

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

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Rory Ridley-Duff, Senior Lecturer, Sheffield Hallam University

Cliff Southcombe, Managing Director, Social Enterprise Europe Ltd

Corresponding Author: r.ridley-duff@shu.ac.uk

Abstract

Objectives - There has been limited discussion of the conceptual dimensions of the *Social Enterprise Mark* (SEM), or the implications of its growing legitimacy. This paper makes a contribution to knowledge by critically discussing the conceptual dimensions of the SEM and providing some empirical data on its likely effects.

Prior Work - Recent attempts by the academic community to define the social enterprise sector have run into linguistic and practical problems. Any definition tends to privilege one group of social enterprises over another with the result that co-operative and employee-owned enterprises, or enterprises pioneering public service reform, are marginalised in policy discourse. The arrival of the SEM 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 courses. They were asked to study published SEM criteria then evaluate three forms of social enterprise activity (a worker co-operative, a trading charity and a self-employed consultant). Participants were asked to rank these in order of likelihood of obtaining the SEM.

Results - Course participants from different sectoral backgrounds drew the same conclusions. Criteria were perceived to favour CICs and trading charities with social and environmental objects, but not enterprises that deliver social benefits through transforming labour relations and wealth sharing arrangements. Participants on the first course were bemused (and in some cases angered) when they found that award winning social enterprises would not meet the SEM criteria.

Implications - The SEM's evaluation criteria currently favour 'social purpose' enterprises that explicitly target a beneficiary group or community, and not 'socialised' enterprises that transform labour relations, promote participative democracy, or design new wealth sharing arrangements that lift communities out of poverty.

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 in the mid-1990s towards charity-like values embedded in *The Social Enterprise Mark*. The paper proposes a critical research strategy to investigate the origins and discursive effects of the SEM's evaluation criteria.

Keywords: Co-operatives, Social Enterprise, Governance, Branding

Introduction

Social enterprise has emerged as a new way to describe a wide variety of organisational forms and entrepreneurial approaches that embed social responsibility in enterprising activities. Touted as both the economic engine of the future (Harding and Cowley, 2004) and the main vehicle for corporate social responsibility (CSR) (London and Morfopoulos, 2010), considerable confusion has arisen regarding its nature and contribution to changing business practice. Recent attempts by academics to define the social enterprise sector have run into linguistic and practical problems. Any definition, it seems, privileges one group of social enterprises over another (Lyon and Sepulveda, 2009; Dart, Clow and Armstrong, 2010). Issues include problems acknowledging the social contribution (and social purpose of) worker co-operatives and employee-owned enterprises (Ridley-Duff and Bull, 2011) as well as lack of recognition for innovative approaches to public service delivery (Dart, Clow and Armstrong, 2010).

The arrival of the Social Enterprise Mark in the United Kingdom takes place amidst these conceptual and practical difficulties. Given that it has proved difficult to create a conceptualisation of social enterprise that is adequate for the purposes of sector mapping, there is understandable interest in the Social Enterprise Mark as a definition of social enterprise (hereafter referred to as “SEM” or “the SEM”). The purpose of the SEM, according to its principal advocates, 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. 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 (Finlay, 2010). It is, therefore, timely to engage in an analysis of the conceptual dimensions of the *Social Enterprise Mark* and consider the implications should its legitimacy grow further (Allan, 2005).

The motivation for writing this paper comes from a series of private conversations in the social enterprise research community, and seminars at three co-operative and social enterprise courses¹, on the impact of applying the criteria in *The Social Enterprise Mark* to different types of social economy trading. The attitude in the academic community to the idea of a normalising framework has been one of ambivalence (as a policy option), mainly on the basis

¹ 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).

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; Teasdale, 2011). This paper reviews feedback from seminar participants, and highlights bemusement (and occasional anger) at the impact of applying the SEM's criteria.

