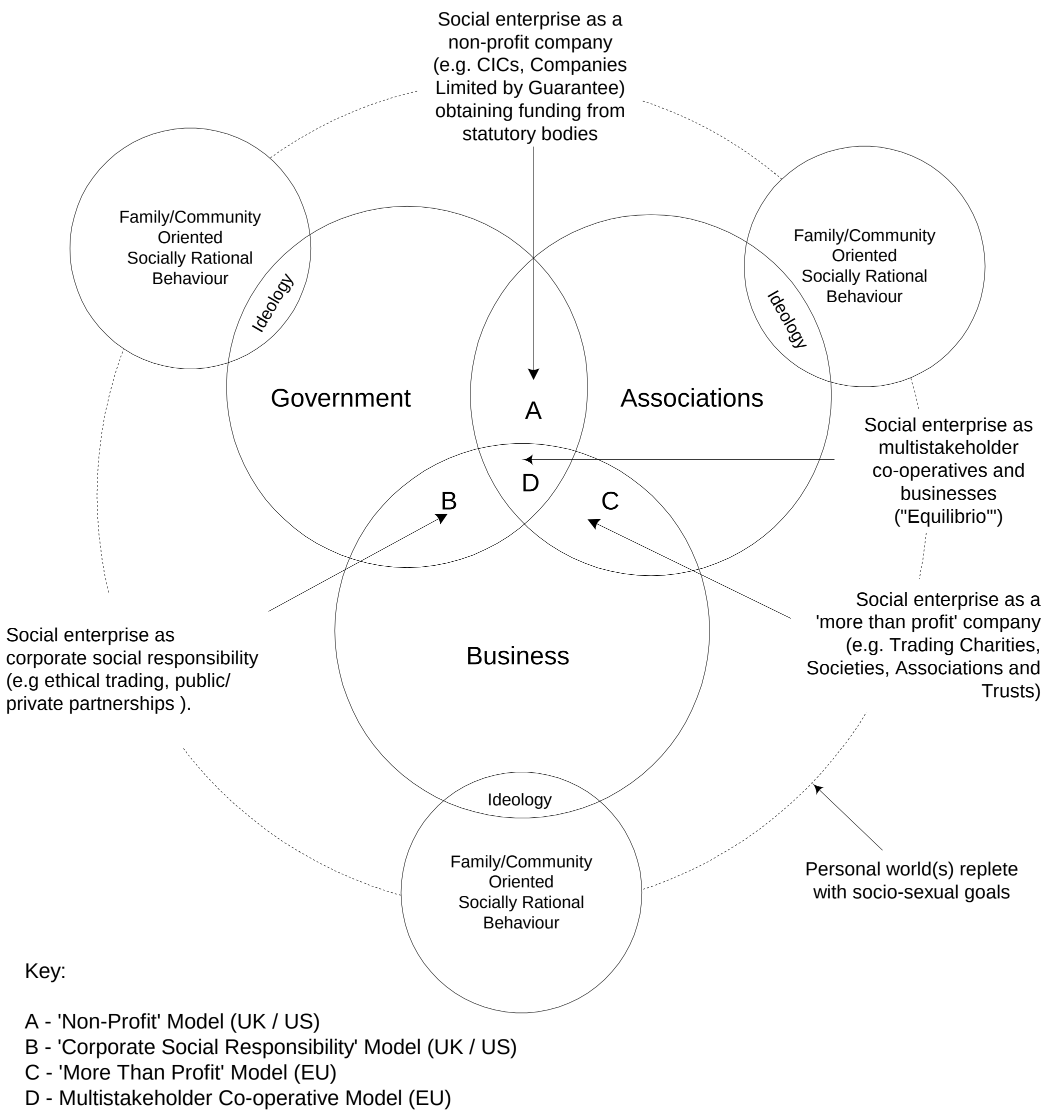
We need to consider this in light of the arguments set out earlier. In that discussion, attention was drawn to contradictions in the way social enterprise is defined. Firstly, there were arguments for a 'non-profit' enterprise orientation; secondly for a 'more-than-profit' outcome; lastly, Merck's river blindness drug project illustrated how corporate social responsibility can appear identical in form and substance to the other two. Below (see

Figure 4) a model is outlined showing how these different views of social enterprise can be synthesised while respecting different ideological commitments.

