

## **The social enterprise mark: a critical review of its conceptual dimensions**

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# **The Social Enterprise Mark: a critical review of its conceptual dimensions**

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## Abstract

**Purpose** – The *Social Enterprise Mark* is claimed to be the first award that guarantees to the public that an organisation is a social enterprise. To date, there has been limited discussion of its conceptual dimensions and legitimacy. This paper makes a contribution to knowledge by critically discussing its conceptual dimensions and exploring its impact.

**Prior Work** - Attempts by the academic community to define social enterprise have run into linguistic and practical problems. Definitions tend to privilege one group of social enterprises over another. The arrival of the Social Enterprise Mark in the United Kingdom takes place amidst these conceptual and practical difficulties.

**Approach** – This exploratory study uses feedback from participants on open access co-operative and social enterprise workshops. They were asked to study published SEM criteria then rank ideal types of social enterprise activity (a worker co-operative, a trading charity and a self-employed consultant) in order of likelihood of obtaining the SEM.

**Results** - Workshop participants from different backgrounds drew the conclusion that SEM criteria favour trading charities and Community Interest Companies with social and environmental objects, not enterprises that deliver social benefits through transforming labour relations and wealth sharing. Participants reacted to their own deliberations differently depending on their sectoral affiliation.

**Implications** - The SEM criteria contribute to social constructions of social enterprise that favour 'social purpose' enterprises that explicitly target a beneficiary group or community, and not 'socialised' enterprises that transform labour relations, promote participative democracy, and design new wealth sharing arrangements.

**Value** - The paper suggests there has been a shift away from the co-operative values advanced by the founders of the UK social enterprise movement. To secure legitimacy, the paper proposes changes to the SEM to re-establish the conceptual alignment of social enterprise and the social economy.

**Keywords:** Co-operatives, Social Enterprise, Mutuality, Philanthropy, Social Economy

## Introduction

Social enterprise has emerged as a new way to describe organisational forms and entrepreneurial approaches that prioritise social innovation and responsibility to society. As the concept has developed, repeated attempts to define this new sector have been plagued by linguistic and practical problems. Any fixed definition tends to privilege one group of social enterprises over another (Lyon and Sepulveda, 2009; Dart, Clow and Armstrong, 2010), contributing to a dissensus about the contribution of co-operatives, employee-owned enterprises and public sector spin outs to social enterprise development (Ridley-Duff and Bull, 2011).

The arrival of the *Social Enterprise Mark* (SEM) in the United Kingdom takes place amidst these conceptual and practical difficulties. The purpose of the SEM, according to the CEO of the company promoting it<sup>1</sup>, is to defend the social enterprise ‘brand’ from government-funded bodies and voluntary sector organisations that are neither autonomous from the state, nor pursuing their social objects through trading (Finlay, 2010, 2011). Another argument for the SEM is to prevent private corporations claiming they are social enterprises on the basis of their PR and community-support activities. It is, therefore, timely to engage in an analysis of its conceptual dimensions and consider the implications should its legitimacy grow (Allan, 2005).

The motivation for writing this paper comes from a series of private conversations in the social enterprise research community, and workshops at three co-operative and social enterprise courses<sup>2</sup>, on the impact of applying the SEM criteria to different types of social economy trading. As applicants have to provide evidence that they meet six criteria before they achieve recognition, the SEM represents an attempt to create an industry standard for social enterprise. To date, the attitude in the academic community to a normalising framework has been one of ambivalence on the basis that it would decrease innovation and devalue the contribution of social enterprises that do not fit neatly into standardised criteria (see Spear, Cornforth and Aiken, 2007; Curtis, 2008).

Kinchloe and McClaren (1994) emphasise how the use of critical theory can rebalance accounts of a phenomenon so that hidden discourses can be brought to the surface and dominant discourses can be re-evaluated. The authors will show how SEM criteria produce a particular social construction of social enterprise that marginalizes assumptions important to its early development. Foregrounding these assumptions through use of a learning activity allows discussion of the ‘distorted communication’ that arises when powerful actors seek to establish hegemonic control over a field of practice (Habermas, 1984). The theoretical perspective of the paper, therefore, is similar to Curtis (2008) in that the application of critical theory is regarded as

a useful strategy to prevent executive capture of the definition of social enterprise and promote critical thinking in its conceptualisation.

This paper is divided into five sections. In the first, the authors draw attention to evidence on the origins of social enterprise in the UK to distinguish between the ‘socialisation of enterprise’ (mutuality) and the ‘pursuit of social purposes through enterprise’ (philanthropy). Having made the theoretical connection to previous work defining the social economy (Ellerman, 1984, 1990; Hirst, 1994; Defourny and Delvetere, 1999; 2003; Arthur et al., 2003; Smith and Teasdale, 2011), the authors explore recent shifts in the conceptualisation of social enterprise using the SEM as an example. These shifts, it will be argued, are linked to the involvement of public, voluntary and charitable sector agencies in the consultations for a Community Interest Company (CIC) and on-going reforms of public services.

The second section sets out the methodology used to explore the influence of SEM criteria on the social construction of social enterprise. The third section presents the findings from three groups of part-time students engaged in social enterprise development. Based on these, we argue that SEM criteria positively influence perceptions of trading charities and not-for-profit organisations, but negatively influence perceptions of worker co-operatives and employee-owned businesses. In the discussion and conclusions, we explore this apparent contradiction and review how different groups reacted to their own findings.

## **Rediscovering Socialised Enterprises**

It is helpful to distinguish between the member orientation of the co-operative and employee-ownership movements and the beneficiary orientation of charities, non-governmental and non-profit organisations (Borzaga and Defourny, 2001; Kerlin, 2010). The former emphasise: open membership schemes; changes in the role of share capital; one-person, one-vote systems for the election of governing body members, and; trading models that democratise control of capital (Beaubien, 2011). The latter, on the other hand, emphasise: legal models that do not issue share capital; non-profit and charitable company governance that limit employee and beneficiary involvement, and; philanthropic sources of capital (Ridley-Duff and Bull, 2011).