It is the explication of this bemusement and occasional anger that creates the justification for critical research. Kinchloe and McClaren (1994) emphasise how critical research can rebalance accounts of a phenomenon so that hidden discourses surface and dominant discourses can be re-evaluated. The perspective adopted in this paper is that this can be achieved by permitting voices previously silenced to counter the effects of distorted communication that have arisen out of asymmetries in power (Habermas, 1984). The theoretical perspective of the paper, therefore, is similar to Curtis (2008) in that critical research is regarded as a useful strategy to prevent executive capture of social enterprise and promote critical thinking regarding its conceptualisation. Ironically, we also argue that it will *prevent* the subversion of perspectives considered important when social enterprise agencies were first created in the UK (see Teasdale, 2011).

This paper is divided into five sections. In the first, the authors surface new evidence on the origins of social enterprise in the UK to distinguish between the 'socialisation of enterprise' and the 'pursuit of social purposes through enterprise'. Having made this theoretical distinction, the authors explore shifts in the conceptualisation of social enterprise over the last 15 years. 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 continued attempts to reform public services.

The second section sets out the methodology used to explore the emphasis on 'socialisation' and 'social purpose' in the SEM's evaluation criteria. The third section presents the findings from three groups of part-time students engaged in social enterprise development. Based on these, we argue that potential SEM applicants believe that trading charities and non-profit organisations are advantaged by the SEM's criteria, while worker co-operatives and employee-owned businesses are disadvantaged. In the discussion, we explore apparent contradictions and highlight the role of New Public Management (Hood, 1995) in contributing to this re-conceptualisation. In the conclusions, we draw out our theoretical conclusions and set out the implications for the next phases of critical research.

Rediscovering Socialised Enterprises

In tracing the history of attempts to conceptualise social enterprise, 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; the issue of share capital; one-person, one-vote systems for the election of governors, and; trading models that democratise control of capital. The latter, on the other hand, emphasise: legal models that prevent the issue of share capital; non-profit and charitable company governance that limits employee and beneficiary involvement, and; philanthropic sources of capital (Ridley-Duff and Bull, 2011).

While some academics frame social enterprise in terms of long-standing non-profit characteristics (see Haugh, 2005; Domenico et al., 2010), early theorisations of ‘social’ in both social entrepreneurship and social enterprise owe a debt to Ellerman (1984, 1990). Ellerman argued that entrepreneurship had been socialised in the Mondragon network of cooperatives and developed a theory of social institutions based on the acquisition of citizenship rights to capital and 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 governors. It follows from this argument that worker co-operatives and employee-owned firms are ‘social’ rather than ‘private’ enterprises, particularly where this is combined with democratic self-management. Ellerman also argued that to sustain socialisation, master-slave norms of employment would need replacement by forms of voluntary association and partnership working. This perspective was emphasized in early social enterprise policy and definitional debates in both the UK and EU (see Westall, 2001; Borzaga and Defourny, 2001; Ridley-Duff, 2002).

At the heart of Ellerman’s argument is an assumption that governing bodies that deny those they govern the power to design and participate in the governance system, and which reinforce this separation through adopting master-slave norms of employment, will not be able to sustain social enterprise. This argument is similar to Turnbull (1994, 1995) who considered which stakeholders in an enterprise are governed in a meaningful sense and concluded that it is those producers who are employed. 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 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 at the same time 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 enterprise stakeholders (Turnbull, 2002).

