

Conceptualising ethical capital in social enterprises

BULL, M., RIDLEY-DUFF, R. J. <<http://orcid.org/0000-0002-5560-6312>>, FOSTER, D. and SEANOR, P.

Available from Sheffield Hallam University Research Archive (SHURA) at:

<https://shura.shu.ac.uk/2618/>

This document is the Accepted Version [AM]

Citation:

BULL, M., RIDLEY-DUFF, R. J., FOSTER, D. and SEANOR, P. (2010).
Conceptualising ethical capital in social enterprises. *Social Enterprise Journal*, 6 (3),
250-264. [Article]

Copyright and re-use policy

See <http://shura.shu.ac.uk/information.html>

To cite this paper:

Bull, M., Ridley-Duff, R. J., Foster, D. and Seanor, P. (2010) "Conceptualising Ethical Capital in Social Enterprise", *Social Enterprise Journal*, 6(3), forthcoming.

Conceptualising ethical capital in social enterprise

**Mike Bull, Research Fellow
Manchester Metropolitan University**

**Dr Rory Ridley-Duff, Senior Lecturer
Sheffield Hallam University**

**Dr Doug Foster, Senior Lecturer
University of Surrey**

**Pam Seanor, Associate Lecturer
Sheffield Hallam University**

Abstract

Purpose – In popular culture, ethics and morality are topical (Giroux 1994), heightened by recent attention to the banking industry and pay awards, monopoly capitalism, global warming and sustainability. Yet, surprisingly, little attention is given to these in the narrative of the conceptualisation of social enterprise or social entrepreneurship – nor in the academic research on the sector. Current conceptualisations of social enterprise fail to fully satisfy the spirit of the movement which advances a narrative that social enterprises: are more like businesses than voluntary organisations; are more entrepreneurial than public service delivery; use business models but are not just in it for the money. A focus on the economic implies a business model where deep tensions lie. A focus on social capital offers a different frame of reference, yet both these conceptualisations fail to fully identify the phenomenon that is *social enterprise*. The objective of this paper is to fill that gap. Ethical capital is offered here as an alternative and unrecognised conceptualisation in the field of social enterprise.

Design/methodology/approach – This paper is exploratory in nature - a tentative piece of theorising that brings together the authors' perspectives on ethical capital to offer a new frame of reference on social enterprise. It sets out to investigate some of the issues in order to provoke further research. As authors, we felt it important to theoretically explore the concept and discuss several themes to provoke a response. All need further research to tease out the detail. We start by outlining the current conceptualisations of social enterprise, then move on to theorising ethical capital using three broad themes; theme 1 discusses the levels of ethical capital, bridging from the private sector into the social sector. Theme 2 deconstructs the ethics of social enterprise and theme 3 questions moral agency through a conventional and enforcing enterpriser or the greater good through a critical and creative moral enterpriser.

Findings – This paper very much aims at starting the process of intellectual debate about the notion of ethical capital in social enterprises. The conclusions of this paper outline further research questions that need to be addressed in order to fully develop this concept.

Originality/value – It is argued that the current ideology of the neo-classical economic paradigm pursues interests towards the self and erodes the moral basis of association. The outcome leaves society with a problem of low ethical virtue. The implications of this paper are that social enterprises maximise ethical virtue beyond any other form of organisation and as such create value beyond their missions and values. This paper offers value in the understanding of social enterprise through fresh insight into its conceptualisation. A critical perspective is adopted toward the current literature. This paper sheds new light on our understanding of the sector, providing practitioners, business support agencies and academics alike with a conceptualisation that has not been explored before.

Key words – social enterprise, business ethics, definition, morality, social capital

Paper type – Conceptual paper

Introduction

We live in an anti-hierarchical age, in which deference to traditional sources of authority – the social order of class, the churches, the traditional family – is in decline. The ethic of individual self-fulfilment and achievement is the most powerful current in modern society. . . . For many people, social progress is measured by the expansion of individual choice within this private sphere. This individualism is not just consumerist. It is also moral. In many ways this is a more moral time than in the 1950s and 1960s. Young people these days feel more passionately and morally about a wider range of issues than they used to – from our treatment of the environment and animals, to gender, race and human rights around the world. People are more likely to challenge the right of established figures of authority to lay down the moral law. For many people, especially young people, [these are] arguments that we need to rebuild a sense of community.

(Leadbeater; 1997:14)

Leadbeater's account of modern times, the changing nature of society, its values and ethics, are one discourse on the social frameworks in which we live. Within the business world there are increasing demands regarding the impact of economic activity and on the natural environment. Rhetoric on corporate social responsibility (CSR) is commonplace, coinciding with this is the fair trade movement, which aims to move beyond rhetorical expressions of responsibility to structure trading relationships in such a way that the weaker party is not left at the mercy of market prices (Jones, 2000; Allen, 2005; Doherty et al, 2009). These developments are grounded in codes of conduct that reflect the morality of the age in which we live. Many examples socially and environmentally responsible forms of organisations are starting to flourish and create an impact worldwide; Ben and Jerry's; Bodyshop; Timberland; Howies; John Deere; Traidcraft; The Eden Project. Yet there is the question of whether these organisations are actually *enacting* more moral and ethical behaviours. There are questions about the point at which CSR blends then becomes social enterprise and what distinctions there are between the two.

