Chapter Two

A review of theory and literature relating to social enterprises

Introduction

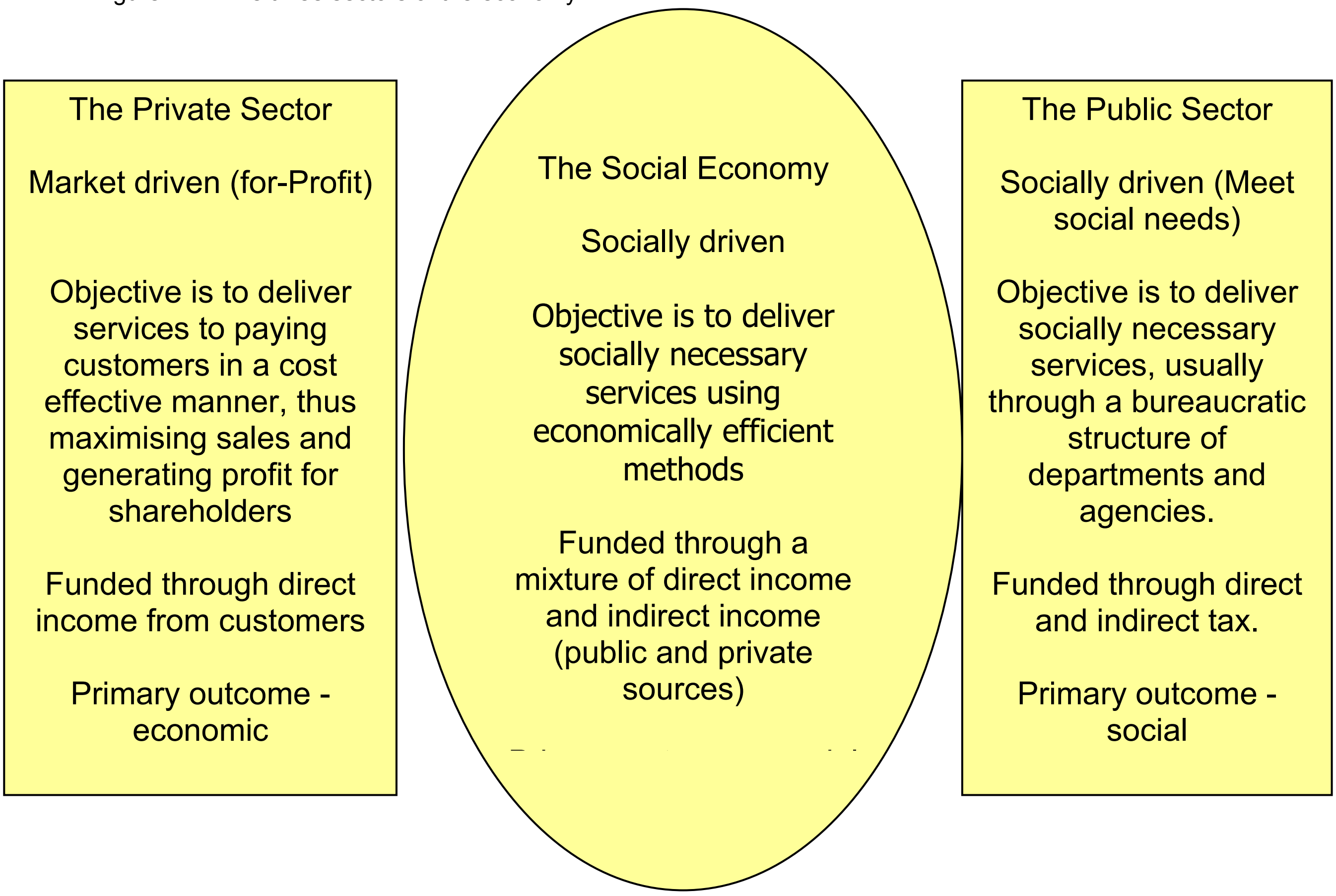
This chapter will address the general development of social enterprises, commencing with an examination of the community and voluntary sector and the internal and external pressures that encouraged practitioners to seek more commercial opportunities in order to achieve their social mission. The chapter will continue by examining the phenomenon of the social enterprise and addressing the general issues raised by scholars and practitioners. Two corollary issues will then be examined, the area of social entrepreneurship as this speaks to the rationale and motivation for the establishment of social enterprises and then social capital[1], which speaks to the social value being created. The latter part of the chapter will examine the main theoretical explanations for the development of social enterprises and this discussion will cover topics within economic theory, sociology and institutional theory.

An understanding of the community and voluntary sector

Many theorists have categorised society, or in some cases the economy, into three broad 'sectors': the public sector, the private sector, with the community and voluntary sector somewhere in between. (Douglas, 1987; Kearns, 2000; Pearce, 2003). In Table 1.1, the community and voluntary sector was shown to constitute the intermediate area between the public and private sectors at a societal level and the social economy constituted the intermediate area in the macro economy. Figure 2.1 outlines the differences between the three sectors at a macroeconomic level.

[1] Social capital is conceptualised as a form of capital in society which can be built and utilised through the engagement of citizens in community activities, networks and social interaction. The subject will be discussed later in the chapter.

Figure 2.1 - The three sectors of the economy



There is evidence that the community and voluntary sector has grown in recent decades and become an increasingly important economic and political force. According to the Organisation for Economic Co-operation and Development (OECD):

> 'The non-profit sector, often associated with concepts such as the "social economy", "third sector" and "third system", is a growing social and economic force all over the world and a key element in employment and social policies in most OECD countries'
> (OECD, 2003, 10)

Anheier and Ben-Ner (1997) concurred and noted that the nonprofit sector has become an 'economic force' in industrialised countries. The OECD (2003, 11) asserted that interest in the sector has grown in the past two decades mainly as a result of the crises in European welfare systems and as a strategy to counter social exclusion. In fact, if taken together as a single economy, the community and voluntary sector would be the sixth largest economy in the world (Salamon, 2002).

However, the community and voluntary sector was far from a homogeneous entity. Citing Kendall and Knapp (1995), McBrearty's (2007, 67) agreed with the description of the community and voluntary sector as a 'loose and baggy monster'. There existed a broad division between how the sector is defined in the United States of America and in continental Europe (Evers and Laville, 2004, 11-14). To cite Seibel and Anheier (1990, 7), 'few countries use the American term *"nonprofit sector"* to describe the set of organizations located between the private, for-profit and the public sector. While the term *"nonprofit sector"* refers to a relatively well-defined organizational universe in the United States and perhaps in the United Kingdom, the term seems less precise when used to distinguish such sectors in most European countries'.

The American approach defined the sector by its 'non-profit distribution constraint' and defined the membership of the sector through their compliance with the US tax code (Weisbrod, 1998c; Defourney, 2001; Ben-Ner and Gui, 2003; Kerlin, 2006). The European definition of the sector was broader and included a wider range of organisational forms – including mutual bodies, co-operatives and associations – and defined the sector by reference to the intermediate role it played between the public and private spheres, thus the reference to a 'third sector' (Mertens, 1999; Defourney, 2001; Evers and Laville, 2004). However, Laville and Nyssens (2001, 312) noted that the 'third sector does not comprise non-profit organisations alone; it also includes all organisations in which the material interest of capital investors is subject to limits, and in which creating a common patrimony is given priority over a return on individual investment'. By their nature the American 'nonprofit sector' and continental European 'l'économie sociale' were both very general, all encompassing concepts covering a wide range of activity and organisational form. As a result, neither can 'reflect situations which only partly conform to their definition' (Defourney, 2001, 10).

However, Seibel and Anheier (1990, 7) argued that the two terms 'share many central features'.

If there was divergence of understanding at the level of civil society, then this has continued at the level of the macro economy. In the Irish case, the term social economy was used to refer to the economically active part of the community and voluntary sector. The concept of l'économie sociale originated in France and was well known within the Latin countries, although less known in the northern part of the European Union and the former Soviet bloc (Satre Ahlander, 2001, 416). The continental European definition was a broad definition which constituted l'economie sociale as part of civil society (Crossan, Bell and Ibbotson, 2003, 3-4; Delors, 2004, 206-215; Teague, 2007, 92). Delors (2004, 207) asserted that within the l'économie sociale 'the keyword is not autonomy but solidarity'. However, there was also a narrow definition which defined the social economy as a collective term for that part of the economy that was neither privately nor publicly owned' (Pearce, 2003, 28; Haugh, 2005, 1-12; Teague, 2007, 92-92). This confused picture was then added to by the European Union which introduced the term 'third system' to equate to the macroeconomic level definition of the social economy (see Figure 1.1). Lloyd (2004) outlined the development of the 'third system' concept and its adoption by the European Union. According to Lloyd, the third system was not a 'formally defined categorization' but 'an inclusive emblem' (ibid, 191). He contrasted the third system with the third sector. The third system was a 'process in motion or movement' (ibid, 192) whereas the third sector was a 'structural/political entity' with structured boundaries and a formal membership (ibid, 193). This definition of the third system, emphasising the 'system' rather than the 'sector', was supported by Sátre Ahlander (2001, 418). However, the term created more confusion that clarity and Lloyd believed that the term has 'had its day in the sun' because, 'sadly, like all hybrids, the third system has a degree of equivocal parentage that makes it hard to find strong voices ready to speak up for it and that makes it an easy focus for criticism from those with more strongly held opinions to the left and right of it and who demand to know what *exactly* it is' (Lloyd, 2004, 192). It was therefore not surprising that Arthur, Scott Cato, Keenoy and Smith (2004, 19) asserted the 'need to devise some pragmatic, operational definitions'.