While some academics frame social enterprise in terms of non-profit characteristics (see Haugh, 2005; Domenico et al., 2009; London and Morfopoulos, 2010), early theorisations of ‘social’ in both social entrepreneurship and social enterprise owe a debt to Ellerman<sup>3</sup> (1984, 1990) who has contributed for over 30 years to academic and practitioner debates on workplace democracy and international development. He argued that entrepreneurship had been ‘socialised’ in the Mondragon network of co-operatives, then put forward a theory of social institutions based on the acquisition of citizen rights to capital and participation in governance. Firstly, he argued

that social institutions adopt arrangements in which the people governed by them have the capacity to influence both the governance system and the selection of governing body members. This perspective on a 'social economy' stems from an argument that worker co-operatives and employee-owned firms are 'social' rather than 'private' enterprises. As Arthur et al, (2003: 181) claim:

*For an enterprise to be identified as forming part of the social economy, it must be locally based and owned with a significant part of its value owned by its own employees.*

Ellerman, however, went further by arguing that master-slave norms of employment would need to be replaced by forms of voluntary association and partnership working. This perspective was emphasized in early arguments for 'associative democracy' in public service provision and transformation of the private sector (Hirst, 1994). This, in turn, influenced early social enterprise policy development and definitional debates in the UK and EU that accepted Defourny and Delveterre's (1999) argument that the social economy comprises autonomous associations of people who use democratic approaches to ownership, governance and wealth sharing (Westall, 2001; Borzaga and Defourny, 2001; Ridley-Duff, 2008).

Turnbull (1994, 1995, 2002), in supporting Ellerman's perspective, considers the nature of other stakeholder relationships. He argues that suppliers can deliberately (and legally) diversify their customer base. Customers can (legally) shop around. Producers, however, have limited scope to do the same if they agree to an employment contract. Unlike a supplier who has legal support to organise their business so they can sell to anyone who wants to buy from them (and to purchase from any supplier whose goods they can afford to buy), employment contracts typically prevent employees from working for anyone else without first seeking their employer's permission. Employment law also permits the disciplining or sacking of employees who are not 'loyal' to their employer (Erdal, 2011). The result is a governance system that impacts on producers in fundamentally different ways to other stakeholders (Turnbull, 2002).

The lack of influence that members of the governing body have over the daily lives of customers, suppliers and financiers means that these groups are not governed by the enterprise in a meaningful sense. Their formal inclusion in governance, while helpful to the balancing of multi-stakeholder interests, is not sufficient to claim that an enterprise is 'social' (Ridley-Duff, 2007). Nevertheless, Arthur et al. (2003) argues that mutual principles in ownership, control and financing invite all primary stakeholders (producers, customers, employees and service users) to participate in the ownership and control of the enterprises on which they depend:

*...it is most easily explained by reference to credit unions, which are required to have a 'common bond' in order to achieve legal status. This common bond relates to the*

*existence of a common identity where the nature of social relationships stems from reciprocal interdependence typical of traditional community relationships.*

Arthur et al., 2003, p. 183.

Arthur et al. (2003), therefore, extend the argument made by Ellerman to ‘users’ of organisations who are heavily dependent on the goods and services provided by them, by arguing that they also have a common bond. As Monzon and Chaves (2008) describe, the EU now accepts national accounting frameworks that give recognition to both market and non-market production in the social economy. Where co-operatives, charities and voluntary organisations provide goods and services that no-one else will supply, user and worker involvement in governing bodies can be seen as a pre-requisite for recognition as part of the social economy (Smith and Teasdale, 2011).

The ‘reciprocal interdependence’ and mutual care implicit in mutuality can be distinguished from the charity implicit in philanthropy. Mutuality implies a bi-directional or network relationship in which parties to an enterprise help, support and supervise each other (Turnbull, 2002; Parnell, 2011). This is qualitatively different from the uni-directional relationship between a philanthropist (or trustees) and their beneficiaries. While charity can be present in mutual relations, it is framed in law and practice as a financial and managerial one-way relationship in which one party (trustee) gives/directs while the other (beneficiary) receives/obeys (Coule, 2008; Ridley-Duff and Bull, 2011). This asymmetry in obligations (i.e. the lack of ‘reciprocal interdependence’) distinguishes mutuality from charity.

For the purposes of this paper, the authors recognise a distinction between a *socialisation* perspective on social enterprise based on advocacy of mutualism in worker co-operatives, employee-ownership and other societies and associations in the social economy (see Westall, 2001, Ridley-Duff, 2008; Teasdale, 2011) and a *social purpose* perspective that pervades social entrepreneurship and non-profit management (see Dees, 1998; Hudson, 2002; Martin and Osberg, 2007; Scofield, 2011). The social purpose perspective emphasises the philanthropic impulse of the social entrepreneur, and the social goals of their enterprise (see Chell, 2007; Galera and Borzaga, 2009). In the following discussion, we elaborate the concepts of ‘socialisation’ and ‘social purpose’ using both practitioner and academic definitions of social enterprise.

### **Early Development of Social Enterprise in the UK and EU**

To illustrate the gradual diversification of perspectives on social enterprise, the authors now explore the way early practitioners attempted to balance the philanthropic impulse of US/UK ideas on social entrepreneurship with the more commercial and mutual orientation of the EU’s social economy (Kerlin, 2006, 2010). The earliest known formulation of social enterprise ideas

in the UK came from a 1970s initiative to develop a social audit framework for worker co-operatives at Beechwood College (Leeds, West Yorkshire). In the first social audit toolkit, it is claimed that:

*“An enterprise that is owned by those who work in it and/or reside in a given locality, is governed by registered social as well as commercial aims and objectives and run co-operatively may be termed a social enterprise. Traditionally capital hires labour with overriding emphasis on making a profit over and above any benefit either to the business itself or the workforce. Contrasted to this the social enterprise is where labour hires capital with the emphasis on social, environmental and financial benefit”*

Spreckley (1981:3)