Drawing and building on Milton Freedman and his seminal work on business ethics (1970) and the principles of staying within the '*rules of the game*' as the only ethical obligation of business in society, this paper challenges neoclassical economic ideals and looks at how cultural change within organisations is evolving. It also explores the implications involved in merging social mission with the culture and turbulence of the market ideology, drawing on Maitland (1997) to gain a critical understanding of the ethical trade offs involved in engaging with the hand of the market. Finally the paper conceptualises social enterprise as holding the potential for the higher moral and ethical ground in business. What this means, and how this can be capitalised on, is rich food for thought.

We begin by exploring Friedman:

'There is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception and fraud.'

(Friedman, 1970/1993, p. 254)

This 'staying within the rules of the game' represents a framework for moral evaluation, but as Friedman suggests, profits are the primary concern of a business. So is business moral or amoral?

We consider aspects of social enterprise in arguing a case that there is a moral duty in business beyond economic rules. Keller (2007) suggests that regarding business as an economic activity has left society with a negative ethical base, ignoring consideration of the social costs of private enterprise. Concurrently, we now live in an age where ethical values and moral codes are becoming part of the manifestos of organisations. This is particularly true in social enterprises where the primary purpose of organisations is focussed on the ‘social’ (Pearce, 2003). The ‘social’, in the social enterprise context, extends to environmental and social action organisations in which utopian moral and higher ground ethical positions are taken to have greater legitimacy than in other forms of for-profit businesses. This higher ground claim, it is argued in this paper, forms one of the defining characteristics of social enterprise. A better understanding of this claim will make a significant contribution to understanding and developing the sector.

Ethical capital was first brought to the authors’ attentions during the opening plenary at Voice 07 (the Social Enterprise Coalition’s ‘trade fair’ for the sector). The opening plenary included a rousing speech by Tim Smit. His organisation, The Eden Project, has transformed the land and environment in a corner of England’s South West and he is further seen as one of the country’s leading social entrepreneurs. The Eden Project is described as a ‘living theatre of plants and people’, an attraction site that includes landscapes, plants and much more. In his speech, Smit claims (SEC, 2007);

*One of the most interesting things I have come across recently is that a lot of people in the city reckon that corporate life as we know it is going to be dead in thirty years. And I would say that Eden would be a good example of why. When I look at my top executives, the top eight people who work for me are all people who have decamped from very successful jobs in very successful organisations, because they no longer want to work for corporations where there is no **ethical capital**, and this is happening all over the place. Nowadays 40% of school leavers apparently do not want to work for a corporation. [emphasis added]*

If people are choosing not to work for private or public sector organisations but are instead seeking work in the social economy then the need for greater understanding of ethical capital is obvious. This paper, therefore, sets out to explore these issues in order to provoke further exploration of the conceptualisation of ethical capital. ‘Capital’ is believed to take several forms:

- o Physical capital (mobilising natural resources);
- o Economic capital (mobilising financial resources);
- o Human capital (mobilising labour resources);
- o Intellectual capital (mobilising intellectual resources);
- o Social capital (mobilising civil society resources);
- o Ethical capital (mobilising moral values).

Organisations may have all these ingredients but the mix between capitals is different across different forms of organisation.

A recent survey by the Social Enterprise Coalition (SEC, 2009) attempted to quantify social motives in social enterprises. The majority of respondents had a social, community or environmental motivation with the top responses being: ‘putting something back into the community’ (45%); ‘a better way to achieve social or environmental goals’ (24%). The most frequent responses on ‘core values’ were: ‘helping the community’ (32%); being ‘socially motivated’ (31%). Based on this, the study concluded that social and community benefit is the key motivator for those working for social enterprises (compare Amin, 2009a).

In the next section, conceptualisations of social enterprise are examined. This is followed by a theoretical view of the moral codes underpinning different forms of enterprise activity. In the main

discussion parts of the paper, we bridge the two and offer a foundation for further explorations of the links between different approaches to ethical capital and enterprise. In doing so, the paper represents initial steps towards the conceptualisation of ethical capital and its place in social enterprise theory.

Current Conceptualisations of Social Enterprise

The surge of interest in the social enterprise business model has made waves around the world (Nicholls 2006b; Bornstein 2004). The current conceptualisations are based on ongoing debates about the business case and characteristics of social enterprises and social entrepreneurs. This unpicking seeks to uncover the DNA yet fails to go deep enough. Understanding the value of social entrepreneurs and the transformations of capital (physical, economic, human, intellectual, social and ethical) is crucial to the development of the field, and the drive for change. This paper very much aims at starting that process of intellectual debate about the notion of ethical capital in social enterprises. In the next section, we set out current conceptualisations of economic and social capital before moving on to explore ethical capital.

Conceptualisation 1 – The Economic Lens

Pearce (2003) describes social enterprises as part of the third system, closer to the first system (private business) than the second system (public provision), yet primarily social and secondly a business. Social Enterprises are described as trading organisations in a market (Pearce 2003). A focus and operationalisation of social enterprises as *'business-like'* and *'entrepreneurial'* is well documented (Leadbeater 1997; Dees 1998; Nicholls 2006b). Yet if, as part of the third system, social enterprises are as Dart (2004) suggests *'blurring the boundaries between non-profit and profit'*, then what blurs? What is it that differentiates social enterprises from non-profit and for-profit enterprises? We question, as other do, whether a managerialist ideology is taking precedence over the social? Turnbull (1994); Terry (1998); Pharoah et al (2004); Hulgard and Spear (2006) have their concerns but at the fore is a heightened focus on market ideology from funding providers where competition has led to greater demands, requiring more from organisations in the non-profit sector in terms of management systems, quality standards and marketing (Smallbone *et al* 2001; Paton 2003; Pearce 2003). However, the push towards a market driven agenda and an enterprise culture within social enterprises is not without its problems. Maitland (1997) raises a major concern when he points out that;

“the market frees individual acquisitiveness from moral, social and/or religious constraints. While this acquisitiveness can be a source of great energy and creativity, it is also a turbulent, disruptive, and potentially disintegrative force. Moreover, the market is believed to contain an expansionary dynamic, so that unless it is contained it progressively invades and colonizes other spheres of our social lives.” (1997:18).