Moreover, multi-stakeholder co-operative and private business forms that have developed over recent decades (see Collins, 2001; Allen, 2005; Brown, 2006) sit at the centre of the model. They are sufficiently distinctive to be recognised as different from government bodies, voluntary associations and private business. They are also sufficiently distinctive to be recognised as different from trading charities, non-profit companies, and corporate social responsibilities projects. This distinctiveness comes from a governance philosophy rooted in balancing the disciplines of social responsibility, participative governance and market success. There are now a sufficient number of examples to argue that *internalisation* of Billis's three worlds into organisation governance offers a robust model for sustainability (Turnbull, 1994, 1995; Tam, 1999; Vinten, 2001; Wieland, 2005)..

These ideas are integrated into the model in Figure 4. Type A social enterprises, at the overlap of the governmental and voluntary association 'worlds' stress a non-profit (or even anti-profit) ideology. Typically this is expressed through constitutions that attempt to provide 'asset-locks' to prevent the flight of capital from the organisation (as happens in a CIC or Company Limited by Guarantee) and they continue to prioritise grant and statutory funding regimes. Type B social enterprises, however, stress investment in ethical and social trading in partnership with (or contracted by) government. Here, investment is directed towards a specific social outcome (e.g. healthcare and housing) when initiated by government, or into ethical trading when initiated by private businesses pursuing regulated standards on environmental and social impact (e.g. corporate social responsibility). Type C social enterprises are more geared to trading profitably to channel money into a social activity, deriving most income from market trading and fundraising from non-government sources. Here the focus is on business activity of a more conventional character, but with profits reinvested in (or distributed to) those who are socially excluded. Lastly, type D social enterprises operate for-profit with explicit social objectives using governance practices that emphasises voluntary action and association. Mutual models (e.g. building societies), multi-stakeholder co-operatives (e.g. Mondragon, cited in Turnbull, 1994) and private businesses with multi-stakeholder governance models (e.g. Nucor, cited Collins, 2001) all fall into this category.

Figure 4 – Integrating Social Rationality into the Billis Model



Instead of viewing ‘social enterprise’ as a subset of the social economy, it can be viewed as a range of business practices that proactively build economic and social capital across the affected stakeholder groups. As such, it regains an ideological character (and basis) that moves the definition away from ‘profit’ based definitions towards an understanding of social enterprise as the development of alternative business structures (and practices) that support socially rational objectives.

We can reasonably expect a socially rational business to develop processes that build and distribute social and economic capital. It may also plan its operations so that its surpluses are reinvested and/or distributed on a continual basis. Its constitutional arrangements (or informal practices) will encourage reciprocal relationships that allow stakeholder group members to monitor performance measures *relevant to their own social interests*. If it is doing this, Key Performance Indicators (KPIs) will reflect this. Ideally, they also accommodate and resolve disagreement between stakeholder groups through debate.

Stakeholder (pluralist democratic) control is less developed in UK law, particularly when compared to other countries that have statutory provisions for multi-stakeholder governance and/or strong co-operative sectors (Oakeshott, 1990; Holmstrom, 1993; Borzaga and Defourny, 2001). European examples integrating stakeholder perspectives into corporate governance (Turnbull, 1995; Vinten, 2001; Wieland, 2005) have not yet shifted thinking in the UK away from the primacy of investor control and “enlightened shareholder value” (Friedman, 1962; Sternberg, 1998; DTI, 2005). In light of this, Figure 4 posits that social entrepreneurs in Anglo-American cultures show a preference for Type A/B social enterprises that prioritise either private or social entrepreneurial business values (see Dart, 2004).
In continental Europe, however, it is argued that ‘co-operative entrepreneurship’ (Morrison, 1991) results in a preference for Type C/D enterprises that stress surplus-sharing and/or democratic control (Borzaga and Defourny, 2001).

However, the argument for risk-sharing/surplus-sharing models continues to grow in Anglo-American cultures even if they are perceived as outside the social enterprise mainstream. Alternative arguments continue to be grounded in empirical research that organisation structures promoting ‘equilibrio’ (balance) between individual and collective interests across stakeholder groups are epistemologically (and morally) robust while also able to improve the double-bottom line (see Rothschild and De Whitt, 1986; Ellerman, 1990; Oakeshott, 1990; Turnbull, 1994; Major and Body, 2000; Collins, 2001; Allen, 2005; Brown, 2006; Johnson, 2006; Jensen, 2006; Bull, 2006).