Apparent in this definition are five concepts: worker and/or community ownership of the enterprise; social and commercial aims; co-operative management; social, environmental and financial benefits; and the subordination of capital to the interests of labour. These ideas were spread through community enterprise movements in Scotland and the North England (Pearce, 2003). The language stabilised around 1994 at a conference of co-operative and community business activists (Southcombe, 2009; Spreckley, 2011) where the following definition was adopted by the Social Enterprise Partnership (SEP)<sup>4</sup>:

- *Being bound to a set of beneficiaries or community*
- *Having a democratic structure*
- *Having common and shared values*
- *Being open and accountable*
- *Concerned with empowering members*
- *Using and developing volunteers*
- *Offering workers ownership*
- *Creating social wealth*
- *Having an emphasis on co-operation and networking*

(SEE, 2011 [online])

These practitioner-based definitions are strikingly similar to early empirical research by the EMES network (Borzaga and Defourny, 2001). Between 1996-1999, 13 European research centres concluded that social enterprises can be described using the following criteria:

- *Social Dimensions*
  - An explicit aim to benefit the community
  - An initiative launched by a group of citizens
  - A decision-making power not based on capital ownership
  - A participatory nature, which involves the persons affected by the activity
  - Limited profit distribution



- *Economic Dimensions*
  - A continuous activity producing goods and/or selling services
  - A high degree of autonomy
  - A significant level of economic risk
  - A minimum amount of paid work (i.e. at least some labour is compensated)

Defourny (2001)

These attempts at definition help to flesh out aspects that contribute towards socialisation and social purposes. Table 1 shows the authors attempt to make sense of definitions in terms of: a) socialisation of enterprise through granting public/social rights to primary stakeholders so they become owners and controllers of (financial, social and human) capital, and; b) public/community benefits through activities that have a social purpose. In contrast to the socialised co-operative model (see Table 1), the authors found that early definitions of social enterprise attempt to balance ‘socialisation’ and ‘social purpose’ without abandoning the link to the social economy (Monzon and Chaves, 2008; Smith and Teasdale, 2011).

**Table 1 – Theorising ‘Social’ in Early Theories of Social Enterprise**

Characteristic	Socialisation	Social Purpose
<i>Co-operative Enterprise (based on the International Co-operative Alliance definition in force during the 1970s)</i>		
• Open, voluntary membership	X	
• Democratic governance	X	
• Limited return on equity		X
• Surplus belongs to members	X	
• Education of members and public in co-operative principles	X	X
• Cooperation between co-operatives	X	
<i>Social Audit Toolkit (Spreckley, 1981)</i>		
• Worker and/or community ownership	X	
• Social and commercial aims		X
• Co-operative management	X	
• Social, environmental and financial benefit		X
• The hiring of capital by labour	X	
<i>Social Enterprise Partnership (1994)</i>		
• Being bound to a set of beneficiaries or community	X	X
• Having a democratic structure	X	
• Having common and shared values	X	X
• Being open and accountable	X	
• Concerned with empowering members	X	X
• Using and developing volunteers	X	X
• Offering workers ownership	X	
• Creating social wealth		X
• Emphasis on co-operation and networking	X	

Characteristic	Socialisation	Social Purpose
<i>EMES Research (1996-99)</i>		
<ul style="list-style-type: none"> <li>• An explicit aim to benefit the community</li> <li>• An initiative launched by a group of citizens</li> <li>• A decision-making power not based on capital ownership</li> <li>• A participatory nature, which involves the persons affected by the activity</li> <li>• Limited profit distribution</li> <li>• Producing goods and/or selling services</li> <li>• A high degree of autonomy</li> <li>• A significant level of economic risk</li> <li>• Minimum amount of paid work</li> </ul>	 X X X  X X X X	 X   X X  X X

The conceptual balance between socialisation and social purpose was maintained when Social Enterprise London (SEL) formed in 1998. SEL’s Memorandum and Articles provide further clues to the context, motives and values amongst founders of early social enterprise development agencies. Figure 1 shows the company objects (Memorandum of Association, January 1998).

**Figure 1 – Memorandum of Association, Social Enterprise London**

<p><b>Memorandum of Association – Social Enterprise London – 26<sup>th</sup> January 1998.</b></p> <p>C. Objects</p> <p>(1) The objects of the company are:</p> <ul style="list-style-type: none"> <li>(i) To promote the principles and values of the social enterprise economy in Greater London and its environs.</li> <li>(ii) To promote co-operative solutions for economic and community development.</li> <li>(iii) To promote social enterprises, in particular co-operatives and common ownerships, social firms, and other organisations and businesses which put into practice the principles of participatory democracy, equal opportunities and social justice.</li> <li>(iv) To promote, develop and support local and regional economic resources and opportunities.</li> <li>(v) To address social exclusion through economic regeneration.</li> <li>(vi) To create a regional framework to support and resource development of the social enterprise sector.</li> </ul> <p style="text-align: right;">Source: Companies House</p>
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In Figure 1, the influence of the co-operative movement and New Labour is evident, and terminology remains linked to the goal of socialisation (e.g. participatory democracy, co-operatives, co-operative solutions). This reflects the orientation of the co-operative development agencies and worker co-operatives that collaborated in its creation (see Appendix A). The inclusion of objects regarding ‘equal opportunity’ and ‘social justice’ are characteristically Blairite and ‘third way’ (Haugh and Kitson, 2007).

From 1995 onwards, US perspectives on social entrepreneurship developed by the ASHOKA foundation (i.e. the creation of a large network of visionary social entrepreneurs), started to surface in European debates (see Leadbeater, 1997; Ridley-Duff and Bull, 2011). Social

entrepreneurship networks and regional support agencies started to form in the late 1990s, and accelerated after the incorporation of the Social Enterprise Coalition in 2002. In the context of the SEM, the incorporation of RISE in March 2003, a social enterprise support agency for the South West of England, is particularly relevant. Interestingly, and perhaps significantly, the Memorandum and Articles of both the Social Enterprise Coalition and RISE contain simpler statements of support for social enterprise with no mention of co-operative values or participatory democracy. The Social Enterprise Coalition (registered in April 2002) lists only four objects:

1. To promote the principles and values of the social enterprise economy
2. To promote social enterprise solutions
3. To promote social enterprises
4. To promote regional access to resources for social enterprises throughout the UK.