Maitland continues to list the charges against the market, suggesting that morality is being weakened by the hand of the market;

“ It releases self-interest from moral restraints.

It erodes all social ties other than purely economic ones and/or converts social relationships into instrumental ones ("commodifies" them).

It promotes a preoccupation with narrow individual advantage at the expense of responsibility to the community or social obligations.

It substitutes competition for voluntary cooperation.

It favors materialistic or hedonistic values.”

Maitland (1997:18)

Maitland certainly has a point and social enterprises need to be aware of the tensions in the ideology of the market as an entrepreneurial platform. As MacIntyre suggests “the normal operation of the market offers people powerful inducements to desert the virtues. If not by inclination, then in self defence, people find themselves compelled to conform to market norms of behaviour.” (As quoted in Maitland (1997:20)). How social enterprises practice dealing with the desertion of their virtues needs further research. Seanor *et al.* (2007) provide some light when discussing case studies, evidencing the engagement of organisations with the market (through socially constructed world views) as something of a ‘smash and grab’ – where organisations could be described as moving out of the ‘safety’ of the social (virtuous) sector into the ‘wilds’ of the market terrain (business-like world) to win contracts, and then retreating back into the comfort zone whilst delivering projects. When considering the sentiments of the theory of the market, it becomes only too apparent what social organisations ‘give up’ on their forays into murky waters, Keller (2007) adds:

“economics is amoral in [?] that it cannot be used to answer normative questions like the fairness of the distribution of income. In essence, the neoclassical economic ideal presents us with an ethic by placing economic efficiency before us as the highest end, and utility/profit maximization as the only means to that end.”

There may however be some hope, as Maitland (1997) suggests, that those who cultivate the virtues of the social will be a source of economic benefit¹ and may be more successful in the marketplace because of the valuable ethical capital they possess. We will return to this argument later in the paper.

Conceptualisation 2 – The Social Capital Lens

One strength of the social enterprise sector is seen as its capacity to build social capital. Social capital is primarily seen as the local-level involvement of people in their community, whether a community of interest or a geographic neighbourhood (Defourny 2001; Pearce 2003; Spear 2001). Social capital is seen as a commitment to building community capacity, beyond contracted outputs, and nurturing the development of valued social networks (Westall, 2001).

Conceptually, social capital focuses upon commitment and equity (Drayton 2005; Evers 2001; Leslie 2002). Gupta *et al.* (2003: 979) consider social capital as ‘trust-based community capital’. More than this, some claim that social capital is a goal of social enterprise (Amin *et al.* 2002; Evers 2001) rooted in a ‘relationship’ view of how to sustain a community and an emphasis on ‘socially rational’ thinking and behaviour (Ridley-Duff, 2008). Pearce (2003) identified these values as predicated upon co-operation, doing good work and trust. Spear (2001, 2006) states that social capital in part arises as these organisations, particularly co-operatives, are collective in nature or have representative stakeholders on their committees. Social capital is of value in terms of relationships with the individual social entrepreneur, relationships within a social enterprise organisation, or between an organisation and the local community.

¹ Here the assumption could be the exchange of other forms of capital into financial capital through rewarding the values of the virtues. As Tsukamoto suggests; “A firm can actively create ethical capital by nourishing a market segment of ethically high-minded stakeholders who are willing to pay, for example, for the costs of a product that is produced to higher standards than required by law.” (2007:218)

Having explored the potential goal of social enterprise (social capital) and the means (trading in a market for social purpose), the next section brings morality, virtuous sentiments and ethics into the debate.

Conceptualisation 3 – Ethical capital

So what is ethical capital? What is so important about ethical capital? Does ethical capital constitute the principal attraction that induces many people to work beyond the need for food, shelter and a flat screen TV, by offering a sense of well-being and happiness? If so, are social enterprises well-placed to capitalise on this virtue and attract more ethically minded individuals into the sector (as Tim Smit claims to have done)?

Tsukamoto (2005) suggests that ethical capital conveys the asset of morality in an organisation. Organisations espousing their moral virtues can attract a growing interest of followers, yield returns and competitive advantage, as Tsukamoto (2005:77) suggests;

...once morality is transformed into an economic asset, corporate moral agency yields competitive advantage, increases profitability and increases survival prospects of the firm. In this respect, insufficient corporate moral agency can be analysed not as a systemic, rule-based condition of defective incentive structures but as a capital utilisation problem in firm-stakeholder interactions."

In times of recession, it is argued social enterprises weather the storm better than private businesses. Is this something to do with corporate moral agency within social enterprises?

There is an obvious challenge to this perspective as it rests on empirical data that cannot ever support the 'proof' that social enterprise and social entrepreneurs are morally superior. Of course, once recognising that ethical capital exists, it requires questioning whether it (like social capital) can be turned into other types of capital. By way of example, the pursuit of 'Eden' as a morally responsible commitment to exploring co-existing environmental and human sustainability has in itself transformed both the social and financial capital of Cornwall, England.