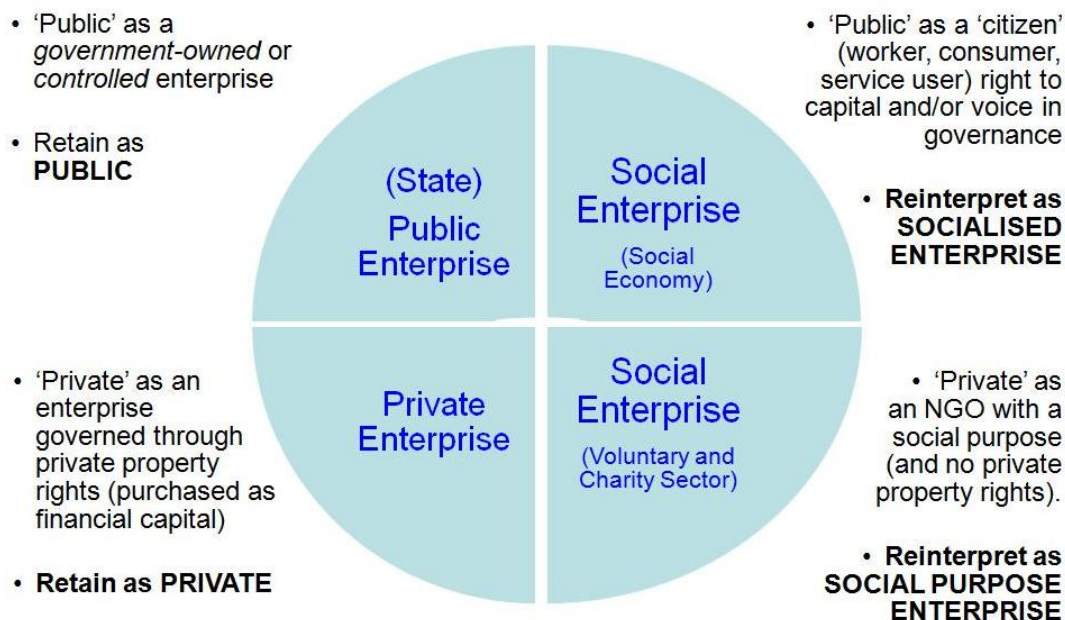
The lack of influence that governors have over the daily lives of customers, suppliers and financiers means that these groups are not governed by the enterprise in a meaningful sense. Their formal inclusion in governance, while helpful to the balancing of multi-stakeholder interests, is not sufficient to claim that an enterprise is 'social' (Ridley-Duff, 2007). For Ellerman and Turnbull, no organisation is social unless it admits its producers into membership, permits them to influence the design of the governance system, and to select (at least some) of the governors.

This argument can be extended to charitable and voluntary organisations who participate in the social economy (Monzon and Chaves, 2008). Given that charities, non-profits and voluntary agencies are frequently last ditch attempts to plug gaps created by market and state failure (Alter, 2007), they are often the only provider of goods and services needed by their service users. Where the charity or voluntary organisation is providing goods and services that no-one else will supply, the inclusion in governance of those who receive them, their capacity to influence the governance system, and their power to select (at least some of) the governors, can all be seen as pre-requisites for claiming the enterprise is 'social' rather than 'private' (see EMES social enterprise definition in Borzaga and Defourny, 2001).

For the purposes of this paper, the authors frame this as a *socialisation* perspective on enterprise, based on the advocacy of worker co-operatives, employee-ownership and service user involvement in governance (see Westall, 2001 Ridley-Duff, 2002; Teasdale, 2011). This differs from a *social purpose* perspective rooted in writings on social entrepreneurship, drawn from US influences (Leadbeater, 1997; Dees, 1998; Galera and Borzaga, 2009) and popular texts on non-profit management (Hudson, 2002). The social purpose perspective emphasises the social goals of the entrepreneur and the social purposes of the enterprises they create (see Martin and Osberg, 2007; Chell, 2007). While the socialisation perspective focuses on organizational citizenship, stakeholder rights to capital, and participation in governance, the social purpose perspective de-emphasises these, and gives more weight to institutional arrangements that support social entrepreneurs' power to pursue a mission (Scofield, 2011).

Figure 1 makes this socialisation perspective more visible, grounds it in European concepts of social economy (Monzon and Chaves, 2008), and distinguishes it from US-style venture philanthropy to support enterprising non-profits (Dees, 1998).