Unfortunately the ambiguity continued at the micro-societal level. There were two broad categorisations of community and voluntary organisations according to Moulaert and Nussbaumer (2005). 'Essentialist' definitions attempted to describe the characteristic of the entity; however, these definitions were 'context-alienated and therefore detached from real situations', effectively defining to the lowest common denominator (Moulaert & Nussbaumer, 2005, 2073). Alternatively there were 'holistic' definitions that had 'historical, contextual and institutional' considerations. However, holistic definitions are 'iterative' in nature and 'become lengthy and for positivist social scientists, a boring or non-scientific narrative' (Moulaert & Nussbaumer, 2005, 2073). In another work, Moulaert and Ailenei (2005, 2037) asserted that the definition of the social enterprises could 'only be fully grasped when understood within the institutional contexts and epochs from which they arose'. Social enterprises developed in different waves over time, usually in response to socio-political or economic crisis. Each historical wave had different underpinnings and 'defined their own philosophical and theoretical analysis of exclusion and solidarity, social development and redistribution that inspired…social economic practices' (Moulaert & Ailenei, 2005, 2038). Most definitions of community and voluntary organisations identified within the literature were essentialist in nature.

For example, the United Nations (2002) defined a community and voluntary organisation using a 'structural-operational' definition; as a body that was self-governing, not-for-profit and non-profit distributing, was institutionally separated from government and operated using non-compulsory methods (Anheier, 2005, 53-54). The European Union used a different approach, defining community and voluntary groups as 'private, autonomous organisations that, *inter alia* pursue social and/or environmental objectives rather than maximising profits and return on capital investment, place limits on private, individual acquisition of profits and redistribution, work for a local community, or for groups of people of the civil society sharing common interests and tend to involve stakeholders, including workers, volunteers and users, in their management' (ECOTEC Research & Consulting, 2001, 6). Dobkin Hall (1987, 3) defined a nonprofit organisation as 'a body of individuals who associate for any of three purposes: (1) to perform public tasks that have been delegated to them by the state; (2) to perform public tasks for which there is a demand that neither the state nor for-profit organisations are willing to fulfil; or (3) to influence the direction of policy in the state, the for-profit sector, or other nonprofit organisations'. Laville and Nyssens (2001, 315) noted that the principle of 'service to the community' is what distinguished a community and voluntary organisation from a for-profit one.

The above discussion outlined the difficulties in reaching commonly accepted definitions and categorisations of the community and voluntary sector at every level: societal, macroeconomic and microeconomic/micro-societal. One major attempt to create an internationally-applicable categorisation of community and voluntary organisations was conducted under the auspices of the John Hopkins University Nonprofit Sector Project. Under this project a broad categorisation was developed called the International Classification of Nonprofit Organisations (ICNPO) (Salamon and Anheier, 1997, 67-90). However, the ICNPO was constructed within criteria of the American non-profit distribution constraint and was therefore less applicable to the European context as it excluded cooperatives and mutual aid societies (Evers and Laville, 2004, 12).

Another large distinction between the European and American community and voluntary sectors was the level of engagement between the sector and the public authorities in the delivery of public services through the welfare state.

Borzaga and Santuari (2003, 37-38) noted that the European community and voluntary sector was more directly involved with the state in the delivery of public services than the American sector. In America, there was a limited welfare provision whereas in Europe there was a far more developed and comprehensive welfare mix, or mixed welfare economy (Defourney, 2001, 2; Evers and Laville, 2004; 20, Lewis, 2004, 163). In Europe, much of the discussion on the community and voluntary sector in the past three decades had centred on the restructuring of the welfare state and the role of the sector within this restructuring, which had been identified as a 'central and recurring theme' (OECD, 2003, 15). So strong was the link between the community and voluntary sector and the welfare state in Europe that Borzaga and Santuari (2003, 37-38) categorised the European sector until the 1970's into three distinct sets of countries based upon the type of welfare system employed. The first set of countries was defined by having a 'well-developed, universal welfare state', which provided both public-sector provision of services and cash-payment of benefits (Sweden, Finland and Denmark were the examples cited). The second set of countries was defined as 'having a developed and universal welfare state'. In these cases there was cash-payment of benefits but 'limited commitment on the part of government to direct supply of social services'. Notably, Ireland was identified in this second category of countries. The third set of countries was defined as having 'a less developed welfare state, especially until the early 1980's'. Italy, Spain and Portugal being defined as part of this group.

Evers and Laville (2004, 36) discussed the intermediary role of the community and voluntary sector in the European economy, the sector being involved in the allocation of resources through production of quasi-public goods and services. According to Defourney (2001, 1), the community and voluntary sector 'has a redistributive role through the provision of a wide range of (free or virtually free) services to deprived people via the voluntary contributions (in money and through voluntary work) which many associations can mobilise'. The identification of the European community and voluntary sector as a partner with European states in the delivery of public services via the welfare state marked a clear delineation between the European and American sectors.

Another area of bifurcation between the two definitions of the sector related to the 'non-distribution constraint', the requirement for the strict non-distribution of profits to the 'owners' of the business being central to the American definition of the sector. It is in the area of co-operatives that this distinction became most apparent in the transatlantic debate. The International Co-operative Alliance (2008) defined a co-operative as:

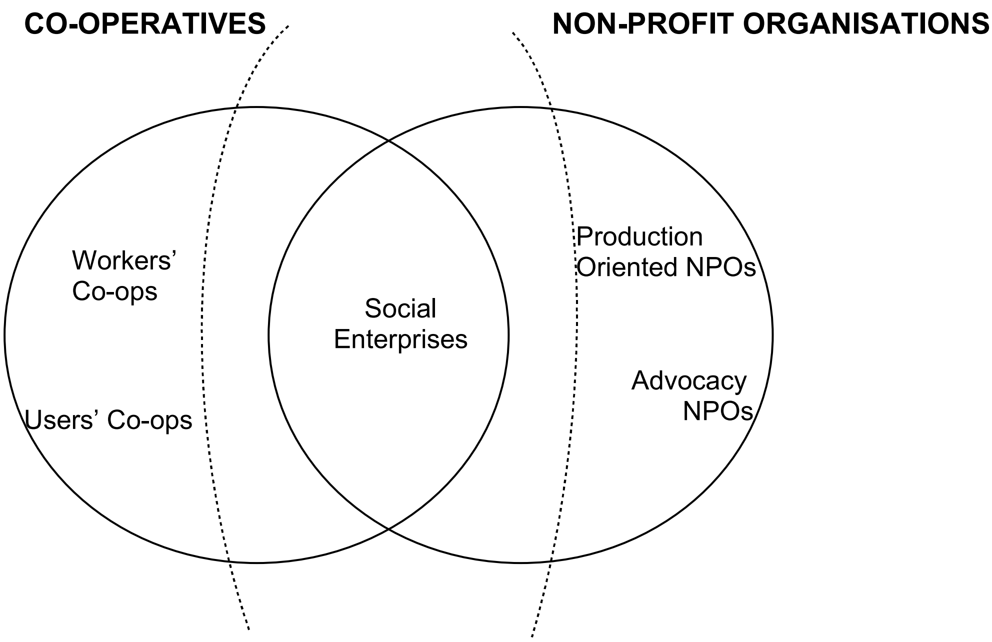
> 'An autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise'
>
> (International Co-operative Alliance, 2008, May 16th)

Co-operatives were therefore based upon principles of self-help, self-responsibility, democracy, equality, equity and solidarity (Alter, 2007, 3). Ward (2000, 7) outlined the distinctive characteristics of a co-operative, at least in 'philosophical terms' as: 'treating people as origins of action, not as objects to be manipulated or serviced; encouraging people to work together and help one another solve mutual problems; and designing useful structures, processes, products and services so as to meet people's needs rather than for profit-making purposes alone'.

Briscoe and Ward (2000, 9-13) have categorised the different variety of co-operatives as Consumer Co-ops (a credit union for example), Producer Co-ops (a dairy co-operative for example), a Worker Co-op (where the workers democratically own the business, these are common in Italy and Spain), Community Co-ops (Community Development Co-operatives in the Gaeltacht) and Multi-user Co-ops (a community childcare co-operative for example). A major issue relating to co-operatives was that they are not all part of the community and voluntary sector; some are for-profit organisations with a democratic structure. As discussed in Chapter 1, to constitute a social enterprise there must be a social purpose. As Defourney (2002, 22) noted, community and voluntary organisations 'often combine different types of stakeholders in their membership and are more oriented than classical worker's co-ops to the benefit of the whole community'. Laville and Nyssens (2001, 314) have also distinguished between social enterprises and for-profit co-operatives. Social enterprise co-operatives 'incorporate a goal of service to the community' and this was the main distinguishing feature. Pearce (2003, 30) made the differentiation between worker co-operatives and social enterprises, specifically that 'not all worker co-ops would see themselves in the social economy, preferring to see themselves part of the first system'.

If not all co-operatives were community and voluntary organisations with a social mission, then how can this be conceptualise? Defourney (2001) identified social enterprises as within the intermediary area between co-operatives and the community and voluntary sector (see Figure 2.2).

Figure 2.2 – Defourney's social enterprises at the crossroads between co-operatives and the nonprofit sector



Adapted from Defourney (2001, p22)

As can be seen, many Workers' and Users' co-operatives were not social enterprise co-operatives. Thus, again, a social enterprise co-operative must be defined by its operational activities rather than by its legal form.