Shaw (1997) puts the erosion of the moral basis of public institutions and personal ties (family, friendships, associations, groups) down to the notion of the free market and self-interested maximizations. Keller (2007) articulates the issue a little better and states:

"It is contended that modern business theory, as represented by the neo-classical economic paradigm, has established a moral code of business based on efficiency of outcome and the assumed link of efficiency to self-interested behaviour. The result is markets as the arbitrators of ethical outcomes, and profit-maximization as the ultimate moral code" (2007:159)

We next explore moral codes in a little more detail. In order to theoretically explore ethical capital three themes are presented, all of which are outlined to provoke response, and which need further research to tease out the detail.

Theme 1 – Levels of ethical capital.

In an influential paper Tsukamoto (2007) outlines 3 levels of ethical capital:

1. Passive unintended moral agency – accumulated through following the rules of the game of business. Businesses here are legal, yet may take advantage of labour laws, offering employees minimum remuneration, terms and conditions, whilst maximising wealth for

shareholders with the bare minimum and only a legal responsibility shown for curtailing the impact of the enterprise on the environment. Unintended moral agency acquires a minimal level of ethical capital – ‘*Good must be done for reason of profit*’ Friedman (1970/1993);

2. Passive, intended moral agency – accumulated through following the rules of the game of business, yet more engaged through acknowledging that business exists in a community. Customers influence social norms, such as achieving environmental standards or investors in people type certifications. This may also involve some acknowledgement that employees can be better performers if they are happier;
3. Active, intended moral agency and the creation of ethical capital. This level is achieved by organisations undertaking Corporate Social Responsibility. Body Shop, Café Direct, Divine Chocolate and organisations that go beyond the minimum rules of market morality link profit to the outcome of ethical thinking and market opportunities. Of relevance here is stakeholder theory (business duties should go beyond the immediate and demonstrate responsibility to wider groups), based on Kantian ethics. Emanuel Kant’s ‘categorical imperative’ as discussed in Doherty *et al.* (2009), provides a useful starting point. Moral decisions derive from good will in that ethical actions should be grounded by the imperative that there is a duty to treat people as ends and not means. People have their own needs and this should not be compromised in the pursuit of profit maximization.

Yet the three levels outlined by Tsukamoto fail to recognise civil society. We propose a fourth level of active, intended blended value that combines ‘social’ and ‘economic’ outcomes through the application of ethical capital. While the first three levels view ethical behaviour as pertinent to the accumulation of ‘profitability’ in terms of economic capital, it is only at level 4 that it is re-conceptualised as a way of building *ethical* capital through the application of social and economic rationality. It is only at level 4 that business ethics are revised to re-frame the concept so that it is measured in more than economic terms – beyond bottom line accounting, to a point of looking at the purpose of multi-bottom line accounting, and considering what is represented by each contribution.

In Alter’s (2004) model (Figure 1), the sustainability spectrum serves well as a map of ethical capital levels across the social and private economies. As represented here levels 1, 2 and 3 represent the ethics of private businesses that are primarily based on economic value creation (right hand side of the diagram). The fourth level situates social enterprise by arguing that good must not be done solely for reasons of profit. It is the organisations that are primarily social value creators (left hand side of the diagram) in levels 4 and 5 where it significantly changes the values base.

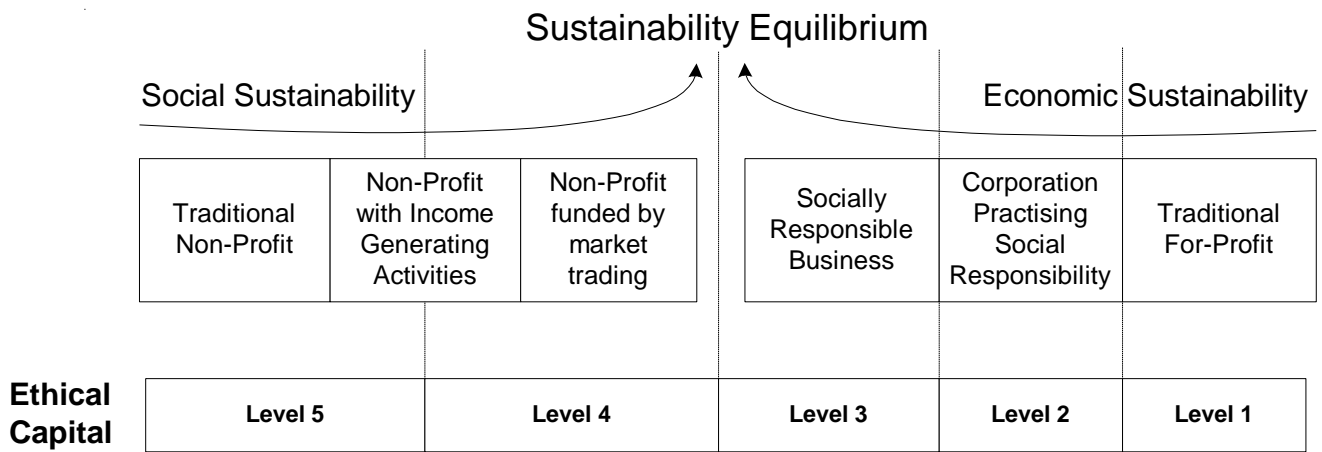


Figure 1: Sustainability Spectrum (Alter 2004:8)

Beyond level 4, we might postulate a fifth position that embraces the concept of ‘charity’. In its purest form, there is an attempt to remove economic thinking completely from decisions regarding social action. When acting from a sense of charity - literally translated as ‘love’ in early texts (Morgan, 2008) – the giver receives no economic benefit from the act of giving. Expressions of this value remain embedded in Charity Law through the requirement that Trustees cannot be paid for their role as governors in a Charity. It is only relatively recently that charities have had to widen their income strategies – including social enterprise – as ways of sustaining organisational missions in the current climate. The recent (but not yet available) Charity Incorporated Company (CIO) model is a further example of the changing climate (yet the rules on remuneration for trustees remain the same).