When RISE was registered in March 2003, there was just one:

1. To support development of the social enterprise sector in the South West of England.

The connection of both SEC and RISE to the co-operative movement is maintained through model rules created by ICOM (Industrial Common Ownership Movement), registered by Julie Woodfine at the Co-operative Union<sup>5</sup>. However, it is noteworthy that this move to vagueness regarding objects, values and principles coincides with consultations on a Community Interest Company (CIC) throughout 2003. As a result, the government decided to jettison stakeholder democracy as a statutory requirement, and instead introduce a statutory not-for-profit clause to prevent the transfer of residual assets from a CIC to private individuals upon dissolution (DTI, 2003; Ridley-Duff and Bull, 2011).

### **The Social Enterprise Mark**

RISE's thinking developed during a pilot study in which it consulted a wide range of organisations (including representatives from the co-operative movement) to establish criteria that would communicate the value of social enterprise to consumers and the wider community (Finlay, 2011). The SEM was launched nationally in 2010 with an attractive discount for early adopters (£99). From 2012, the annual fees increased to between £350 and £4,500 (depending on the annual income of the social enterprise). The Social Enterprise Mark Company (2011) listed approximately 450 SEM holders by September 2011.

In the pilot programme (RISE, 2009, Issue 3), the statement of criteria cites two key bases of evidence:

*In order to be eligible for the Social Enterprise Mark, applicants must demonstrate that they are a social enterprise whose key driver is trading and that they operate for wider social / environmental benefit. Applicants will need to provide evidence in two key areas:*

1. *Show through their constitution that a sufficient proportion of the profit made by the business is spent on socially beneficial purposes, and that, on dissolution of the business, all residual assets are distributed for socially beneficial purposes.*
2. *Show by their activities and their accounts that trading is a key driver and that profit generated is used for social or community benefit – whether by the social enterprise itself or by another agency.*

RISE, 2009: 1

Table 2 contains a summary of the six main criteria. In these, there has been a discernable change of emphasis in the conceptualisation of social enterprise. While some care has been taken not to exclude socialised enterprises unnecessarily – through the preservation of arrangements that allow the distribution of profits to members - the characteristics of socialised enterprises are no longer explicitly valued or evidenced. A number of characteristics from earlier definitions are absent: ownership by the community or workforce is not a requirement; co-operative management and/or networking is no longer expected; there is no requirement to assess or report on workforce and stakeholder democracy. Characteristics have also been added. There is now an explicit requirement for a not-for-profit dissolution clause, and an expectation that trading provides over 50% income.

**Table 2 – The Conceptual Dimensions of the Social Enterprise Mark**

Based on 2008 Pilot Project	Based on Voice 2010 Launch
<ul style="list-style-type: none"> <li>• Be an eligible legal form (not a sole trader, not a partnership or traditional profit-distributing company, probably not a co-owned [employee-owned] company or limited liability partnership).</li> <li>• Adhere to shareholder restrictions (only have shareholders that “constitute a community benefit” or apply the dividend cap set out in the Community Interest Company legislation).</li> <li>• Have own constitution and governing body</li> <li>• Profit predominately used / distributed for social / environmental purposes (including residual assets).</li> <li>• Have 50% or more income from trading, and have traded for at least one year.</li> <li>• Evidence that social / environmental objects are being achieved.</li> </ul>	<ul style="list-style-type: none"> <li>• Social and environmental objects can be evidenced in constitutional documents.</li> <li>• Must be an “independent business”, legally constituted, with autonomous governance.</li> <li>• Must earn 50% or more from trading, evidenced using “standard accounting practices”</li> <li>• Devote 50% or more of the organisation’s profits to “social/environmental purposes”</li> <li>• Ensure that <b>all</b> residual assets are distributed for “social/environmental purposes” (if dissolved).</li> <li>• Can demonstrate that social/environmental objects are being achieved.</li> </ul>

Even though guidance states that the SEM is not limited to specific legal forms, the requirement of a not-for-profit dissolution clause narrows the eligibility criteria. In the UK, only

Community Interest Companies, Community Benefit Societies, Credit Unions and Charities are required by statute to have not-for-profit dissolution clauses in their Articles of Association. Other forms of social enterprise, in particular (worker) co-operatives, employee-owned businesses and wealth sharing social enterprises based on a limited liability partnership, public limited company or company limited by shares, will find it harder to achieve recognition (see Chapter 7, Ridley-Duff and Bull, 2011).

With these issues in mind, the authors framed the following research question to guide the writing of this paper:

RQ1. *Do the criteria of the Social Enterprise Mark provide an effective framework for evaluating an enterprise's claim to be social?*

## **Methodology**

Research in the tradition of critical theory aims to have a transformative effect, rather than meet positivistic standards of generalisability, validity and reliability (Alvesson and Deetz, 2000). It proceeds from the assumption that participants can collectively deconstruct and evaluate dominant discourses by exploring the power relations and interests that have influenced their development. In this study, therefore, the evaluation criteria of Kinchloe and McClaren (1994) are adopted and the authors make explicit how they are being applied:

- *Reflexive interrogation*: make research participants (including the researchers) more aware of limitations in knowledge about the SEM;
- *Sensitisation*: enable research participants to understand the potential hegemonic effects of the SEM and how this will influence notions of 'true' social enterprise;
- *Democratisation*: enable those affected by the SEM to explore why the definition has been constructed in a particular way;
- *Accommodation*: introduce alternative perspectives so participants can evaluate the legitimacy of the SEM and its constituent assumptions;
- *Evaluation*: review how participants' perspectives on the SEM have been changed by the research.

These research commitments were operationalised by designing a learning activity that invited participants to study the criteria in Table 2, together with the guidance published by RISE / The SEM Company, and apply them to different types of social economy trading. The activity was

undertaken by three groups of students who were learning about co-operative and social enterprises (total sample 42 participants).