Conclusions

This brings us back to the original question. Different groups pursue different social enterprise policy objectives. At present, both governmental and entrepreneurial agendas have focussed on double or triple bottom line measures. The emphasis remains on increased trading activity in a market as a means of reducing dependence or channelling more revenues into social policy objectives. In the course of the paper, the argument has been developed for ways of thinking that consider the nature and quality of the relationships that are developed by a business as well as its economic viability

Firstly, this was illustrated by outlining the range of opinion on social enterprise to highlight contradictions between 'not-for-profit' and 'more-than-profit' definitions. Both arguments had such problems that a new model was offered to unravel why the social enterprise sector offers up multiple ideologies and practices. Pluralist (multi-stakeholder) perspectives assume that managers are just one 'pack' amongst many, and that all stakeholder groups experience their own perceptual limitations due to bounded rationality (Simons and Hawkins, 1949). The objective in designing a governance system, therefore, changes. Rather than focussing on developing the skills of a unitary board, 'best practice' is re-oriented towards the integration and synthesis of devolved power centres through carefully crafted governance systems to allow conflicts to surface and be resolved through co-operative debate between the competing parties (Turnbull, 1994, 1995; Tam, 1999; Bull, 2006).

In considering the motivations for co-operation, and the process of synthesis, this was extended to include debates about social capital, particularly the human desire for friendship, sexual relationships and family life. Business schools may benefit from de-emphasising a task-orientated (mission-based) outlook of management to consider more holistic explanations of enterprise activity and social identity development. Profitability and a task-orientation can be seen as a means to an end and not always an end in themselves (compare Collins and Porras, 2000). The primary ends can be increases in an organisation's capacity to trade physical, intellectual and material assistance (economic capital) *in order to facilitate the development of emotional commitments* (social capital). Ironically, such an attitude may (particularly over the longer-term) come into conflict with contemporary employment law and social norms that are hostile to friendship and sexual desire as criteria for the recruitment and selection of organisation members.

Nevertheless, a broadly defined twin goal of economic and social capital building can be viewed as a distinguishing attitude that differentiates the members (and policies) of some public, voluntary and private organisations from others and moves them towards a 'social enterprise' orientation. These attitudes contribute to sustainable development by promoting the satisfaction of both physical and emotional survival needs. This may be combined with an antagonism towards those who seek the hegemony of the individual over the group (or vice versa) in favour of a negotiated balance that recognises both as legitimate.

In social enterprise policy terms, the twin goal translates into particular ways of measuring success. Social capital can be reported in terms of participation levels in governance, the development of intimate or sexual relationships as well as trading activities. These become manifest through changes in the membership of the organisation, the accommodation of child-raising and caring responsibilities, increased tolerance toward sexual behaviours as well as the involvement of workers, customers and suppliers in decision-making. Here, a stronger emphasis on the durability and level of activity in relationships (not just numbers) is paramount.

In measuring economic performance, the amount of capital *distributed* and the diversity of the individuals and groups benefiting is a stronger measure of 'success' than the precise level of profitability. While there is a clear link to profitability, it distinguishes between those that are focussed on capital accumulation at the expense of distribution (in which accumulation levels are high but distribution levels low), and those that accumulate *for the purpose of* distribution (in which both can be expected to remain high). It might even be that capital accumulation becomes a measure of enterprise *failure* (and a basis for legal intervention) if the ratio of accumulation to capital distribution becomes too high.

Lastly, an extension of the Billis model was proposed to accommodate and legitimise plurality. Multi-stakeholder businesses – whether conceptualised as co-operative or private - have a unique position. They seek (or are able) to sustain a balance of business, governance and socio-emotional objectives. As such, it can be put forward as an ideal form of social enterprise: a business that accommodates social and economic rationality into its thinking and practices with the purpose of *distributing* social and economic capital across its stakeholder groups (rather than accumulating it from them).

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[8] The suggestion that social enterprise is located at the cross-over points was made verbally during presentation of the paper, rather than in the paper itself. These verbal suggestions were then followed up in conversation. Due credit should be given to Pam Seanor for having the original insight.

[9] The relevance here is that Mondragon Cooperatives – in early 2003 – consisted of nearly 200 businesses affiliated into a corporation. Collectively, they employed 67,000 worldwide in March 2003.

[10] A difference with private enterprise is worth noting here. If the motivation to run a private enterprise evaporates, there is usually a viable exit route via selling of the business as a going concern. In many social enterprises, the constitution does not permit this exit route, nor are the social entrepreneurs permitted to benefit personally from the liquidation of business assets. As a result, the manner in which founders and social philanthropists behave when a social enterprise contracts (or fails in a market) may be completely different to the behaviour of a private sector entrepreneur planning their exit route.

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