Theme 2 – Deconstructing the Ethics of Social Enterprise

The focus on ‘superior’ moral values, however, is not without some contradictions. It typically involves a shift away from the liberal focus on developing individual rights and the pursuit of self-interest, and more on utilitarian (and Marxian) arguments that “shared values” can be developed to achieve a “common good”. These communitarian commitments are grounded in the idea that ‘free’ people do not exist and that ‘rationality’ is both a *precursor* and *outcome* of experiential learning in a group context (Blumer, 1969; Tam, 1999). Ethical decisions, therefore, have to involve the group, not just the individual, and involve a consideration of both material and emotional gains and losses. Actions are considered more ‘moral’ if they consider impacts on both self and others (Dewey, 1957). Following Durkheim, Collins (1997) and Tam (1999) attempt to position “liberal” communitarianism at the juncture between these two extremes. However, unitarist outlooks continue to pepper their arguments as soon as they turn their attention to business. Tam argues in a UK context that:

*...companies **must** learn to treat their workers, suppliers and customers, as well as their senior management and shareholders, as members of a shared community...* [emphasis added]. (Tam, 1999:10):

Collins, in a US context contends that:

*...the standard **should be** democratic organizations with a few authoritarian exceptions rather than authoritarian organizations with a few participatory management exceptions...* [emphasis added] (Collins, 1997:503):

Both, however, limit their calls to various forms of representative democracy and legal reform so that recalcitrant business leaders are prodded into practising social equality. Democratic forums, they contend, will “prove” democracy as a superior way of organising – a circular argument if ever there

was one. Particularly problematic is the recourse to law relying on “rational science” to support arguments for progressive social change.

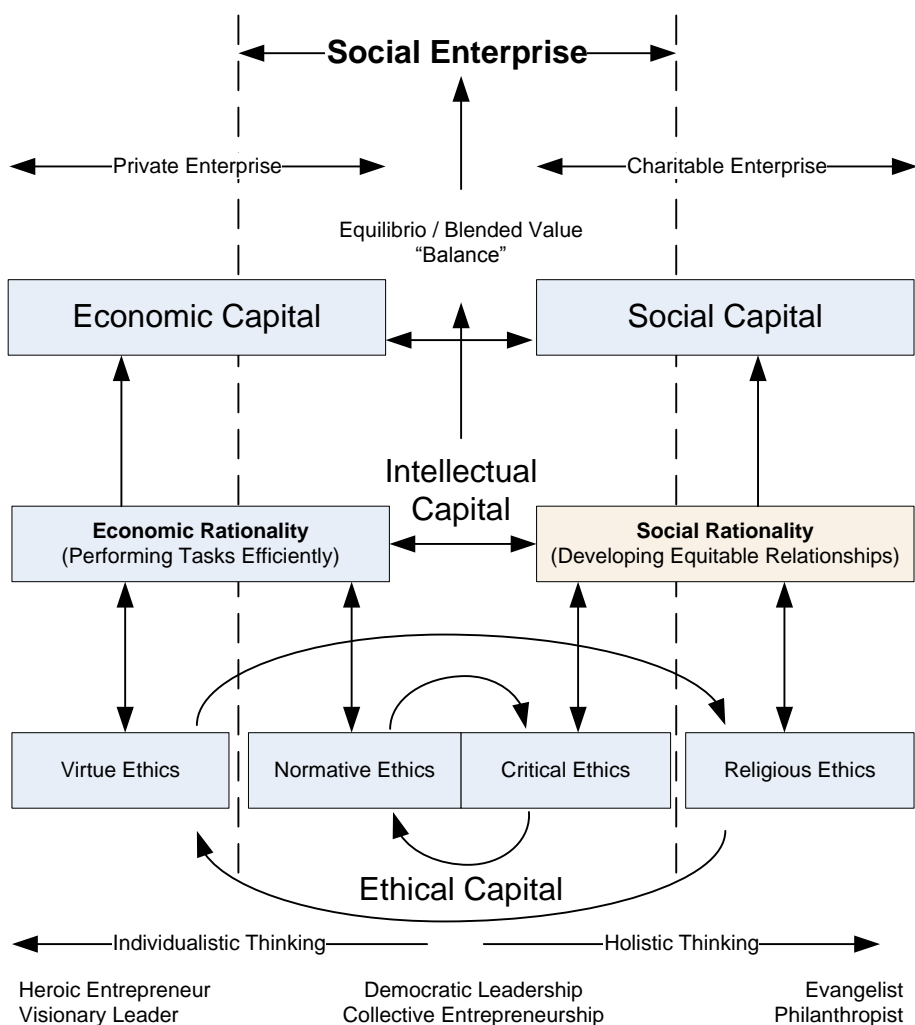


Figure 2 – Deconstructing The Ethics Of Social Enterprise

The diagram above (Figure 2) attempts to unpack the notion of the fourth level in ethical capital. As is shown here, social enterprise evolves between private and charitable enterprise, as the blended balance of capital investments (economic, social, intellectual and ethical).

The theoretical perspective in Figure 2 provides some explanation for the practice of establishing separate private and charitable enterprises to pursue a social goal. The former pursues financial objectives while the latter pursues social and charitable objectives. In this situation, the contradictions between economic and social rationality are *externalised*: the dissonance presented by the “other” frame of reference can be ignored or marginalised when deciding on operational priorities. The application of religious ethics (grounded in ‘saintly’ behaviour) supports the refinement and pursuit of virtue ethics: both share trait theories of leadership derived from visionary and inspiring individuals. This facilitates the unproblematic transformation of business leaders into philanthropists (such as Bill Gates). While the outcomes sought may change, the style of leadership and governance that brings about these outcomes does not.