Figure 1 – Theorising ‘Social’ in Social Enterprise



Interpretation of Ellerman, 1990

Founding Mothers and Fathers of the Social Enterprise Movement in the UK

To illustrate the gradual transition from one perspective to another, 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 democratic orientation of the EU’s social economy (Borzaga and Defourny, 2001; Kerlin, 2006; Monzon and Chaves, 2008).

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)

Immediately apparent in this definition are five key concepts: worker and/or community ownership of the enterprise (social ownership); social and commercial aims (multi-purpose); co-operative management (workplace democracy); social, environmental and financial benefit (triple-bottom line); the hiring of capital by labour (anti-capitalist orientation). It moves beyond the concern to provide economic benefits for co-operative members and gives explicit recognition to social, community and environmental development.

These early ideas were spread through community enterprise movements in Scotland and the North England (Pearce, 2003), with the language of social enterprise stabilising around 1994 at a conference of co-operative and community business activists (Southcombe, 2009; Spreckley, 2011). The conference organisers took an emergent definition and incorporated the Social Enterprise Partnership (SEP)² to propagate social enterprises as trading bodies governed by social objectives with distinct characteristics (SEE, 2011 [online]):

- *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*

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

² The founders of Social Enterprise Partnership Ltd (SEP) – Cliff Southcombe and Freer Spreckley – traded from 1997 to 2001. Local Livelihoods (incorporated 2001) and Social Enterprise Europe (incorporated 2003) continued their work. The 1994 definition is still in use by Social Enterprise Europe.

- *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 enable us to flesh out aspects of enterprise that contribute towards socialisation and social purposes. In Table 1, the authors map the characteristics of these early attempts in terms of: a) contribution to the socialisation of enterprise through the granting of public/social rights to become owners and controllers of (financial, social and human) capital, and; b) contribution to public/community benefit through activities that have a social purpose. In contrast to the heavily socialised co-operative model (see Table 1), the authors found that early definitions of social enterprise attempt to balance socialisation and social purpose. Even with these changes, the socialisation perspective remains dominant, rooted in European thinking on social economy (Monzon and Chaves, 2008).

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 cooperative principles	X	X
• Cooperation between cooperatives	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
• 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"> • 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 • Producing goods and/or selling services • A high degree of autonomy • A significant level of economic risk • Minimum amount of paid work 	 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 2 shows the company objects (Memorandum of Association, January 1998). In this, 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).

Figure 2 – Memorandum of Association, Social Enterprise London

<p>Memorandum of Association – Social Enterprise London – 26th January 1998.</p> <p>C. Objects</p> <p>(1) The objects of the company are:</p> <ul style="list-style-type: none"> (i) To promote the principles and values of the social enterprise economy in Greater London and its environs. (ii) To promote co-operative solutions for economic and community development. (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. (iv) To promote, develop and support local and regional economic resources and opportunities. (v) To address social exclusion through economic regeneration. (vi) To create a regional framework to support and resource development of the social enterprise sector. <p style="text-align: right;">Source: Companies House</p>

From 1995 onwards, US perspectives on social entrepreneurship began to surface in European debates (see Leadbeater, 1997; Ridley-Duff and Bull, 2011). Social entrepreneurship networks and regional support agencies started to form after the incorporation of the Social Enterprise Coalition in 2002. In the context of the SEM, the incorporation of Regional Infrastructure for Social Enterprise Ltd (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 Union³. 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).

While the founders of RISE had connections to the co-operative movement, they may not have been as committed to worker and community co-operatives as the founders of SEL and SEP. This may explain the drift away from explicit co-operative principles in RISE's Articles of Association, and the subsequent switch of emphasis to social and environmental purposes.

³ This was established by retrieving the incorporation documents from Companies House.