The first group of participants comprised 16 people on a 2-day taught course. The majority of this group were co-operative and social enterprise practitioners working to support or establish co-operatives and social enterprises. It included people from the Co-operative Group, Co-operative Party, Co-operatives Yorkshire & Humber and various Community Interest Companies as well as academics establishing social enterprise courses, and students undertaking dissertations in social entrepreneurship. The second group (also comprising 16 participants) was drawn primarily from the public sector. It included 14 people employed by a local authority controlled housing association supporting the creation of tenant-led social enterprises. The third group comprised 10 senior managers / trustees in registered charities. Participants in the second and third groups were less familiar than the first group with the history and development of social enterprise.

Whilst opportunity samples run the risk of producing only a subset of perspectives, the diverse composition of the groups mitigated this danger. The selected groups enable the researchers to explore how the SEM criteria influence different constituencies. The reaction of participants, if consistent across the groups, provides an authentic indication of the way the SEM influences the social construction of social enterprise.

Participants were asked to study the SEM criteria then consider the following questions:

1. “Would a democratically owned and controlled enterprise in which the workforce decides for itself how to distribute its own surpluses (on a one-person, one vote basis) be eligible for the *Social Enterprise Mark*?”  
(Case 1: a *socialised* enterprise)
2. “Would a trading charity with a range of social and environmental projects, but in which members of the workforce are not permitted to participate in governance or strategic decision-making, be eligible for the *Social Enterprise Mark*?”  
(Case 2: a *social purpose* enterprise)
3. “Would a sole trader making their living entirely from providing advice and guidance to social enterprises at below market rates be eligible for recognition?”  
(Case 3: commercial activity in support of social enterprises).

These examples represent extremes where the former emphasises mutual principles and producer control without philanthropy, and the latter emphasises philanthropy and social outcomes without mutuality. Participants ranked the examples in order of their perceived

eligibility for the SEM. The findings are not treated as ‘objective truth’ but as ‘socially constructed truths’ that emerge when the SEM criteria are studied and applied to practice in conditions that seek to re-create an ‘ideal speech’ situation (Johnson and Duberley, 2000).

In the first two groups, responses were written on a white board for group discussion. The results puzzled the authors so the learning activity was modified to interpret the impact of the researchers. Group 3 participants were divided into pairs and asked to write down their rankings on paper before reporting them to the wider group. This strategy established whether the results from the first two groups were plausible and confirmable without researcher input (Lincoln and Guba, 1986). It confirmed that insights were trustworthy and an authentic account of the likely impact of SEM criteria on the social construction of social enterprise. The learning activity sensitised the authors to the discursive and normative effects of the SEM as well as likely reactions amongst different constituencies.

## Findings

Table 3 presents the rankings of participants in each group. All groups, overall, put the trading charity (Case 2) ahead of the worker co-operative (Case 1), and the worker co-operative ahead of the sole trader (Case 3). Almost all participants felt that the worker co-operative (Case 1) would need to add a not-for-profit dissolution clause and identify an external beneficiary before being eligible for the SEM. The authors found that all groups were consistent in this view, irrespective of the economic sector in which they worked. The rankings provided by groups 1 and 2 were the product of facilitated discussions. In group 3, pairs of people were asked to declare their rankings *before* facilitated discussions. These findings add weight to the conclusions of the first two groups by confirming that socially constructed understandings were not a product of the way group discussions were facilitated (Lincoln and Guba, 1986).

**Table 3 – Case Rankings for the Social Enterprise Mark Learning Activity**

after group discussion before group discussion	<b>Case 1</b> (socialisation)	<b>Case 2</b> (social purpose)	<b>Case 3</b> (support for 1 and 2)
Group 1	<b>2</b>	<b>1</b>	<b>3</b>
Group 2	<b>2</b>	<b>1</b>	<b>3</b>
Group 3 – Pair 1	<b>1=</b>	<b>1=</b>	<b>3</b>
Group 3 – Pair 2	<b>2</b>	<b>1</b>	<b>3</b>
Group 3 – Pair 3	<b>2</b>	<b>1</b>	<b>3</b>
Group 3 – Pair 4	<b>2</b>	<b>1</b>	<b>3</b>
Group 3 – Pair 5	<b>2</b>	<b>1</b>	<b>3</b>

Participants in the first workshop, who had much more experience of establishing and running social enterprises, objected strongly (angrily) to the way the criteria would prevent award winning social enterprises that are employee-owned<sup>6</sup> from achieving recognition (such as Sunderland Home Care Associates). Participants from co-operative infrastructure bodies questioned whether the Mondragon Co-operative Corporation (an enterprise network cited by them as one of the world's leading examples of social enterprise) would satisfy SEM criteria. In Group 3 (charity trustees and managers) roughly half felt that their organisation would meet the SEM's criteria (even those that had not previously considered their organisation to be a social enterprise). In Group 3 discussions, scepticism regarding the nature and motives behind social enterprise decreased and some participants were attracted to social enterprise discourse.

One charity participant felt that an organisation should still not be awarded the SEM unless stakeholders were recognised in the governance system. Similar views were expressed amongst participants in the first group as they perceived that SEM criteria had been reframed to advantage enterprises with charity-like characteristics (social purposes) instead those with co-operative characteristics (socialised processes). Participants noted the irony that the founders of Social Enterprise London (which included four worker co-operatives and four co-operative development agencies) would probably be ineligible for the SEM. This became such a talking point amongst experienced practitioners that it continued in e-mail correspondence and meetings after the workshop (including one with Peter Holbrook, CEO of the Social Enterprise Coalition).

Whilst only some co-operatives were thought likely to obtain the SEM, and only then if they modified their social objects and auditing to specifically acknowledge external beneficiaries, participants felt that trading charities would qualify for the SEM even if they made no changes in their relations with internal stakeholders (employees and members). It was this realisation that prompted a participant to start work on an alternative 'mark' that emphasised business ethics and democratic accountability.

In the case of a sole trader (Case 3), all three groups of participants felt he/she would be the least likely to meet SEM criteria because of the requirement to incorporate and control the distribution of residual assets. In practice, this means that a consultant, working solely in the social economy providing advice and training – perhaps counter-intuitively – cannot have their social enterprise accredited. Conceptually, however, participants did recognise that individuals can engage in social entrepreneurship and have their work recognised by organisations like ASHOKA and UnLtd.