In co-operatives and new organisational forms (such as the CIC and CIO), the aim is to *internalise* the dissonance created by the pursuit of economic and social goals simultaneously. In this

environment, democratic organisation and social ownership are gaining salience. Emergent ethical norms (from critical discourse) encourage normative control techniques. Nevertheless, the presence of democratic structures (if upheld) act as guarantor that normative values cannot dominate over in the long term: they remain open to challenge and continual renewal through discursive deliberation *within* the organisation.

Yet, can the 'profit-motive' and 'business efficiency' really be seen as weakening sources of ethical capital? Alternatively, could either an old or new rationality enable ethical capital to be re-appropriated and placed within new organisational forms such as social enterprises, so that such profit can be put to use in an expanding circle (Singer, 1981) of moral commitment to society and the environment?

Theme 3 - Moral agency through a conventional and enforcing enterpriser or the greater good through a critical and creative moral enterpriser?

What are 'enforcing' and 'creative' moral enterprisers? In answering this question we shall build on the previous sources and develop an analytical typology through appropriation of Becker (1963) and Hart (1963). Becker (1963) suggests that there are two sorts of moral entrepreneur within social groups, '*rule-enforcers*' and '*rule-creators*', with the label of 'entrepreneur' being adopted, because he viewed both as enterprising acts.

Given the substantive work done since on defining the entrepreneur (see Entrepreneurship Theory Practice Special Issue (Davidsson *et al.*, summer 2001) and Shane and Venkataraman, 2000), it might be best to re-state Becker's conceptualisation as 'enterpriser' so as to not do violence to that latter body of work or the spirit of Becker's. What then does Hart have to offer here? From a utilitarian perspective, which in a particular form has sometimes been argued to be the moral framework for contemporary business and society, Hart nevertheless suggests there is *conventional morality*, which constitutes that shared by society generally and its organisations, but also *critical morality*, which stands back and asks whether such conventional morality is harmful.

Let us put Becker and Hart together with the little variation of our own for good measure. The *conventional and enforcing moral enterpriser* attempts to reproduce and even grow ethical capital, but on the basis of MacIntyre's thesis, they really have their work cut out. Potentially in Western society then, traditional deference, bits of religious morality, a democratic ethos, and profit-driven economics all have to somehow be made to hang together. One option, like the Lipsky (1980) bureaucrat, is that they are selective in the rules and practices they try to reproduce. Perhaps an obvious tactic is to try to stick with the profit-motive and business efficiency, and lose the ethical fragments that are out of sympathy with this. Yet economists themselves (Layard, 2005) are returning to moral philosophy, precisely because the profit-motive and purchaser power became ends in themselves, detached from what utilitarianism was originally about (like other philosophies before it in somewhat different ways) – happiness, well-being, the good life. While wealth creation makes a positive difference in peoples lives up to a point, other things can become more important.

The *critical and creative moral enterpriser* has an opportunity to re-engage elements of ethical capital in new organisational contexts like social enterprises. It is a project they could undertake through a more elaborated form of naturalistic ethics, incorporating the best of virtue, utilitarian and other normative ethical theory into an understanding of ethical capital that takes into account continuity and contingency (with due acknowledgement to Hegel and Marx) in the process and praxis of moral development and change. This can justify and bring about more commitment to the flourishing of an ever expanding circle of life.

Conclusions

This paper has attempted to introduce the reader to the concept of ethical capital. The discussion has taken the reader through the economic lens, the social capital lens and introduced the ethical capital lens. The debate, we hope, has barely started and further work is evidently required to fully develop this concept.

The enterprise-oriented view is of the sector delivering social projects through traditional, market mechanisms. By focusing upon income generation, which is seen to serve a social purpose, social enterprise becomes placed within a financial framework. The factors driving this approach appear based upon the shift to the 'contracting culture'. This is a portrayal of organisations as moving towards the economic end of the spectrum, engaging in market activities, increasingly at the mercy of the market ideology. This imagery is surely an anathema to promoting innovative social enterprise development. Rather than adopting radical social change as advocated (Bornstein 2004), social enterprise development appears to focussing upon becoming competitive businesses in a market ideology. Is this what the movement wants?

Westall and Chalkley (2007:17) argue:

'In order to fully grasp the implications of these visions and realise the potential of social enterprise, we need to break out of our usual ways of looking at the world, particularly about the 'natural' business model or the narrow but hugely powerful concepts and implications of mainstream economics'

This paper answers that call and attempts to break away from our usual ways of looking at the world. Ethical capital certainly provides an alternative view to the traditions of mainstream economics. What we have attempted to unpack is the current conceptualisation of social enterprise and the current concept of ethical capital in the literature to date. The paper has outlined the three levels of moral agency as well as a fourth and fifth level that takes the concept to its natural end. It is here this paper moves the debate on and offers the social enterprise a more radical frame of reference.

The neo-classical economic paradigm has a conceptualisation and pre-occupation with economic life as a search for equilibrium (Clark 1936). This search for the natural order of wealth, returns, production, etc. formulates economic organisation as those things that could be measured and controlled. This subsequently led the 'political economists' to exclude those things outside rational economics as non-economic (Kapp, 1950). Hence, as Becker (1976) suggests, all decisions are economic. The *given*, then, is that private enterprise behaves to achieve rationality and efficiency (Shaw 1997).