The Social Enterprise Mark

RISE's thinking developed through a pilot study on the SEM in 2008. As its 'champion', RISE consulted a wide range of organisations (including representatives from the co-operatives movement) in an attempt 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 2011, the annual fees increased to between £350 and £10,550 (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, 2008: 1

Table 2 contains a summary of the criteria developed to evaluate whether an applicant for the SEM has a legitimate claim to be identified as a social enterprise. In these criteria, it is evident that there has been a discernable change of emphasis in the conceptualisation of social enterprise. As with the CIC, there is a requirement for a not-for-profit dissolution clause.

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"> • 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). • 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). • Have own constitution and governing body • Profit predominately used / distributed for social / environmental purposes (including residual assets). • Have 50% or more income from trading, and have traded for at least one year. • Evidence that social / environmental objects are being achieved. 	<ul style="list-style-type: none"> • Social and environmental objects can be evidenced in constitutional documents. • Must be an “independent business”, legally constituted, with autonomous governance. • Must earn 50% or more from trading, evidenced using “standard accounting practices” • Devote 50% or more of the organisation’s profits to “social/environmental purposes” • Ensure that all residual assets are distributed for “social/environmental purposes” (if dissolved). • Can demonstrate that social/environmental objects are being achieved.

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 considerably. In the UK, only Community Interest Companies, Community Benefit Societies 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 hard to achieve recognition (see Chapter 7, Ridley-Duff and Bull, 2011).

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 (see Table 3). A number of characteristics from earlier social enterprise 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.

Table 3 – Analysis of the Conceptual Dimensions of the Social Enterprise Mark

Characteristic	Socialisation	Social Purpose
<i>Social Enterprise Mark (RISE, 2008-2010)</i>		
<ul style="list-style-type: none"> • Explicit and ‘wider’ social / environmental objects to benefit the community. • Legally constituted, with a non-profit dissolution clause that secures residual assets for ‘social/environmental purposes’. • 50% or more trading income (evidence by standard accounting practices) • 50% or more of trading surpluses (profit) invested in social/environmental purposes • Independent business with autonomous governance • Can demonstrate that social/environmental objects are being achieved 	 - X	 X X - X X

With this 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

Critical research aims to have a transformative effect, rather than meet conventional standards of generalisability, validity and reliability (Alvesson and Deetz, 2000). In this study, therefore, the evaluation criteria of Kinchloe and McClaren (1994) are adopted and the authors make explicit their application:

- *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 exploratory 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. This 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 who were forming a social enterprise working group to support tenant-led enterprises. The final two in the second group worked directly for (or in) social enterprises, and were acting as additional advisers to the project. The third group comprised 10 senior managers / trustees in registered charities studying 'Charity Trading and Social Enterprise' for an MSc qualification. Participants in the second and third groups, therefore, were less familiar than the first group with the history and development of social enterprise.

Whilst opportunity samples run the risk of surfacing only a subset of perspectives, the diverse composition of the groups mitigated this danger. The selected groups enable the researchers to explore the impact of the SEM on different social enterprise constituencies. The reaction of participants, if consistent across the groups, provides an authentic indication of the likely impact of the SEM on potential applicants.

Participants were asked to study the SEM criteria then consider the following three 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*?" (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?*” (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?” (commercial activity to support both socialised and social purpose enterprises).

Participants were asked to rank the examples in order of eligibility for the SEM. In the first two groups, their responses were written on a white board for further discussion. As the results puzzled the authors, the conduct of the learning activity was modified for Group 3 to ensure that tutor and group discussions were not influencing participants’ final conclusions. Group 3 participants were divided into pairs and asked to write down their rankings on paper before reporting them to the wider group for discussion. This confirmed that results from the first two groups were both plausible and confirmable.

The next section reports findings and the issues they raised for participants. The evidence from these exploratory learning activities, therefore, offers trustworthy insights into the views of participants (Lincoln and Guba, 1986). It sensitised the authors’ to the discursive and normative effects of the SEM, helped them appreciate how participants’ views changed as a result of their learning activity, and offers the basis for the authors’ argument that further critical research is needed (Kinchloe and McClaren, 1994).