The community and voluntary sector can be described therefore as large and diverse, with distinct divisions on a geographic basis and rife with definitional ambiguity. However, it was an important feature of society in nearly all countries and within Europe, the sector played an important role in the delivery of public and charitable services to marginalised persons and disadvantaged communities within the ambit of the welfare state.

External pressures since the 1970's

The last three decades have fashioned significant external challenges to the community and voluntary sector. These challenges can be summarised as the effects of significant economic change, political reactions to these changes, the retrenchment of the state from direct public service provision and the effects of globalisation.

'A substantial transformation has been taking place in the world economic order' (Ben-Ner, 2002, 6) and this has resulted in rapid change in both the public and community and voluntary sectors (Kearns, 2000, 3). The economic growth levels of the post-war era began to reduce after the 1960's and from the early 1970's the economic and political debate changed to address new issues. Defourney (2001) outlined the new issues:

> 'The persistence of structural unemployment in many countries, the need to reduce state budget deficits and to keep them at a low level, the difficulties of traditional social policies and the need for more active integration policies have naturally raised the question of how far the third sector can help to meet these challenges and perhaps take over from public authorities in some areas'
>
> (Defourney, 2001, 1)

The European financial crisis of the early 1990's resulted in demands for structural changes and a reduction in the public sector, characterized by privatisation and liberalisation (Sátre Áhlander, 2001, 416; Kerlin, 2006, 252). Borzaga and Defourney (2001, 352) commented that 'there is a clear and generalised coincidence between the emergence of the first experiences of social enterprises, at the end of the 1970's, on the one hand, and the decline in the rates of economic growth and the rise in unemployment that occurred in the same decade, on the other'. The challenges were also faced in Ireland. By 1986, the Irish debt to GNP ratio had risen to 129% (Reeves and Palcic, 2004, p530). As a result, the state disengaged from sectors where there was no obvious political reason for continued state involvement (ibid 535). Reeves and Palcic (2004, 529) however noted that in the early 1980's Irish policy to State Owned Enterprises (SOE) emphasised 'commercialisation' rather than liberalisation and privatization as in other industrialised countries.

Some authors have noted that the restructuring of the welfare state was not a negative phenomenon. Lewis (2004, 179) concluded 'that welfare state restructuring in Europe over the past decade has been undertaken in order to promote social cohesion and to defend the European social model. The policy intent has been to bolster social solidarity'. She continued to assert that 'European states have not withdrawn from the field of social welfare, but rather they have adopted new patterns of regulation and service delivery' (ibid, 183) and continued by noting that these strategies were 'Third Way' in nature and the importance of community and voluntary sector organisations to these strategies.

Giddens (1998) characterises third way politics as the rebirth of social democracy. He outlined a centralist political philosophy that sets itself apart from the old European social democracy and the American neo-liberal agenda. Giddens outlined the values of third way politics as:

- 'Equality (defined later as Equality of Inclusion)
- Protection of the vulnerable
- Freedom as autonomy
- No rights without responsibilities
- No authority without democracy
- Cosmopolitan pluralism
- Philosophic conservatism'

(Giddens, 1998, 66)

Third Way politics could be seen from many viewpoints as either a redefinition of social democracy in post cold-war circumstances, the building of a consensus between social democracy and old style liberalism, a political reaction to neo-liberalism, or a political accommodation of globalisation and modernity (ibid, p64)[2]. Third-way politics was the predominant political philosophy in Europe in the late 1990's and early twenty-first century and the cornerstone of Democratic Party politics the United States.

[2] For a discussion on the different views and critics of Third Way politics see Giddens, A (2000), 'The Third Way and its critics', (Polity Press, Cambridge, UK), especially Chapters One and Two.

Of import to the community and voluntary sector was the emphasis that Giddens placed on the renewal of civil society, which he advocated should involve:

- 'Government and civil society in partnership
- Community initiative through harnessing local initiative
- Involvement of the third sector
- Protection of the local public sphere
- Community-based crime prevention
- The democratic family'

(Giddens, 1998, 79)

In Europe, the European Parliament (with many third-way politicians *in situ*) advocated for a pilot programme for the social economy – the macroeconomic element of the community and voluntary sector. The attraction to third-way politicians was the ability of local communities to address local social issues through taking responsibility for the resolution of such issues and in a fashion that was commercial and potentially self funding; reducing the pressure on the public sector and giving better value for money than direct public-sector delivery of services. To quote Giddens:

> 'Since the renewal of civic culture is a basic ambition of third way politics, the active involvement of government in the social economy makes sense…If society can upgrade and reward such commitment and put it on a level with gainful employment, it can create both individual identity and social cohesion.'
>
> (Giddens, 1998, 127)

Giddens advocated a new mixed economy where public-private partnerships become a normal mechanism for economic activity:

> 'Third way politics, it could be suggested, advocates a new mixed economy…[that] looks instead for a synergy between public and private sectors, utilizing the dynamism of markets but with the public interest in mind. It involved a balance between regulation and deregulation…and a balance between the economic and the non-economic in the life of the society.'
>
> (Giddens, 1998, 99-100)

The community and voluntary sector would play an important part of this new mixed economy. Third-way concepts such as 'partnership' and 'civic engagement' have become central to political debate. Sátre Ahlander (2001, 414) noted that partnership was increasingly used by policy makers across the European Union to involve users and stakeholders in policy formulation. Lewis (2004, 183) commented on the importance in Europe of state/community and voluntary sector partnership and noted that 'it is a far cry from the business philanthropy of the USA'.

There was a dichotomy between the environments experienced by the community and voluntary sector on both sides of the Atlantic. 'On one side there was the European model of neo-corporatism with its social partnership between the government, firms and workers who negotiate for the social good. From a neo-liberal perspective, this model suffered from being rigid and unresponsive to the market. On the other side there was the neo-liberal model with flexible unfettered organizations better able to adapt to market conditions. From a European point of view, this model was viewed as shorttermist and prioritizing individual over societal benefit' (Boucher and Collins, 2003, 296). It must be remembered that the core of the American nonprofit sector consisted of 'general interest groups' providing services to the general public, whereas, the core of the European third sector was made up of 'mutual interest organisations or cooperatives' (Mertens, 1999, 515-516)

The nonprofit sector in the United States had also undergone change during the last thirty years. The connection between the welfare state and the American 'nonprofit sector' was never its defining characteristic, partly due to the less structured welfare state provision there but primarily due to the 'free market' ethos in American culture. According to Young (2003, 63), the American nonprofits 'have come to understand that they are embedded in a vigorous free market economy and must learn to survive and prosper in that environment. They also understand that in some ways they have become the new embodiment of social aspirations in an era that stresses non-governmental approaches to social problem-solving'. Thus market-oriented approaches were more central to the American culture and commercialisation within the community and voluntary sector seen as legitimate. According to Young (2003, 67), 'no longer conceived as a primarily revenue generation strategy, these commercial ventures suggest that market engagement may often be the most effective way to address a non-profit organisation's mission'.

Figure 2.3 - Comparison of community and voluntary sector in United States and Europe

	United States	Europe
Emphasis	Revenue Generation	Social Benefit
Common Organizational Type	Nonprofit (501(c)(3))	Association/Cooperative
Focus	All Nonprofit Activities	Human Services
Types of Social Enterprise	Many	Few
Recipient Involvement	Limited	Common
Strategic Development	Foundations	Government/EU
University Research	Business and Social Science	Social Science
Context	Market Economy	Social Economy
Legal Framework	Lacking	Underdeveloped but Improving

(Kerlin, 2006, 259)

Figure 2.3 outlines the main differences between the community and voluntary in Europe and United States. One interesting point is that the range of activities engaged in were wider in the United States as compared to Europe, as in Europe the sector 'tended to address those particular areas the welfare state had retreated from or had not been able to meet demand for' (Kerlin, 2006, 253).

Globalisation is a complex and elusive phenomenon. Pearce (2003, 140) outlined the following as the generally accepted characteristics of globalisation: liberalisation of markets, free trade as policed by the World Trade Organisation (WTO) and structural adjustments determined and enforced by global institutions, e.g., the World Bank and the International Monetary Fund (IMF). Brenner (2004) emphasised the complexity of the subject:

> 'Contemporary research on globalization encompasses an immensely broad range of themes, from the new international division of labour, transnational corporations, technological change, forms of industrial organisation, the financialization of capital, the consolidation of neoliberalism and urban-regional restructuring to transformations of state power, civil society, citizenship, democracy, public spheres, war, nationalism, politico-cultural identities, ideologies, consumption patterns, environmental problems, localities and architectural forms. Yet, despite this proliferation of research on the topic little academic consensus had been established regarding the interpretation of even the most rudimentary elements of the globalization process - its appropriate conceptualisation, its historical periodization, its underlying causal determinants, or its socio-political implications'
>
> (Brenner, 2004, 27-28)

Giddens (1998, 26) noted that at the beginning of the 1990's there were very few references to globalisation in academic papers, seminars or political speeches but by the end of the 1990's no seminar, political speech or debate was complete without its discussion. Albeit a relatively new and complex phenomenon, globalisation had generated real effects that impinge onto the community and voluntary sector.