It has been argued that the current ideology of the neo-classical economic paradigm pursues interests towards the self and towards the erosion of the moral basis of association. The outcome leaves society with a problem of low ethical virtue. The rise of corporate social responsibility in both social and environmental terms is slowly beginning to address and meet people's desire for a more moral way of living. This boundary shift in the rules of the game offers some hope but as the taste buds are introduced to these virtues, the current menu of the day lacks enough ethical nutrition. Further to this, once tasted, society desires more and more. And so an ever increasing desire for satisfying the ethical taste buds is stimulated. It is only through the social enterprise movement that there is a sufficient supply of ethical capital to satisfy the appetite. Doherty *et al.* (2009) go as far to suggest that social enterprise is a vehicle for moral management. So when Tim Smit suggests '*corporate life as we know it going to be dead in thirty years time*' this might be the symptom of a changing appetite

for a more moral, virtuous and ethical lifestyle. In Eden, this may be why Tim Smit has been able to recruit the top executives that he has. Is the decamping set to continue? Is the social enterprise movement awake to this? Is the movement ready to capitalise on such a paradigm shift?

This paradigm shift may well need to happen sooner rather than later, as the drive of a market and managerialist culture is set to infest the sector. Concern about market opportunities are well documented in other works, but we have focused on the tensions of such an agenda and the potentially catastrophic consequences this has for the social and ethical capital foundations in society. As Keller (2007:172) warns;

“What has been lost of Adam Smith in the translation to neoclassical economics is the basis of morality and control that Smith envisioned would go hand-in-hand with market efficiency and that the goal of an economy must be the greater economic welfare of the society. In short, efficiency is not an end in itself.”

Further research is called for. If the social enterprise movement can widen the conceptualisation away from business and revenue to one that incorporates a view of fostering ethical capital, might this help re-frame and achieve the radical changes advocated by Bornstein (2004), Drayton (2005) and Emerson and Bonini (2004)? We think so.

References

- Allen, B. (2005)** "Social enterprise: through the eyes of the consumer", *Social Enterprise Journal*, Vol. 1: 57-77.
- Alter, K. (2004)** 'Social Enterprise Typology' accessed at <http://www.virtueventures.com/settypology.pdf> (August 2006)
- Amin, A, Cameron, A and Hudson, R (2002)** *Placing the Social Economy*, London: Routledge.
- Becker, H. (1963)** *Outsiders*, New York, The Free Press
- Blumer, H. (1969)** *Symbolic Interactionism: Perspective & Method*, Englewood Cliffs, NJ: Prentice Hall.
- Bornstein, D. (2004)** *How To Change the World: Social Entrepreneurs and the Power of New Ideas*, Oxford: Oxford University Press.
- Clark, J. M. (1936)** "Economics and modern psychology" Preface to *Social Economics* (1936) as Quoted in Kapp, K.W. (1950) Schocken Books New York
- Collins, D. (1997)** *The Ethical Superiority and Inevitability of Participatory Management as an Organizational System*, *Organization Science*, Vol. 8, No. 5, pp 489-507.
- Dart, R. (2004)** 'The Legitimacy of Social Enterprise', *Nonprofit Management & Leadership*, Vol. 14, No. 4, pp. 411-424.
- Davidsson, Low and Wright, (2001)** "Editors Introduction: Low and MacMillan Ten Years On: Achievements and future direction for Entrepreneurship research". *Entrepreneurship Theory and Practice*. 25:4
- Dees, G. (1998)** 'Enterprise Non-profits', *Harvard Business Review*, Vol. 76, No. 1, pp. 55-67.
- Defourny, J. (2001)** 'Introduction: From Third Sector to Social Enterprise' in Borzaga, C. and Defourny, J. (eds) *The Emergence of Social Enterprise*, London: Routledge.
- Dewey, J. (1958)** *Democracy and Education*, New York: Macmillan.
- Doherty, B., Foster, G., Mason, C., Meehan, J., Rotheroe, N. and Royce, M. (2009)** *Management for Social Enterprise*, London: Sage Publications.
- Drayton, B. (2005)** 'Where the Real Power Lies', *Alliance*, Vol. 10, No. 1, pp. 29-30.
- Emerson, J. and Bonini, S. (2004)** 'The blended value map' accessed at <http://www.blendedvalue.org> (January 2007)
- Evers, A. (2001)** 'The Significance of Social Capital in Multiple Goal and Resource Structure of Social Enterprises' in Borzaga, C. and Defourny, J. (eds) *The Emergence of Social Enterprise*, London: Routledge.
- Friedman, M. (1962)** *Capitalism and Freedom*, Chicago: University of Chicago.
- Friedman M. (1993)** The social responsibility of business is to increase its profits. *The New York Times Sunday Magazine*, September 13, 1970. Reprinted in Jennings MM. *Business ethics*. 4th ed. Mason, OH: Thomson; 2003. p. 41-6.
- Giroux, H., (1994)** *Disturbing Pleasures: Learning Popular Culture*. Routledge
- Gupta, A K. R Sinha, D Koradia, R Patel, et al. (2003)** Mobilizing grassroots' technological innovations and traditional knowledge, values and institutions: articulating social and ethical capital. *Futures*. Vol. 35 Iss 9 p. 975-987
- Hart, H.L.A. (1963)** *Law, Liberty and Morality*, Oxford, Oxford University Press
- Hulgard, L and Spear, R (2006)** 'Social entrepreneurship and the mobilization of social capital in European social enterprises' in Nyssens, M (ed) *Social Enterprise at the Crossroads of Market, Public and Civil Society*, London: Routledge.
- Jones, D. R. (2000)** "A Cultural Development Strategy for Sustainability", *GMI*, Vol 31, pp 71-85.