Findings

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). Participants felt that the worker co-operative (Case 1) would need to add a not-for-profit dissolution clause and external beneficiary group to its Articles 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.

Participants on the first course, 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-owned⁴ 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). One charity student felt strongly that a charity should 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 course (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 processes to specifically acknowledge external stakeholders (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 one participant (in dialogue with the authors of this paper) 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 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. This is all the more surprising when self-employed people who profit maximise are instantly recognisable as a form of private enterprise. Conceptually, however, participants did recognise that self-employed people can engage in social

⁴ 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.

entrepreneurship, and that there are bodies (such as ASHOKA and UnLtd) that formally recognise their work.

Taken together, these discussions crystallised how the conceptualisation of social enterprise (as defined by the SEM) is framed to promote the incorporation and autonomous governance of trading organisations that pursue social or environmental goals, but not to promote the socialisation of ownership, management and entrepreneurship envisaged by Ellerman (1990) and Turnbull (1995, 2002). This being the case, only the task and impact of the enterprise is evaluated, not its processes for ownership, wealth distribution, management and governance.

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 them angry). The pursuit of democratic ownership, inclusive management practices and democratic control of capital, are not in themselves recognised as social or a 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).

SEM criteria value 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'. The early formulations of social enterprise, however, invite an assessment of Articles of Association to see if there are *processes* by which the workforce and service users (customers) participate in governance and wealth sharing, as well as evidence that these are operating effectively.

This point is noted in Westall's (2009) comments on Social Enterprise Mark criteria:

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... You also cannot be a company limited by shares under the proposed criteria which would mean that 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 many forms that have no asset lock written into their constitution. 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 them from socialising systems of ownership, management, 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 reintroduction of hierarchy undermines the “principles of participatory democracy” advocated by Social Enterprise London (1998).

In respect of Mondragon, there is sufficient flexibility in the SEM criteria regarding the payment of profits to members to stay within its guidelines. However, at Mondragon, members contribute to personal capital accounts as well as collective reserves. These accounts receive trading profits (varying from 40 – 70%), but can only be withdrawn when a member leaves or retires. This ensures high levels of reinvestment each year (BBC, 1980; Whyte and Whyte, 1991). In practice, it would be rare for Mondragon co-operatives to exceed the 50% SEM threshold because they contribute profits to infrastructure bodies as well as their own collective reserves before distributing the balance to members. However, members’ capital accounts do represent a form of private property, and can be used as security for bank loans and mortgages. Furthermore, the surpluses (i.e. reserves and assets) 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 is reasonable to conclude that Mondragon-style co-operatives would not satisfy the SEM criteria.

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 shares

(CLS), a public limited company (plc), or one limited by a members' guarantee (CLG). This being the case, the SEM does not yet provide a framework that meets the needs (or aspirations) of a significant part of the social enterprise movement.

New Public Management

Whether the SEM provides appropriate identification criteria, however, is only part of a larger issue. 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 business-like management practices characteristic of New Public Management (NPM) (Hood, 1995). This may explain why statutory powers of intervention were given to the CIC regulator, but not to a CIC's own stakeholders. It may also help to explain why the SEM received public funding and follows some of the norms established by the Community Interest Company (e.g. dissolution clause, dividend caps and standard accounting practices). Curtis (2008), however, argues that this standardisation undermines 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’, a metaphor for the way that resistance to a dominant discourse acts as the catalyst for the creation of innovative legal forms, new approaches to ICT, and management practices that value diversity, difference and dialogue (compare Murray, 2010).