According to Brenner (2004, 62), globalisation was having an effect on the traditional nation state, notably a dual process of diffusion of political power both to supranational institutions (for example the European Union, the World Trade Organisation and the World Bank) and similtaneously to local and regional agencies (local authorities, public-private partnerships and quangos). This diffusion of power was having identifiable results. The nation state's traditional power was being diluted, a phenomenon referred to as 'hollowed out state' (Jessop, 1994). Swyngedouw, Moulaert and Rodriguez (2003) referred to the diffusion of national power to both supranational and sub-national structures as the 'Glocal' (global-local) effect. Jessop (1995, 313) observed that an important result of these glocal transformations was the move from 'government to governance'. At city and regional levels political institutions have recognised that they must bring together the interests of other key stakeholders, especially business interests, to facilitate the management of the local economy. The outcome is a coalition of political, business and community interests into local development partnerships, or urban regimes. The infusion of business interests into governance has resulted in the adoption by political institutions of more business-centric policies and practices, more commonly referred to as 'entrepreneurial governance'. The phenomena of public-private partnerships in the development of public infrastructure and services, once the sole domain of the public sector and the development of partnership models, especially throughout Europe, where governments include partners from the private sector, unions and other groups in the policy-making processes, are examples of this. The effect is that governments wish to appear facilitators and negotiators rather than being the party responsible for establishing national policy.

Bartley and Treadwell Shine (2003) opined that the entrepreneurial governance phenomenon had affected Ireland:

> 'In the mid-1980's, for example, the Irish government adopted a new business-friendly, macro-economic strategy and associated promotional policies to achieve urban renaissance in Dublin... However, the 'success strategy' deployed in Ireland is a hybrid approach to policy and practice based on a mix of American economics and EU principles of social democracy...In particular, the principle of alleviating 'social exclusion' has been adopted from Europe as a means of ameliorating the social polarization trends that have accompanied the boom in Ireland'
>
> (Bartley and Treadwell Shine, 2003, 145-146)

They also pointed to the recent use of tripartite (private-public-community) partnerships in the development of community-based infrastructure. They noted that Ireland is using an 'adaptive entrepreneurial approach and that 'this 'adaptive' entrepreneurial approach seems to avoid the worse excesses of American-style boosterism...by addressing aspects of social polarization and poverty while at the same time promoting entrepreneurial practice' (ibid, 163). In Ireland, the main manifestation of entrepreneurial governance appeared to be the 'social partnership approach'. There appeared to be a correlation between the implementation of full social partnership process[3] and the period of economic growth, commonly referred to as the Celtic Tiger[4].

It was interesting that Ireland tended to find itself caught between the European and American philosophies and 'adapted' these philosophies to suit local needs. Boucher and Collins (2003, 298) noted these competing pressures and commented that the 'metaphor of Boston versus Berlin expresses in political shorthand the two competing visions that the elite community foresees for Ireland's long-term socioeconomic future'. They argued that Irish government policy was attempting to 'have its cake and eat it' by following policies that were at the same time neo-corporatist and neo-liberal. Specifically, they argued that 'economically Ireland is being pushed towards Boston, at the same time as it is socially being pushed towards Berlin' (ibid, 314).

Thus, there was evidence that both in Europe and the United States over the past thirty years the community and voluntary sector had been in a state of change. The growth of entrepreneurial governance had seen the state retrench from direct service provision and rely more heavily on the private and community and voluntary sectors to deliver necessary community-based services.

Internal reactions to external socio-political changes

The above identified external pressures resulted in the community and voluntary sector re-evaluating their role in society and in particular, becoming more commercialised to address the structural funding changes prompted by the state's retrenchment from traditional public service provision. This was quite a change of focus. Boschee and McClurg (2003, 1) asserted that

[3] Full social partnership occurred in 1997 when the social partners were extended to include the community and voluntary pillar and the agricultural sector

[4] Irish social partnership will be discussed in greater detail in the next chapter.

'twenty years ago the idea of nonprofits acting in an entrepreneurial manner was anathema to most people in the sector. The idea of merging mission and money filled them with distaste'. The OECD (2003) noted that since the crises in the welfare state in the 1970's and 1980's, the community and voluntary sector in Europe had developed and changed. There was evidence that in the countries with the longest traditions of nonprofit activity that the sector was becoming 'more entrepreneurial, less dependent on public funding and therefore experimenting innovative ways of raising funds' (OECD, 2003, p12). Borzaga and Santuari (2003, 39-42) noted that the new European community and voluntary organisations were not only more entrepreneurial and innovative but were less interested in advocacy and more interested in service provision. New community organisations appeared to be more interested in employment creation and the use of employment mechanisms to support their communities of interest and were more locally-based, emphasising the engagement of 'stakeholders' in the management structures. They also noted that these new organisations could be categorised under two broad headings – work integration and social or community care services. There was evidence that these new community organisations were 'enlarging their activities to other services, such as environmental and cultural services, less linked to social policies and more generally of interest to their local communities' (Borzaga and Santuari, 2003, 44).

Many scholars have identified commercialisation as the main cultural change in the community and voluntary sector in response to these environmental changes. Weisbrod (1998a, 1) noted that the results of commercialisation were not 'abstract' but are having revolutionary effects on the traditional community and voluntary sector and its relationship with the private sector (Weisbrod, 1998b, 287-288). Frumkin (2002, 145) asserted that earned income for community and voluntary organisations have 'exploded'. It should however be noted at this stage that commercial activity by voluntary organisations was not new. The Metropolitan Museum of Modern Art opened a sales shop as early as 1908 (Wesibrod, 1998c, 109). Also it must be remembered that the community and voluntary sector was not independent of the rest of the economy. Community and voluntary organisations competed with and collaborated with private and public organisations in order to finance themselves, find workers, managers and other resources (Weisbrod, 1998a, p4). However, community and voluntary organisations have now begun to engage in practices from the private sector including price discrimination and target marketing (Weisbrod, 1998a, 10). It should also be borne in mind that there was competition between nonprofits in markets that they solely occupied and this competition was at times 'intense' (Tuckman, 1998, 26).

Commercialisation was a broad term and included many different strategies. Many scholars have preferred to discuss 'earned income strategies' as this was more specific and relevant to the activities conducted (Weisbrod, 1998a; Battle-Anderson, Dees and Emerson, 2002; Frumkin, 2002; Dart, 2004; Anheier, 2005). Dart (2004, 414) argued that 'in practice, activities referred to as social enterprise or social entrepreneurship most often include revenue-source diversification, fee-for-service program development, private sector partnerships, and social-purpose businesses (that is, mission-focused practices involving business practice, business revenues, or both)'. James (1998, 273) discussed cross-subsidisation strategies from unrelated income generation and the concerns that may arise for donors and public-funding agencies as a result. Overall, the literature defined two main options for a community and voluntary organisation considering commercialisation: an earned-income strategy or the establishment of a separate commercial venture (a social enterprise).

The first option was to adopt an earned-income strategy. Battle-Anderson, Dees and Emerson (2002, 194) discussed the options open to a nonprofit organisation considering commercialisation. The three options cited were getting paid for what you do already, launch a new business venture or generate revenue by building on existing relationships with stakeholders, whilst Tuckman (1998, 36-37) identified four key conditions for the successful commercialisation of a nonprofit organisation: there must be a need for additional revenue and a belief that sales will meet this demand, the Board of Directors must believe that the commercial activities will not detract from the core mission of the organisation, the organisation must have viable commercial products to sell and, consumers must be willing to purchase the commercial offering. Alter (2007) summarised the different sources of income available to community and voluntary groups (Figure 2.4)

Figure 2.4 – Alter's financial spectrum of social enterprise

Organizational Structure	Traditional Nonprofit	Traditional Nonprofit / Social Enterprise	Social Enterprise	Social Enterprise	Social Enterprise
Financial Spectrum	Full Philanthropic Support	Partial Self-Sufficiency	Cash Flow Self-Sufficiency	Operating Self-Sufficiency	Financial Self-Sufficiency
Level of income	No earned income. Relies on subsidies for financial support to sustain operations.	Earned income covers a portion of operating expenses or recovers some program costs.	Earned income covers operating expenses of enterprise at lower than market rates.	Earned income covers all operating expenses without full market-based costs (capital & investments).	Earned income covers all operating and investment expenses at market rate.
Subsidy	100% subsidy.	Enterprise and/or parent organization mostly subsidized.	Bridges deficit between earned income and expenses, capital investment and growth subsidy.	Cost of capital, partial subsidies for loans, and capital expenditures.	No subsidies.
Viability through earned income	Not viable. Requires continued external financing (grants). Cost recovery is often seen as a side benefit rather than an expectation of the program.	Not viable. Organization is dependent on grants and donations for survival; may self-fund isolated services or activities.	Approaching viability. Covers direct costs; cost structure and growth subsidized; revenue covers daily operations until breakeven.	Viability expected. Operational breakeven; no surplus revenue, subsidies diminish; revenues cover all operating costs.	Viable to profitable. Revenues cover all operating and financial costs; retained earnings finance growth. Nonprofit may change its legal status to that of a for-profit entity.
Type of subsidies	• Philanthropic donations • Grants • In-kind support • Volunteer labor	• Philanthropic donations • Grants • In-kind support • Volunteer labor • Parent organization support	• Grants to fund deficit • Discounts and tax advantages • Volunteer or below market labor (interns) • Below market interest rates • Parent organization support • Preferential contracts	• Discounts and tax advantages • Below market interest rates • Parent organization support • Bridge/gap funds; grants for specific cost costs • Preferential contracts	• Tax benefits allowable by law if organization maintains nonprofit status • Preferential contracts

Source: Alter, 2007, p72

As can be seen from Figure 2.4, even if a community and voluntary organisation decided to adopt an earned-income strategy, there was a wide range of options available to it. In fact it was the spectrum of funding options open that was important. There was no 'one-size fits all' solution. Community and voluntary organisations could operate an earned-income strategy ranging from pure philanthropic support with no traded income to a fully viable, self-sustaining social enterprise on the other extreme. An organisation could pick a funding mix that suited their needs, their philosophical beliefs and could change this funding mix over time as their circumstances changed.