- Kapp, K.W., (1950).** Schocken Books. New York
- Keller, A C., (2007)** Smith versus Friedman: Markets and ethics. *Critical perspectives on Accountancy* Elsevier (18) 159-188
- Layard, R. (2005)** Happiness. Lessons From A New Science, London, Allen Lane
- Leadbeater, C. (1997)** The rise of the social entrepreneur, London: Demos.
- Leslie, D (2002)** ‘What are Social Enterprises? Enterprising Communities Supporting Social Enterprise in Rural Cumbria’, accessed at http://www.enterprisingcommunities.org.uk/hyperlinks/literature_review-d.l.pdf (January 2006).
- Lipsky, (1980)** Street-Level Bureaucracy, New York, Russell Sage Foundation
- Maitland, I (1997)** Virtuous markets: The market as school of the virtues. *Business Ethics Quarterly*. Vol. 7, Iss.1, p.17-31
- Morgan, G. (1986)** *Images of Organization*, Newbury Park: CA, Sage Publications.
- Morgan, G. G. (2008)** “The Spirit of Charity”, *Professorial Lecture*, Centre of Individual and Organisation Development, Sheffield Hallam University, 3rd April.
- Murdock, A (2005)** ‘Social entrepreneurial ventures and the value of social networks’, paper presented at Research of Social Enterprise Conference, Milton Keynes.
- Nicholls, A. (2006a)** *Social Entrepreneurship: New Paradigms of Sustainable Social Change*, Oxford: Oxford University Press.
- Nicholls, A. (2006b)** “Introduction”, *Social Enterprise Journal*, Vol 2: np.
- Ouchi, W. (1981)** *Theory Z*, New York: Addison-Wesley.
- Paton, R. (2003)** *Managing and Measuring Social Enterprise*, London: Sage Publications.
- Pearce, J. (2003)** *Social Enterprise in Anytown*, London: Calouste Gulbenkian Foundation.
- Peters, T. and Waterman, R. H. (1982)** *In Search of Excellence*, Harper & Row, New York.
- Pharoah, C., Scott, D., and Fisher, A. (2004)** *Social Enterprise in the Balance: Challenges for the Voluntary Sector*, West Malling, UK: Charities Aid Foundation.
- Ridley-Duff, R. J. (2008)** “Social Enterprise as a Socially Rational Business”, *International Journal of Entrepreneurial Behaviour*, Vol. 14, No. 5, forthcoming.
- Seanor, P., Bull, M. & Ridley-Duff, R. J. (2007)** "Contradiction in Social Enterprise", paper to the Institute for Small Business and Entrepreneurship Conference, Glasgow, 7th-9th 2007.
- SEC (2004)** *Unlocking the Potential*, London: The Social Enterprise Coalition.
- Social Enterprise Coalition (SEC) (2007)** <http://www.socialenterprise.org.uk/Page.aspx?SP=2030> (accessed June 2007),
- SEC (2009)** *State of Social Enterprise Survey*, London: Social Enterprise Coalition, <http://www.socialenterprise.org.uk/data/files/stateofsocialenterprise2009.pdf>, accessed 24th May 2010.
- Shane, S., and Venkataraman, S., (2000).** The promise of entrepreneurship as a field of research. *Academy of Management Review*. 25:1. pp 217 – 226
- Shaw, B., (1997)** Sources of virtue: The market and the community. *Business Ethics Quarterly*. Vol. 7, Iss.1, p.33-50 (18 pp.)
- Smallbone, D., Evans, M., Ekanem, I. and Butters, S (2001)** Researching Social Enterprise Final Report to the Small Business Service Centre for Enterprise and Economic Development Research Middlesex University: London

- Spear, R (2001)** 'United Kingdom: A wide range of social enterprises' in Borzaga, C and Defourny, J (eds) *The Emergence of Social Enterprise*, London, Routledge: 252 – 269.
- Tam, H. (1999)** *Communitarianism*, Basingstoke: Macmillan.
- Terry, L. D. (1998)** "Administrative Leadership, Neo-Managerialism, and Public Management Movement", *Public Administration Review*, Vol. 58, No. 3, pp. 194-200.
- Thompson, P., Findlay, P. (1999)** "Changing the People: Social Engineering in the Contemporary Workplace" in L. Ray and A. Sawyer (eds) (1999), *Culture and Economy after the Cultural Turn*, Sage Publications: London.
- Tsukamoto, S (2005)** "An Economic Approach to Business Ethics: Moral Agency of the Firm and the Enabling and Constraining Effects of Economic Institutions and Interactions in a Market Economy" *Journal of Business Ethics*. Vol.60 Iss 1,p.75-89
- Tsukamoto, S (2007)** "Moral Agency, Profits and the Firm: Economic Revisions to the Friedman Theorem" *Journal of Business Ethics*. Vol.70, Iss2, p.209-220
- Turnbull, S. (1994)** "Stakeholder Democracy: Redesigning The Governance of Firms and Bureaucracies", *Journal of Socio-Economics*, Vol. 23 No. 3, pp. 321-360.
- Westall, A (2001)** *Value-led, Market Driven*, London: Institute Public Policy Research.
- Westall, A. and Chalkley, D. (2007)** *Social Enterprise Futures*, London: The Smith Institute, accessed at http://www.smith-institute.org.uk/pdfs/social_enterprise.pdf (May 2007)
- Whyte, W. F. (1957)** *Street Corner Society*, Chicago: University of Chicago Press.