These findings indicate how participants' conceptualisations of social enterprise were influenced by the SEM criteria to consider the incorporation and autonomy of trading organisations in pursuit of a social or environmental goal, but not to consider questions related to



socialisation of their enterprise ownership, governance and wealth sharing systems to increase their alignment with principles of social economy.

## Discussion

The SEM criteria, as interpreted by study participants, suggest there is a clear orientation towards charity-like (non-profit) criteria based on an *external* purpose, rather than participative democracy, co-operative management and social inclusion. This created a paradox that the first group of participants, in particular, found troubling (to the point of making some of them angry). The pursuit of democratic ownership, inclusive management practices and democratic control of capital, are not in themselves recognised as a social or community benefit. In light of the company objects of SEL, it is clear that the re-formulation of social enterprise using the SEM's criteria removes participatory democracy as a core characteristic, and subverts social enterprise discourse so that it fits the dominant discourses of business (Dart, 2004; Johnson, 2006) and the non-profit sector (see Carver, 1990; Hudson, 2002). It does this in such a way that *some* co-operative enterprises can still achieve recognition.

In Table 4, Social Enterprise Mark criteria are added to a composite list of social enterprise characteristics identified earlier in this paper. Shaded rows show consistency with SEM criteria/guidance, while darker rows show actual SEM criteria. It offers the authors' interpretation of the way SEM criteria contribute to 'socialisation' and 'social purpose' in social enterprise development. Unlike early approaches to social enterprise, the SEM criteria emphasise mostly 'social purposes' and not 'socialisation processes'. SEM criteria recognise philanthropic concepts such as 'social objects' and 'community/public benefit', and private enterprise concepts such as 'market trading', 'incorporation' and 'accounting', but not co-operative concepts such as 'voluntary association', 'participatory democracy' and 'democratic control of capital'.

As things stand, trading, incorporation and profitability - previously *the means* (rather than the purposes) of the social economy - have been reframed as the *ends* of social enterprise (Dart, 2004). While these ends might be important for evidencing 'enterprise' in social purpose organisations, they do not evidence 'socialisation' in a company limited by shares (CLS), a public limited company (plc), or one limited by a members' guarantee (CLG). This being the case, the SEM paradoxically does not provide a framework that meets the needs (or aspirations) of a significant part of the social economy, or provide recognition for organisations widely accepted as social enterprises. Even award winning social enterprises have been denied the SEM<sup>7</sup>.

**Table 4 – Contextualisation and Critique of SEM Conceptual Dimensions**

Characteristic	Source	Socialisation	Social Purpose
SEP = Social Enterprise Partnership, SAT = Social Audit Toolkit, ICA = International Co-operative Alliance, EMES = EMES Research Network, SEM = Social Enterprise Mark			
• Enterprise launched by a group of citizens	ICA, EMES	X	
• Open, voluntary membership	SEP, ICA	X	
• Worker and/or community ownership	SEP, SAT, ICA, EMES	X	
• Democratic governance/structure	SEP, SAT, ICA, EMES	X	
• Being open and accountable	SEP	X	
• Co-operative management	SEP, SAT, ICA	X	
• A participatory nature, which involves the persons affected by the activity	SEP, EMES, ICA	X	
• Decision-making power not based on capital ownership	ICA, EMES	X	
• The hiring of capital by labour	SAT, ICA	X	
• Surplus belongs to members	ICA	X	
• A high degree of autonomy	ICA, EMES, SEM	X	
• Cooperation with other co-operatives/social enterprises	SEP, ICA	X	
• A significant level of economic risk (by members/founders)	ICA, EMES	X	X
• Concerned with empowering members	ICA, SEP, SAT, EMES	X	X
• Using and developing volunteers	SEP	X	X
• Education of members and public in values and principles	ICA	X	X
• Developing common and shared values	SEP, SAT, ICA	X	X
• Bound to a set of beneficiaries or community	SEP, EMES	X	X
• Producing goods and/or selling services	EMES, SEM		X
• Clear social, environmental and financial benefits	SAT, EMES, SEM		X
• Creating (mostly) social wealth / limited private profit distribution	SEP, ICA, EMES, SEM		X
• 50% or more of trading surpluses (profit) invested in social/environmental purposes	SEM		X
• Minimum amount of paid work	EMES		X
• Dissolution clause that ensures that all residual assets are used for 'social/environmental purposes'.	SEM		X
• Can demonstrate that social and environmental objects are being achieved	SAT, SEM		X

The early formulations of social enterprise (see Table 1) invite an assessment of whether Articles of Association include *processes* for the workforce and service users (customers) to participate in governance, ownership and wealth sharing, and evidence that these processes are operating effectively. This point is noted in Westall's (2009) comments on the SEM:

*The Social Enterprise Mark is 'a label which tells customers about the wider social or environmental impact they offer' ...It is important to note that the focus is on impacts not processes and that there are restrictions on profit distribution. There is therefore little working through as yet on inherent values and social benefits as processes rather than external impacts which has resulted in some interesting exclusions of particularly co-operatives and mutuals... organisations such as Café Direct would not be included at the time of writing.*

Westall (2009: 6-7)

Given the co-operative roots of the movement (in the UK and EU), this formulation of social enterprise is likely to be – and remain – divisive until it is changed. Co-operatives UK recognise many types of co-operative enterprise, including a number that have no dissolution clause that explicitly prevents the distribution of residual assets to members. The Employee Ownership Association also has award winning social enterprises amongst its members. The absence of a not-for-profit dissolution clause does not inhibit an enterprise from socialising systems of ownership, governance and wealth sharing. Indeed, the essence of mutual and co-operative models is their support for democratic control of capital (ICA, 1995, 2005). Attempts to remove democratic controls (which statutory and regulated asset-locks encourage) place organisational assets under industry regulation and legal control. This reintroduces hierarchies of control that undermine the “principles of participatory democracy” characteristic of the social economy.