With regard to establishing a separate trading venture – a social enterprise – which was the focus of this research, Battle-Anderson, Dees and Emerson (2003, 200-205) outlined the options open to a community group. The options were to establish a competency-based venture (getting paid for what one does already), an asset-based venture (for example renting out existing premises), a relationship-based venture (a business to meet the needs of sponsors, stakeholders or funding agencies), a mission-based venture (an embedded social enterprise) or an unrelated business venture (raising revenue from an unrelated activity and using the profits to fund the nonprofit activity).

There are challenges to adopting an earned-income strategy. Battle-Anderson, Dees and Emerson (2002, 207) outlined mission drift, internal cultural conflict, confusing 'need' and 'demand', relying too much a 'feel good marketing', not having a tax strategy and not doing a comprehensive risk assessment on the venture, as real concerns for community and voluntary organisations. Boschee and McClurg (2003, 4) asserted that there was a difference between 'innovation' and 'entrepreneurship'. They made a clear distinction between earned-income strategies and social enterprises, which generated their income from trading income and were completely self sustainable. However, the main concern was whether community and voluntary organisations which had become more commercial were continuing to pursue their social mission or have become 'for-profits in disguise' (Weisbrod, 1998a, 11).

There was evidence that community and voluntary organisations acted differently to for-profit organisations when they coexisted in the same market (Weisbrod, 1998a, 11; Steinberg and Weisbrod, 1998, 81). Community and voluntary organisations did appear to discriminate in favour of target communities and marginalised individuals instead of being purely profit driven. According to Rose-Ackerman (1990, 163), 'paradoxically, the current concern in the United States that commercial activity may deflect nonprofits from their charitable goals seem misplaced. Increasingly the share of commercial activity in a nonprofit's revenue base may actually increase the ability of the managers to carry out their goals'. James (1998, 281) noted that increased commercialisation allowed community and voluntary organisations to 'pursue their altruistic mission better', as it reduced the pressure on public and private donors to contribute. Discussing community and voluntary organisational management, Kearns (2000, 27) suggested that 'although much can be learned from our colleagues in the business world, it is wise to take their philosophy with a grain of salt. Public and nonprofit organisations are not businesses and your leadership role is different'. Kramer (2004, 231) concluded there existed little empirical evidence to demonstrate in industries where nonprofit and for-profit organisations coexisted, that ownership played a determining factor in organisational performance. Rather, variables such as 'size, age, competition, supply and demand, and service technology' were more reliable explanations.. Thus, there appeared to have been little evidence of significant mission drift in community and voluntary organisations adopting more commercial strategies. Even donors and volunteers seemed relatively unconcerned. Herman and Rendina (2001, 166-167) concluded as a result of their case-study survey that the most donors and volunteers 'have little interest in the sources of nonprofit organisations' funds; most donors are seemingly indifferent about the use of commercial activities'. They also noted that the small percentage of donors who do pay attention to commercial activities tended to support activities that were consistent with or advanced the organisations mission and relatively disapproved of mission-unrelated commercial activities (ibid, 167).

Thus it appeared that in the eyes of key stakeholders mission-centric activities were favourably looked upon and mission-unrelated activities were deemed favourable if they generated more revenue than expense. It must be remembered that an earned income strategy was first and foremost an exercise in improving mission performance, not a financial strategy and was a mechanism that did not suit everybody (Battle-Anderson, Dees and Emerson, 2002, 232).

Shifting boundaries

As discussed at the beginning of this chapter, traditionally many scholars discussed a three-sector society/economy: with a public, private and community and voluntary sphere. However, commercialisation has had an effect. 'In global terms, the last two decades have witnessed an enormous rolling back of direct state intervention in economic activity. Reforms such as privatization, de-regulation and the contracting out of public services have altered the boundaries between the public and private sectors around the world' (Reeves and Palcic, 2004, 526).

Several other scholars have discussed the blurring of sector boundaries. Seibel and Anheier (1990, 9) validly identified that the boundaries between 'public', 'private' and 'nonprofit' are 'far from constant and have become increasingly blurred'. Others have argued that the three-sector economy was no longer sufficient to explain the social economy. Paton (1991, 5) argued for a six-sector model with a corporate sector, a small business sector, the hidden economic sector, the public sector, the social economy and the natural economy. Douglas (1987, 53) asserted that although he referred to three distinct sectors that 'these are artificial and academic distinctions imposed on what is, in reality, the seamless web of the institutional fabric of society'. Anheier and Ben-Ner (1997, 335) also noted that the relative weights between the for-profit, government, nonprofit, cooperative and household sectors have shifted during the twentieth century although these shifts have not been uniform over time. Kearns (2000,3) further noted that 'from a management perspective, the boundaries between sectors – public, private and nonprofit – have blurred almost to the point of irrelevance'.

Anheier and Ben-Ner (1997, 344-349) discussed several factors that may have caused these sectoral shifts, including the growth in size and complexity of organisational forms, the institutional effects of war and depression, the prolonged period of prosperity and development in industrialised countries (especially in the second half of the twentieth century), the rapidity of technological changes and demographic changes. They concluded that taken together and placed in the legal, political and cultural context of particular countries, they emerge as 'useful tools to help us understand sectoral shifts over time'. As further changes are 'undoubtedly in store', they suggested that further boundary shifts will occur in the twenty-first century (ibid, 353).

The concept of a 'sector' was itself disputed (Jones and Keogh, 2006). With reference to the European economy Evers and Laville (2004, 14-20) suggested the existence of a tripolar economy containing a market economy, a non-monetary economy based upon reciprocity and a redistributive non-market economy. They suggested that each division of the economy was based upon a predominant principle (the market principle, redistribution and reciprocity). Kramer (2004, 229) argued that in a mixed economy, non-governmental or community-based organisations do not constitute a 'sector' but rather an 'intermediary area' and a dimension of the 'public space in civil societies'. Paton (1992, 6) concurred suggesting that the concpet of 'dimensions' might address the 'fuzziness'.

Several scholars identified that the concept of 'sectors' was a political/institutional construct. Kramer (2004, 220) asserted that the idea of a sector will serve a 'symbolic' function in political language but in a mixed economy the concept was 'artificial' not an 'institutional reality'. Abzug (1999) commented:

> 'That most economies do not divide up easily into coherent, well-theorized sectors has not yet been fully seen as a deterrent to nation-state attempts to administer such sectors. Rather, concepts of sectors have been legitimated from one country to another, and planning and policy adoption have taken these legitimated forms as given. Researchers' attempts to understand where sectors come from thus may be used by political actors to modify preconditions and shape future economic structures'
>
> (Abzug, 1999, 132).

Anheier and Seibel (1990, 381) agreed that 'divisions into sectors are the result of institutional differentiation and legal codification'.

At an institutional level Bull and Crompton (2006, 44) noted that the line dividing commercial and social enterprises was blurring as a result of the reduction in public funding. The implication being that the social economy did not constitute a distinct sector (Seanor and Meaton, 2007, 91). Mair and Noboa (2003, 11) proposed a different perspective. They claimed that the emergence of hybrid organisations 'does not alter the existing boundaries' at a macro level between public, private and community and voluntary sector. However, at a 'micro – organisational – level' it is changes in behaviour (entrepreneurship and commercialisation) that was leading to the creation of the hybrid social enterprise whilst it 'leaves sector boundaries largely untouched'.

A number of scholars suggested that there was a spectrum of social economy organisations (Dees, Emerson and Economy, 2001; Crossan, Bell and Ibbotson, 2003, 7-8; Jones and Keogh, 2006; Alter, 2007). Alter (2007, 3-9) outlined the range of organisations within the social spectrum as co-operatives, fair trade organisations, community development corporations, social firms or affirmative businesses, microenterprises, civil society organisations and venture philanthropists, while Sjostrand (2000, 199) preferred to discuss a *repertoire* of organisational forms that exist in capitalist market society. Anheier and Ben-Ner (1997, 338) suggested five broad types of organisation within developed economies: for-profit firms, government-owned firms and agencies, nonprofit organisations and consumer cooperatives, producer cooperatives and employee-owned firms, and households.

Thus, in summary, the community and voluntary sector has faced a significant change in its socio-political environment over the past thirty years. As a result, the sector had moved to embrace more commercial activities either to supplement income or deliver services through self-funding social enterprises. This raised a debate regarding the distinction between the traditional private, public and community and voluntary sectors. Whereas the outcome of that debate remains undecided, there was a definite shift in emphasis at a micro level from 'sectors' towards the concept of a 'spectrum of organisations', where community and voluntary organisations had a range of organisational forms between formal public and private institutions to address the variety of commercial options available to them. The next element of this discussion will focus on the main subject of interest to this research, the social enterprise.

Social enterprises

The term 'social enterprise' was a contested one (Dart, 2004, 413; McBrearty, 2007, 67; Seanor and Meaton, 2007, 91). Within the scope of social enterprises there were several sub headings: community businesses or enterprises, demand-deficient social enterprises and even some co-operatives. One distinction that has been made is between community businesses and social enterprises: community businesses being defined as serving a community at a neighbourhood level and a social enterprise as having no geo-specific base (Pearce, 2003, 28).