Rejecting NPM, however, depends on an enhanced role for critical thinking. Unlike traditional knowledge development under NPM, in which a critical perspective is seen as a check and counter-balance to dominant ‘rationalist’ norms (Grey and Mitev, 1995), co-operative and employee-owned social enterprises adopt a critical perspective as their starting point for designing systems of ownership and control (see Ridley-Duff and Bull, 2011). Following the managerial logic implicit in critical theory (Alvesson and Deetz, 2000; Parker, 2002) information systems are designed to share and reveal information to internal and external stakeholders, while limiting management control⁵ (Erdal, 2011). Governance systems, likewise, are designed to include enterprise stakeholders at key points in decision-making processes, or in specific types of decision (such as a merger or acquisition), rather than promote their exclusion (Turnbull, 2002).

⁵ This can be taken to extreme lengths, as Wikipedia, Open Source software and eBay's trading system demonstrate (see Chapter 5, Ridley-Duff and Bull, 2011 for further discussion).

It is noteworthy that the characteristics of enterprise put forward by early contributors to social enterprise theory (labour hiring capital, co-operative ownership and networking, extending worker ownership, participatory management) are now more likely to be found in writings on employee ownership than advocacy of social enterprise (compare Black and Nicholls, 2004 with Davies, 2009 and Erdal, 2011). The regulation of the CIC model by the state, and the SEM's inclusion of a not-for-profit dissolution clause, seeks to transform social enterprise into a charity-like vehicle for the transfer of public assets to social businesses and social investment in them to deliver 'public' services.

As the SEM embeds many of 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 had successfully applied (Finlay, 2011). Given that the SEM criteria are almost all focussed on social purpose, and not the socialisation criteria put forward by the ICA for co-operatives, this should not come as a total surprise (compare Tables 1 and 3).

Interestingly, the SEM (albeit not obviously) contains a clause that provides an escape route from neo-liberal managerialist thought (Grey and Mitev, 1995). One evaluation criteria, potentially, offers a pathway back to participative democracy. The last criterion requires 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. Social auditing, as we noted earlier, was developed in the worker and community co-operative movement at Beechwood College as a methodology for reviewing social and environmental impacts with stakeholders (Spreckley, 1981). It has subsequently been used by many social enterprises as a methodology for governance (Pearce and Kay, 2008; Southcombe, 2009).

The significance of the Beechwood Model - and the SEN model that followed - is that it advocates a participative and inclusive approach to governance. This regards employees, volunteers and beneficiaries (i.e. customers and/or service users) as 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. This, it is claimed, protects (or re-establishes) the social nature of the enterprise by countering the discourses and practices of private enterprise and public management. In short, it provides a

pathway back to *socialisation* of enterprise by supporting inclusive governance processes, and not just econometric measures of social impact.

In concluding this section, therefore, we draw out the case for further exploration of the origins and development of the Social Enterprise Mark to uncover how its conceptualisation and criteria were socially constructed, who they were intended to benefit, and what impact they are having.

Conclusions

This exploratory paper is the first stage of an ongoing research project to deconstruct the conceptual dimensions and understand the discursive effects of the Social Enterprise Mark. From this first phase, it is possible to outline some theoretical conclusions that can be further explored and developed in subsequent work.

Firstly, the SEM's focus on social purpose at the expense of socialisation makes it more attractive to the public, private and charitable sectors as they seek to reinvigorate the principles of New Public Management (Hood, 1995) and accelerate the reform of public services. As the state is broken into more business units, the SEM provides a way to legitimise the enterprises that take over delivery of public services without any serious challenge to existing power structures, labour relations and philosophies of management. The not-for-profit dissolution clause, on paper, retains community control over former state assets. In practice, it relies on regulation rather than participative democracy as the institutional enforcer. Is regulation or participative democracy more effective in practice?