In respect of participants’ comments about the Mondragon co-operatives, there is sufficient flexibility in the SEM criteria regarding profit sharing to stay within its guidelines. However, at Mondragon, members contribute to personal capital accounts as well as collective reserves. These accounts were designed to receive trading profits (in the range of 40 – 70%), but can only be withdrawn when a member leaves. This ensures high levels of reinvestment each year (BBC, 1980; Whyte and Whyte, 1991). In practice, it is now rare to exceed the 50% SEM threshold because profits are contributed to infrastructure bodies as well as collective reserves (Ridley-Duff and Bull, 2011). However, members’ capital accounts do represent a form of private property, can be used as security for bank loans and mortgages, and appreciate when fixed assets are re-valued. Furthermore, retained surpluses (i.e. reserves) remain the collective property of members who retain democratic powers to decide how they will be distributed if an enterprise is taken over or closed (Oakeshott, 1990; Ridley-Duff, 2010). With these characteristics, it was reasonable for participants to question whether Mondragon-style co-operatives would meet the SEM criteria.

Whether the SEM provides appropriate identification criteria, however, is only one part of a wider debate. Curtis (2008: 280) highlights how frameworks like the SEM act to normalise the regulation of social entrepreneurship and facilitate “state-sponsored social enterprise”. Regulated

social enterprises that adopt a form suitable for public and charitable investment provide a useful vehicle for quasi-markets, deregulation and the business-like management practices associated with New Public Management (Hood, 1995). This may explain why the SEM adopts norms established by the Community Interest Company (e.g. dissolution clause, dividend caps and standard accounting practices). Curtis (2008) argues that standardised criteria will undermine self-emerging social enterprise grounded in community action, trade union activism and co-operative development. In these cases, he argues, it is ‘grit that makes the pearl’ to describe how resistance to a dominant discourse acts as the catalyst for innovations in management practice, tolerance for diversity, and more creative dialogue (compare Murray, 2010).

If the SEM does embed the assumptions of the CIC model in its own evaluation criteria, this should make it easier for CICs to obtain the SEM. At the time of writing 72 (of approximately 3,700) CICs were listed as SEM holders. In contrast, only 17 (of approximately 5,000) co-operatives were SEM holders (Finlay, 2011). Interestingly, the SEM (albeit not obviously) contains a clause that might limit the managerialism implicit in NPM (Grey and Mitev, 1995). One evaluation criteria offers a pathway back to participative democracy by requiring that applicants provide evidence that social and environmental objectives are being achieved. Depending on the way this is interpreted and operationalised, this could be achieved through social audit and reporting by reviewing social and environmental impacts with stakeholders (Spreckley, 1981; Pearce and Kay, 2008). The Beechwood Model - and the SEN model that followed - advocates a participative and inclusive approach to governance. This regards employees, volunteers and beneficiaries (i.e. customers and/or service users) as primary stakeholders in organisation development. Even if social enterprises have hierarchical structures that initially exclude volunteers and/or workers from policy development and strategic decision-making, social audit acts as the catalyst for their reintegration into co-operative management.

In arriving at a response to the question “*Do the criteria of the Social Enterprise Mark provide an effective framework for evaluating an enterprise’s claim to be social?*” this paper provides a mixed answer and has to be framed with reference to the transformations in study participants’ understanding. Overall, the answer is ‘yes’ in respect of evidencing an enterprise’s claim to have a social purpose and make a social impact but ‘no’ in respect of socialising ownership, governance and wealth distribution. In our conclusion, we return to the evaluation criteria set out in the methodology section to review the transformative effects of studying SEM criteria.

## Conclusions

All participants socially constructed an understanding of SEM's evaluation criteria that placed more emphasis on achieving social purposes than socialising processes. Having done this, members of each group reacted in a number of ways to their newly discovered knowledge. The first group displayed some hostility. Prior to their study of the SEM, most participants in this group had constructed social enterprise as a participative form of enterprise based on the integration of mutual and charitable principles. After studying the SEM criteria, they were less sure that social enterprises they supported would achieve recognition, or even that award winning social enterprises would achieve recognition. Increased hostility to the SEM triggered polarised responses including: active withdrawal from engaging with the SEM; intentions to remove all reference to social enterprise from promotional materials; but also stronger commitments to politically engage with the SEM to change its criteria.

The second group were less affected. As public servants, they found the SEM consistent with the discourse of New Public Management identified by Hood (1995) and the business discourse identified by Dart (2004). The SEM provided a conceptualisation of social enterprise that sat alongside other conceptualisations that might assist their efforts to support its development. The third group had the most positive reaction. A number who were sceptical before studying the SEM criteria found that their study of it reduced any latent hostility: some became more receptive to a social enterprise discourse. A number (about half) felt their charities could qualify for the SEM, opening up new opportunities for recognition and access to support.

The transformation in the authors' understanding relates to the conceptual significance of the not-for-profit dissolution clause, and the way this becomes the hinge on which debates about philanthropic and mutual approaches to social enterprise swing back and forth. Any statutory or regulated asset lock transforms the surplus value created by entrepreneurs, trading partners and workforce members into donations towards a social goal or community benefit. Regulating a not-for-profit distribution clause *requires* members to be philanthropic, which can clash with some social enterprise members' commitment to mutual principles of 'reciprocal interdependence'. Similarly, eschewing an asset lock (leaving decisions under member-control) *requires* members to embrace mutuality. This also clashes with some social enterprise members' commitment to philanthropy. If members *choose* collectively to gift their wealth, this is a different proposition (psychologically) to being *required* to gift it. This conceptual clarification returns us to the 'branding' of social enterprise. It raises the question "what brand image is the SEM trying to create?"

Policy makers, legislators and regulators influencing social enterprise development face a choice between:

- 1) Recognition of *both* ‘social purpose’ (philanthropic) and ‘socialised’ (mutual) enterprises as legitimate forms of social enterprise without requiring either to incorporate the others’ core characteristics.
- 2) Recognition of only those social enterprises that integrate a ‘social purpose’ with a ‘socialised’ form (e.g. community interest companies, associations and co-operatives with an explicit social purpose).
- 3) Recognition of social enterprises against a normative standard (such as the SEM).