There were many attempts to define a social enterprise. In Scotland, CENTRAC (1991) used the term 'community enterprise' to label the type of organisation under examination. It defined a community enterprise as having three characteristics: it was a trading enterprise, its primary purpose was to create benefits for the community which it serves, and it was accountable to that community. It continued that the 'principal activity is selling goods or services to a market' although 'many…receive some or all of their income from public bodies, such as a local authority; however, the basis of their relationship with such a public body is a relationship of supplier and customer' (ibid, 10-11). Social Enterprise London (2001, 1) used a similar line of definition; 'social enterprises have three common characteristics, enterprise orientation, social aims and social ownership'. In Ireland, FÁS (2000, 2) defined social enterprises as community-based trading organisations within three categories: community businesses (capable of self sufficiency in the medium-term), deficient-demand social enterprises (in need of long-term support but providing essential services on the ground) and social enterprises based on public-sector contracts.

These were essentialist definitions and were utilised by organisations and academics to assist in the categorisation of social enterprises, as well as, to categorise which organisations were to be excluded. Thus, the definition used was dependent on the outlook and then need of the author or organisation and, as Anheier (2005, 53) opined, 'definitions do not exist in the abstract. They serve purposes and objectives. Because social scientists, practitioners, and policymakers have different purposes when defining nonprofit organisations…the complex terminology in the field should not surprise us'. If a common definition was unavailable, then what common characteristics of a social enterprise could be identified?

'Social enterprise differs from the traditional understanding of the nonprofit organization in terms of strategy, structure, norms, and values and represents a radical innovation in the nonprofit sector' (Dart, 2004, 411). Haugh (2005, 2) elaborated on these differences and notes that what differentiates social enterprises from other non-profit organisations 'is their entrepreneurial approach to strategy, their innovation in pursuit of social goals and their engagement in trading'. Defourney (2001, 16-18) outlined the definition used by the EMES European Research Network, which identified a social enterprise as an organisation that meets the following four economic criteria; the production/selling activity is continuous, the organisation is autonomous to a high degree, there is a significant level of economic risk-taking involved and, there must be a degree of paid work/labour involved. EMES further set five social criteria to be met; that there was an explicit aim to benefit the community, that the enterprise must have been launched by a group of citizens, that decision making was not related to capital ownership, limited profit distribution and, significantly, participation of representatives of clients/target group in the running and management of the business (ibid, 16-18). Pearce (2003, 31-32) defined six characteristics of a social enterprise: they have a social purpose(s) and they achieve these through engaging in trading in the marketplace, they do not distribute profits to individuals and they hold wealth and assets in trust for the benefit of the community, they democratically involve members of their constituency of interest in the management of the organisation and they are independent organisations being accountable to a defined constituency of interest and the wider community.

Hansmann (1990, 74) has been noted that 'commercial nonprofits are the great puzzle of the nonprofit sector today'. However, a number of common characteristics were identified in the literature. For example, Anheier & Seibel (1990, 382) pointed out that 'service–providing organisations within the third sector have a socio-political twin function. They tend to combine aspects of social and political integration with economic objectives'. Pearce (2003, 33) asserted that 'the primary purpose of a social enterprise is social…commercial activity is secondary'. However, he continued that 'it is a *sine qua non* that social enterprises engage to some degree in trade' (ibid, 34). Alter (2007, 1) further noted that the 'growing practice of social enterprise is fuelled by nonprofit organizations' quest for sustainability, particularly in current times when support from traditional, philanthropic, and government sources is declining and competition for available funds is increasing'. In their conclusion, Borzaga and Defourney (2001, 362) commented that social enterprises 'can be seen as a breakthrough in the European third sector because they stress the productive and the "entrepreneurial" dimension of not-for-profit organisations and underline the economic, together with the redistributive, function of the welfare services'. Emerson and Twersky (1996, 13) highlighted the participatory role of 'program participants' in the establishment and development of the social business, thus social enterprises were not just providing services to disadvantaged communities and individuals but including them in policy and management issues. Thus social enterprises can be synthesised as autonomous, trading entities achieving a dual social/economic objectives, whilst including the active engagement of their community of interest in the process. Alter (2007, 10) added that social enterprises transcended traditional nonprofit sectors and were therefore multi-sector and of highly adaptive design.

It has been asserted that running a social enterprise was a dynamic process (Bull and Crompton, 2006, 45; Alter, 2007, 69) and that there was an ongoing operational challenge between achieving social mission and sustainable impact, whilst also achieving financial objectives and commercial sustainability (Emerson and Twersky, 1996, 14; Dees, Emerson and Economy, 2001, 9; Evers, 2001, 304-305; Bacchiega and Borzaga, 2001, 280; Bull and Crompton, 2006, 45). Most descriptions of social-enterprise activity described it as 'jointly prosocially and financially motivated' in what was described as attempting to achieve a 'double-bottom line' (Dart, 2004, 413). Gassler (1986, 13 noted that the outputs of a social enterprise 'are far more complicated than those of most firms – sometimes of a wholly different nature in their relationship to the economic system and its participants'. With regard to the sources of income for social enterprises, the concept of a resource or funding 'mix' had gained a general acceptance (Evers, 2001, 299). Pearce (2003, 34) concurred and outlined the mix of income streams for a social enterprise as cash trading receipts, contracts, public grants, philanthropic grants, revenue subsidies, volunteer labour and fundraising activities.

A number of scholars have discussed the activities that social enterprises engaged in. Defourney (2001, 18) asserted that social enterprises operated in most countries within two broad spheres of activity; the training and integration of those disadvantaged from the labour market and in the provision of personal services. Pearce (2003, 51) defined four areas of work: Local development and regeneration, working for the state, providing services to the community and market-driven business opportunities. Alter (2007) outlined the wide range of potential target markets for social enterprises (see Figure 2.5). Thus, social enterprises can charge their clients directly for the goods and services provided. However, if this is not possible as a result of the low income of the people receiving the goods and services, social enterprises can either secure funding from 'third-party payers'; either public agencies or philanthropic organisations, or generate income from other sources to subsidise the goods and services provided to the 'target group'. This could take the form of selling goods and services to the general public and generating revenue, providing goods and services to other businesses or by acquiring government contracts, either to subsidise the price of the initial goods and services provided or to meet another demand and generate additional revenue.

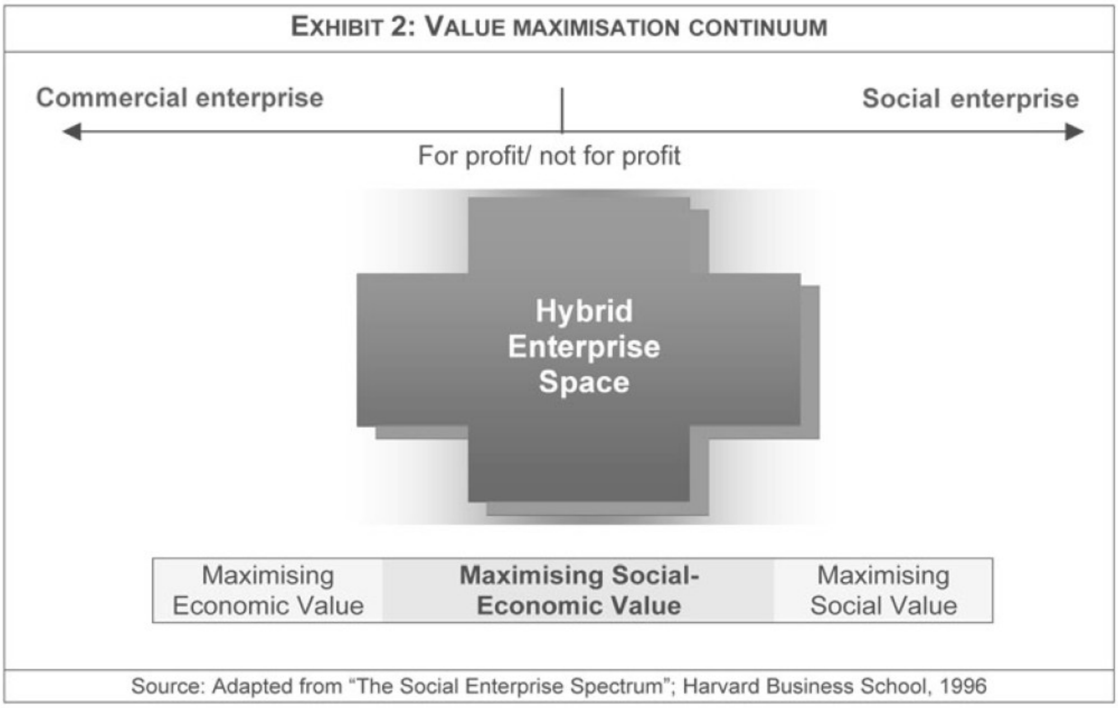
Figure 2.5 – Alter's markets for social enterprises

Market	Description	Examples
Target Population	The "client" of the social enterprise and "customer" (user) of the service or product are the same.	Clients of microfinance institutions purchase financial services from the MFI. Small producers who are also clients buy product development and marketing training from a BDS provider.
Third Party Payer	The "payer" of the product or service is not the same as the "user," who is the client. Social enterprise third party payers are donors (voucher programs), insurance companies, or government (Medicaid).	Social welfare program pays for health services rendered to indigent people by a community clinic. A local donor provides low income working mothers vouchers to pay for childcare services from a nonprofit childcare organization.
General Public	Customers in the open marketplace who buy social enterprise goods and services. In some cases their purchases may be socially motivated.	The public pays admission fees to see a cultural exhibition by an arts organization. Consumers buy used clothing from a thrift store run by a disabilities organization.
Businesses and Nonprofits	"Business-to-business" nonprofits or businesses buy products and services from the social enterprise.	A national ice cream manufacturer buys brownies from a bakery staffed by recovering drug addicts, which it uses in some ice cream flavors. Socially conscious businesses purchase renewable energy sources from an environmental organization.
Government Contracts	Government buys services and products from the social enterprise.	Area circuit courts purchase a referral service database from a nonprofit for substance abuse organizations. A local government agency purchases janitorial and grounds maintenance services from a disabilities organization.