Secondly, a regulated asset lock (rather than one voted for by members) moves social enterprise closer to trust law arrangements, potentially weakening mutuality and participatory democracy as core concepts of social economy. This is at odds with the early theorisations of social enterprise which depended on democratic member control to ensure assets were used for member and community benefit, and which allowed distribution of assets under democratic member control. Regulated locks may satisfy public and charitable funders, but it also increases their power relative to those who work in (or use the services of) a social enterprise. Legal and regulatory instruments encouraged by the SEM make it harder for organisational members to exercise democratic control over the social, human and financial capital they create.

Furthermore, regulated assets locks are, arguably, less appropriate where a large number of small shareholders have created an enterprise to lift themselves out of poverty. As Yunus (2007) argues, there is a rationale behind for-profit social enterprises where the incomes of the workforce are low and the enterprise is socialised. In the UK, the share of liquid assets owned by the poorest 50% of the population has dropped from 11% to 1% over the last 15 years as a consequence of neo-liberal economic policies (ONS, 2006; Davies, 2009). Socialised ‘for-profit’ enterprises that redress this imbalance contribute to social and economic democracy, benefiting not only the individuals who create them but also the communities and societies in which they are embedded (Wilkinson and Pickett, 2010). In such communities, a trust law mentality (and non-profit orientation) will make it harder to eliminate poverty because non-profits depend on maintaining a pool of beneficiaries to justify their continued existence (Ellerman, 2005). If a for-profit social enterprise fulfils its social purpose (by lifting people out of poverty) it remains socialised and worthy of recognition for its past achievements. Its continuing social and economic benefit is that it acts as a buttress against the future impoverishment of its members (Ridley-Duff and Bull, 2011).

It is this last point that provides the strongest rationale for recognising social enterprises that transform labour relations through worker control and employee-ownership. There is compelling evidence from Mondragon in Spain (Whyte and Whyte, 1991) and Emilia Romana in Italy (Retaskis, 2011) that these arrangements transform regional economies and regenerate civil society within a generation if they receive sustained political support.

In arriving at a conclusion 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. 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 entrepreneurship, ownership, governance and wealth distribution.

In the next phase of research, it will be necessary to deconstruct the SEM’s evaluation criteria by conducting a historical analysis of the way it developed. Aside the many background reports and on-line discussions that now exist, interviews with the people who participated in its development will be helpful. To avoid executive capture, and ensure those affected by the SEM have an equal voice in its future development, interviews will also be needed with applicants and holders of the SEM, as well as those who were denied the SEM or actively chose not to apply for it. For this reason, a strategy based on purposive and snowball sampling through existing social enterprise networks offers the best opportunity for

theoretical sampling and saturation to develop a deeper understanding of its impact (Glaser and Strauss, 1967).

This will support a third and final phase of research: a web-based diagnostic survey that enables members of co-operative and social enterprise networks (and others) to explore the question ‘how social is my enterprise?’ By matching responses to different constructions of social enterprise, the theoretical conclusions of this paper can be further scrutinised while simultaneously sensitising people to different types of social value creation. It will also offer the developers of the SEM (should they wish) a system for developing more robust and inclusive criteria for social enterprise identification.

About the Authors:

Dr Rory Ridley-Duff is a senior lecturer at Sheffield Business School who worked in London’s social economy throughout the 1990s. A founding subscriber to Social Enterprise London, he completed his PhD in 2005, and then established the MSc Co-operative and Social Enterprise Management at Sheffield Hallam University. He is lead author for *Understanding Social Enterprise: Theory and Practice* (Sage Publications), an editorial board member of the Social Enterprise Journal, and has just completed 18 months as an UnLtd ‘Ambassador for Social Entrepreneurship in Higher Education’.

Cliff Southcombe is the managing director of Social Enterprise Europe, and one of the UK’s elected representatives to the Euclid network of European Third Sector Leaders. He has formed many social enterprise agencies and networks in the UK, Cyprus, Turkey, Poland and continues to build an international profile through training and development work for the British Council. In addition to delivering social enterprise courses at Hull University, Cliff has provided a range of bespoke and accredited training courses for more than 20 years.

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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