Based on this study, the normative principles that underpin the SEM (3) are having the effect of narrowing the definition and creating conflict with precisely the constituency that provided the impetus for its initial development. In other European countries, there was initially a drive towards (2) through laws that permitted incorporation under co-operative law. This is now broadening towards (1) through new laws that accept additional forms of social enterprise (see Galera and Borzaga, 2010). While the UK is credited with leading the development of social enterprise, it still has no legislation to define it. There have been, however, a series of updates to charity, community interest and co-operative law, and a promise of further consolidation of co-operative laws before the next election.

For the SEM to retain legitimacy amongst all groups contributing to the social economy, it may need to adopt sub-sector specific criteria and not insist that *all* SEM criteria are met by *all* applicants. It can assist its own efforts by considering three changes:

- Including criteria on participatory democracy to evidence that ‘those affected by the enterprise’ can participate in decisions about its strategic direction and operation, and influence the distribution of its surpluses.
- Relaxing criteria on asset and profit distribution to focus on evidencing whether distributions of assets and profits support the social and environmental goals of the enterprise.
- Making the application of the above criteria contingent on the principles that guide the enterprise’s approach to social enterprise (i.e. philanthropy and/or mutuality).

The changes outlined above would end the conflict between the SEM and previous work to define the social economy (see Arthur et al. 2003; Monzon and Chaves, 2008). It would be able to reconcile commitments to associative democracy and solidarity (Hirst, 1994; Smith and Teasdale, 2011) with arguments for social innovation and impact (Nicholls, 2006; Martin and

Osberg, 2007). It may also increase its international appeal as a standard bearer for the social economy.

Finally, we consider how this paper meets Kinchloe and McClaren's (1994) criteria:

- *Reflexive interrogation*: all study participants became more aware of limitations in their knowledge of the SEM;
- *Sensitisation*: study participants now understand the hegemonic effects of the SEM;
- *Democratisation*: the findings and conclusions are based on information and arguments put forward by study participants;
- *Accommodation*: the paper introduces alternative perspectives so readers can evaluate the legitimacy of the SEM and its constituent assumptions;
- *Evaluation*: the paper reviews how participants' perceptions (including the authors' perceptions) of the SEM were changed through a study of its criteria.

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## Notes

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<sup>1</sup> The Social Enterprise Mark Company was founded in 2010 by The Social Enterprise Coalition (now Social Enterprise UK) and RISE to promote the SEM.

<sup>2</sup> Co-operative and Social Enterprise Summer School (July 2010) held at Sheffield Business School; St Legers Co-operative and Social Enterprise School held at St Mary's Church, Sheffield (March 2011); Charity Trading and Social Enterprise (MSc module), Sheffield Business School (June 2011).

<sup>3</sup> David Ellerman initially trained as an economist. He became the speech writer Joseph Stiglitz at the World Bank. His 2005 book, *Helping People to Help Themselves* explores human relationship issues affecting the international development work at the World Bank.

<sup>4</sup> The founders of Social Enterprise Partnership Ltd (SEP) – Cliff Southcombe and Freer Spreckley – incorporated their partnership between 1997 to 2001. Local Livelihoods (incorporated 2001) and Social

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Enterprise Europe (incorporated 2003) continued their work. In early 2011, the 1994 definition was still in use in their international work for the British Council.

<sup>5</sup> This was established by retrieving incorporation documents from Companies House.

<sup>6</sup> This is employee-owned in the sense of the workforce having an unambiguous entitlement to a share of the wealth created by the organisation and control over the distribution of the organisation's assets in cases of dissolution. This can be contrasted with worker co-operatives that have no share capital, and dissolution clauses that prevent the transfer to assets to members in cases of dissolution.

<sup>7</sup> During dissemination of this paper, it was discovered the ESP Projects Ltd, whose MD was winner of Social Entrepreneur of the Year Yorkshire & Humber 2008, and whose enterprise was runner-up in the same year for the Social Enterprise of the Year Award, applied for and was denied the Social Enterprise Mark. This was confirmed directly with the founder of ESP Projects Ltd, who happened also to be a steering group member when the Central Office for Information were liaising with the sector over the criteria for the SEM.



## Appendix A

### Founders and Initial Directors / Subscribers at Social Enterprise London

Initial Directors	Occupation	Employer
Sipi Hameenaho, Director	Project Co-ordinator	London Co-operative Training
Manuela Sykes, Director	Director	Doddington & Rollo Community Association (Charitable Trust)
Jean Whitehead	Policy Officer	Co-operative Union
Gregory Cohn	Manager	London Co-operative Training
Malcolm Corbett	Sales Director	Soft Solution Ltd (Poptel)
Signatory Name	Subscribing Organisation	Classification
Anthonia Faponnle	Hackney Co-operative Developments Ltd	Co-operative Development Agency
S. M. Kelly	Lambeth Co-operative Development Agency	Co-operative Development Agency
Malcolm Corbett	Poptel	Worker Co-operative
Rory Ridley-Duff	Computercraft Ltd	Worker Co-operative
Robert Smyth	Calverts Press	Worker Co-operative
J. Whitehead	The Co-operative Party	Political Party
I Saray	Artzone Co-operative Ltd	Worker Co-operative
Gregory Cohn	Tower Hamlets Co-operative Development Agency	Co-operative Development Agency
Sipi Hameenaho	Greenwich Co-operative Development Agency	Co-operative Development Agency

### Founders and Initial Directors at Social Enterprise Coalition

Director / Secretary	Occupation	Registered Office
Helen Barber	Legal Officer	Co-operative Union
John Goodman	Policy Officer	Co-operative Union

### Founders and Initial Directors / Subscribers at RISE

Director / Secretary	Occupation	Registered Office
Andrew Shadrake	Business Strategy Manager Also director of: The Protimos Foundation	25 Wolseley Close
Judith Reynolds	Agency Director Also director of: Associated Training Practitioners Ltd, Plymouth SRB Partnership Ltd	25 Wolseley Close

Source: Companies House

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