Source: Alter, 2007, p77

The wide range of potential revenue sources identified must be matched with the social mission to be achieved. With regard to value creation, Alter (2007, 1) outlined the main distinguishing factor of a social enterprise as its value creation characteristic, both social and economic, claiming that social enterprises address a key issue moving forward for the entire sector, how to achieve 'ongoing sustainable impact' (ibid, 11). Flockhart (2005, 31) expounded the concept of the value maximisation continuum for social enterprises, which stressed the ability of the hybrid social enterprise to achieve both social and economic value simultaneously. This is depicted in Figure 2.6, which shows the essence of the hybrid social enterprise as its ability to maximise both social and economic value, in comparison with private sector organisations which create primarily economic value and social organisations which create predominantly social value.

Figure 2.6 – Flockhart's value maximisation continuum



Source: Flockhart, 2005, p35

Alter (2007) added another component to social and economic value creation; environmental outputs. When combined with social and economic outputs, these create a 'blended value proposition' (ibid, 16). Some scholars (Jones and Keogh, 2006, 20; Ridley-Duff, 2006, 6) have proposed the use of the term 'more than profit' for the activities of social enterprises noting that the term had the advantage of framing activities in a positive rather than negative statement. Jones and Keogh (2006, 14) noted that the terms non-profit and not-for-profit do not adequately describe what social enterprises do and may mislead private and public sector stakeholders. These stakeholders may 'delay or withdraw from doing business with social enterprises if they are designated 'not for profit" (ibid, 11). They noted that the inability to reconcile social enterprises with earlier terms used was the result of the philosophical, political, cultural and social differences between organisations, their leaders and other stakeholders. However, they also noted that some see this ambiguity as a 'strength as it accommodates and allow for diversity' (ibid, 16). Ridley-Duff (2006, 10) agreed with this and noted that 'the social enterprise sector does not reveal widespread commitment to shared valued. It is characterised by even more heterogeneity and diversity than is found in the private/public sectors'.

The development of a hybrid social enterprise holds both benefits and risks for a community and voluntary organisation. Alter (2007) outlined these positive and negative features (Figure 2.7) showing that there were financial, mission-related, operational and culture-related risks and benefits to be accrued. Whereas there may be financial gains to be generated through the social enterprises, all businesses carry the risk of financial loss. Mission drift is a possibility if the focus of the organisation is not focused continually on its social mission. Operationally, the social enterprise may consume so much time and energy that the mission for which it was established, benefiting the community, may be lost in internal issues. There may also be culture-related issues, especially when limited resources require important decisions to be made between internal financial necessities and social mission. Thus, the benefits related to sustainability, independent income and the ability to become more innovative in the delivery of social mission. The risks related to both potential financial and opportunity costs, cultural conflicts, reputation issues and the potential for mission drift.

Figure 2.7 – Alter's risk/benefit analysis

	Risks	Benefits
Financial	• Lose money • Start-up costs higher than willing to commit • Traditional nonprofit funders may decrease support • Opportunity cost (earned income vs. fundraising)	• Generates sustainable source of income • Diversifies revenue streams • Reduces donor dependency • Leverages existing assets • Unrestricted funds • Cost savings in shared back office • Increases credibility with funders
Mission	• Mission and reputation could be compromised if the venture is seen as a sell-out by stakeholders • Organization has difficulty balancing mission and money, causing mission drift from core social activities to business • Enterprise could have negative impact on clients	• Sustainable programming vehicle • Accountability for achieving social objectives • Leverages mission activities and core competence
Operations	• Venture may divert management and staff attention • Increased organizational complexity • New systems required to support enterprise add costs • Business skills needed for enterprise may necessitate hiring new staff	• Incorporates organizational development and business tools throughout nonprofit organization • Provides double bottom line context for management that crosscuts all functions • Requires organizations to manage social interest, assets, and investment • Enhances strategic thinking to function in a dynamic market • Increases efficiency and cost-effectiveness • Improves market responsiveness
Culture	• Cultural differences social programs and enterprise may cause tension • Staff may leave due to "business culture" • Board and staff may feel sold out • Resistance to change	• Innovation • Entrepreneurship • Change management • Market orientation • Results orientation

Source: Alter, 2007, p58

Thus, establishing a social enterprise comes with no guarantees of success and no simple formula for success and, as Emerson and Twersky (1996, 15) have asserted, there is no single model for creating a social enterprise, 'there are only best practices'. The establishment of a social enterprise must also meet with the social and political outlook of the organisation. Laville and

Nyssens (2001, 323) asserted that the 'economic and political aspects of social enterprises are inseparable'. They continued that in economic terms social enterprises were involved 'in the pursuit of collective benefits associated with the goods and services produced'. In political terms, 'the common affiliation spurring people on to collective action is connecting with a sense of common belonging to the political community'. However, in the end, the primary of objective of a social enterprise was the social mission. Cooney (2006, 159) concluded that the primary objective of these new hybrid forms was the quality of the service provided and despite the 'excitement' surrounding these new organisational forms, the service provided to clients must be the priority.

Critiques of social enterprises

The main concern identified with social enterprises relates to the possibility of 'mission drift' (Weisbrod, 1998b, 290; Battle-Anderson, Dees and Emerson, 2002, 207; Cooney, 2006, 144; Alter, 2007, 69). Alter (2007) identified the 'feared results' of mission drift as:

'1. drift may damage the reputation of the organization among stakeholders and the public;

2. the social enterprise may jeopardize funding because donors either misunderstand its dual intention social enterprise or believe donations are now unnecessary;

3. it may threaten organizational culture by applying market-based approaches and bringing in business professionals and industry experts; and

4. finally, some fear that the organization will lose focus, and stray too far into the commercial realm, neglecting its social mission.' (Alter, 2007, 69).

McBrearty (2007, 73) has noted that the utilisation of the social economy model changed the character of a voluntary organisation, noting the change in character of Social Enterprise London itself, where it 'no longer gives away stuff'. Whereas mission drift can always be a concern for any community and voluntary organisation, the discussion presented earlier did not support significant evidence of mission drift with social enterprises *per se*.

Organisational culture was also identified as a concern. Bull and Crompton (2006, 57) did identify that social enterprises showed an aversion to formal structures and procedures preferring 'holistic or organic and less formal organisational structures'. This may be related to Kearns's (2000) earlier comment regarding taking the philosophies of private sector colleagues with a grain of salt. Social enterprises appeared to adapt managerial techniques to suit their needs and a more holistic approach may be necessary when dealing with marginalised and disadvantaged communities and individuals. Similarly, with regard to definitional ambiguity, Jones and Keogh (2006, 15) noted 'that there is no practical or *de facto* sense of one term replacing another'. They also noted that practitioners use the terms interchangeably and that this 'imprecision and ambiguity is not seen as problematic by those with high tolerance for ambiguity'.

A number of scholars have noted that social enterprise is not a panacea to address all ills within the community and voluntary sector (Boschee, 2001, 3; Emerson and Twersky, 1996, 18; McBrearty, 2007, 75). McBrearty (2007, 74) concluded that commercialisation was not always a good thing, noting the struggle of voluntary organisations to build businesses whilst maintaining a focus on their core mission. This was supported by Emerson and Twersky (1996, 13) who asserted that 'those involved in the process must be open to the very real possibility that deeper investigation may reveal that engaging in business development at this time may be inappropriate for a variety of reasons'. Boschee (2001, 3) was led to observe that 'of course there are no guarantees. Some of these businesses may falter and disappear. Others may metamorphose into something entirely different from what they are today… there is no more cold-blooded animal in the world than the market'. Thus, it appears when managing a social enterprise, with all the above considerations, that a tolerance for ambiguity may be a necessary evil.

Before exploring the theoretical explanations for social enterprises, there were two associated subjects to be discussed: social entrepreneurship and social capital. Social entrepreneurship relates to the individual motivations behind the establishment and continued operation of social enterprises while social capital relates to the social value created by social enterprises.

Social Entrepreneurship

Haugh (2005, 1) defined social entrepreneurship as 'those activities associated with the perception of opportunities to create social value and the creation of social purpose organisations to pursue them'. It can be assumed that social entrepreneurs bring the same 'enterprise and imagination' to their social activities that entrepreneurs bring to mainstream wealth creation (ibid, 3). Dees, Emerson and Economy (2001, 4) defined entrepreneurs as 'innovative, opportunity-oriented, resourceful, value-creating change agents'. They further suggested that social entrepreneurs should be measured by 'the extent to which they create social value', rather than the money they make (ibid, 5). Thus, social entrepreneurship can be understood as transferring the processes of entrepreneurial innovation and opportunity from the private sector to the community and voluntary sector, resulting in more creative methods of achieving social mission and creating further social value. Some scholars (Defourney, 2001, 11; Badelt, 2003, 140-141) have identified the starting point for their discussion of social entrepreneurship as lying with Schumpeter (1934). Schumpeter defined entrepreneurship as the process where individuals drive economic development, defined as 'carrying out new combinations in the production process' (ibid, 66).

Dart (2004, 414) noted that there was a spectrum of understanding relating to the term social entrepreneur. There existed a broad definition which discussed creating social value and emphasised innovation (Dees, Emerson and Economy, 2001; Thompson, 2002; Davis, 2002; Haugh, 2005). For example, Davis (2002, 7), a member of the International Board Selection Committee, Ashoka, stressed 'ethical integrity' and 'maximising social value' as core concepts for a social entrepreneur. There were also proponents for a narrower definition based in business development and revenue generation (Emerson and Twersky, 1996; Brinckerhoff, 2000; Boschee, 2001; Boschee and McClurg, 2003). The narrow view defined social entrepreneurship within the ambit purely of social enterprise. For example, Brinckerhoff (2000, 24-27) argued that there were practical implications for social enterprises that did not utilise a social-entrepreneurial model, the result being a lack of strategic mission-driven outputs and a lack of efficiency in the delivery of both social and economic objectives. Herman and Rendina (2001, 159) summarised the differences between the two views as the distinction between nonprofit entrepreneurship and nonprofit commercialisation. Nonprofit entrepreneurship included 'mission or programme innovation', although they claim 'many advocates of increased nonprofit commercialism seem to prefer to identify commercial activity with entrepreneurship'. Jones and Keogh (2006, 17) concurred noting that the imprecise use of the term social entrepreneur had allowed for a wide application, mainly because many saw it as an 'attractive' term. Herman and Rendina (2001, 159) further asserted that the use of the term social entrepreneurship 'is probably mostly rhetorical'.

However, the term 'social entrepreneur' had not been widely accepted within the community and voluntary sector and was still in its infancy. Thompson (2002, 412) made the point that many social entrepreneurs 'would not describe themselves as "entrepreneurs" or feel comfortable with that terminology'. Boschee and McClurg (2003, 5) identified several different types of social entrepreneurs. They described the innovators as 'dreamers', entrepreneurs as the 'builders' and the professional managers as the 'trustees'. Thus social entrepreneurship was not simply a 'start-up' phenomenon and although required at the initial stages of a venture, the principles were also important in the ongoing development of a social venture.

Frumkin (2002, 65) noted that 'almost anybody with an idea or vision can found a nonprofit or voluntary organisation quickly. Often, organisations are started informally by people seeking a solution to a simple problem through the coordination of action within a community'. The establishment of social enterprises as community-based responses was also identified by Laville and Nyssens (2001, 318) who noted the importance of the 'dimension of serving the community' in the establishment period. They continued that the forming members were creating a new social network whose members 'share a sensitivity to a problem considered pressing and requiring action'. These stakeholders were driven by a shared perception 'that an appropriate response to a problem they have identified is lacking'. However, as Speckbacher (2008, 302) noted, a stakeholder was someone who contributed specific resources that created value for the organisation and where the party's claims on the return on investment was incompletely specified by contracts and hence (at least partly) unprotected. He also noted that only groups that made an active and specific contribution to the organization were considered to be stakeholders.. So engaging in social entrepreneurship, as defined in the establishment of new social ventures, was an active process of participation and engagement, as well as innovation.

Much of the above discussion could be seen within the broad definition of social entrepreneurship. However, to provide balance, Emerson and Twersky (1996, 12) noted that in their experience 'the presence of significant, traditional business skills on the part of the social entrepreneur had been of critical importance'. However, once established, social ventures became an institution and required ongoing management and development. In this regard, social entrepreneurship had the role of 'driving' the organisation forward.

The key decision-making body in a social enterprise was the board of directors. It could be expected that much of the social entrepreneurship would be seen at this level. However, there were examples where staff members were unhappy with the engagement of the board of directors and its ability to make informed decisions based upon its 'limited involvement' (Bull and Crompton, 2006, 54). In fact, as a social enterprise became established and it recruited management and staff, it became these practitioners who had the remit to drive the organisation. It was noted that many social enterprises appeared to have been driven by the work ethic, courage and personality of their leaders, whilst a culture of staff inclusion was also observed (ibid, 50). Emerson and Twersky (1996, 12) further noted that 'the pursuit of a social/business "double-bottom line" necessitates the ability to function equally well on both sides of the balance sheet in an integrated manner. Today's non-profit manager comes from both the business and non-profit arenas'. It had been noted that many employees of social enterprises were not primarily motivated by financial rewards and had a 'service ethos' to their community which were their primary motivation for working in the venture (Bacchiega and Borzaga, 2001, 288; Theuvsen, 2004, 129). Thus there would appear to have developed a cadre of professional practitioners who drove social enterprises but whose primary motivation was the desire to achieve social mission rather than purely financial reward. Alter (2007) outlined a 'spectrum of practitioner' and compared and contrasted the characteristics of those involved with the hybrid social enterprise as compared to more traditional community and voluntary sector and private sector management (Figure 2.8). These new social enterprise practitioners were themselves a hybrid professional achieving a balance of social and financial objectives. They have mixed motives, are attempting to achieve both social and economic objectives and are interested in maximising profits for the purpose of reinvestment and organisational development.

Figure 2.8 Alter's spectrum of practitioners

	Purely Philanthropic	Hybrid p.14	Purely commercial
Motives	Appeal to goodwill	**Mixed motives**	Appeal to self-interest
Methods	Mission-driven	**Balance of mission and market**	Market-driven
Goals	Social value creation	**Social and economic value creation**	Economic value creation
Destination of Income/Profit	Directed toward mission activities of nonprofit organization (required by law or organizational policy)	**Reinvested in mission activities or operational expenses, and/or retained for business growth and development (for-profits may redistribute a portion)**	Distributed to shareholders and owners

Source: Alter, 2007, p13

In summary, the concept of social entrepreneurship was contested between a broad definition stressing innovation and value creation that could be applicable to any community and voluntary sector venture and a narrow definition, which stressed the role of the social entrepreneurs purely in the creation and development of social enterprises. In either case, the establishment of a social venture was driven by volunteer/philanthropic social entrepreneurs. However, as these ventures/programmes became established, professional staff and management became more important in driving the social mission forward. It was also noted that social enterprises had an inclusive style of management that encouraged staff 'buy-in' to the social mission.

Social Capital

According to Norris (2002, 6) there was little consensus in the literature regarding a common definition of social capital. Norris asserted that 'there are multiple alternative understandings of this intellectually fashionable but elusive concept' (ibid, 1). Discussion on the concept of social capital emphasised the importance of networks, norms and trust in building civic engagement and common social objectives (Putnam, 1995, 664-665; Passey and Lyons, 2006, 481). Passey and Lyons (2006, 482) commented that nonprofit organisations were important institutions in building social capital. Putnam (2000) attempted to analyse social capital in the United States of America. He identified two forms of social capital: 'bonding' and 'bridging'. Both forms can be formal (participation in committees, political parties, parent-teacher councils) and informal (social clubs, people who meet together to socialise, play cards, play sport, and symbolised with the traditional American social activity of ten-pin bowling). 'Bonding' social capital was insular where members of an identified group works together and supported one another. Many lay religious organisations, self-help groups fall into this category. Bridging' social capital existed where groups or individuals worked across identified social lines to co-operate, community forums being an example. Putnam believed that both forms of social capital were generally beneficial, but that 'bridging' social capital generated greater levels of social capital. Putnam identified 'trust' as being directly correlated to 'bridging' social capital, the higher of level of mutual trust in a community the higher the level of bridging social capital. Anheier (2005, 58) further argued that 'economic growth and democratic government depend critically on the presence of "social capital", on the existence of bonds of trust and norms of reciprocity that can facilitate social interaction'.

The discussion of social capital and social enterprise intersected in the development of social value. When a social enterprise generated social outputs, could these outputs be defined as contributing to social capital? Evers (2001, 306) believed so and asserted that 'the potential for the creation and maintenance of social enterprises depends very much on the surrounding local environment and on the attitudes of the groups and citizens concerned, including civic organisations, the business sector and the political and administrative organisations'. Norris (2002, 5) concurred stating that social capital was essentially 'contextually-specific' and the growth of community and voluntary organisations, including social enterprises, was dependent on the positive surrounding environment. Evers (2001) argued that although a social enterprise could exist as a 'singular phenomenon in an uncaring environment' it was more likely to flourish 'in an environment with rich and manifold responses and a variety of interrelations' (ibid, 306). O'Shaughnessy (2001, 99), in a work looking at work-integration social enterprises concurred, noting that 'the network of social enterprises have been successful in using existing social capital and in building new forms of social capital'. Further, Laville and Nyssens (2001, 322) argued that 'through their action, social enterprises promote social bonds of a democratic nature. By expanding social networks based on the principle of voluntary involvement, legal autonomy and the equality of members, they attract groups who might otherwise be deprived of such bonds'. In their discussion of social entrepreneurs, Dees, Emerson and Economy (2001, 103) noted that social entrepreneurs are not 'loners' but rather work as part of an extended network of individuals and groups to address a common good. Social entrepreneurs must communicate effectively and be accountable to a range of stakeholders. Thus, at least at a conceptual level, there was agreement that social enterprises did assist in the creation of social capital.

There were however two difficulties with regard to social capital; it was contextually-specific and it was difficult to measure. Lewis (2004, 176) asserted that social capital 'is not held to exist independently in the realm of civil society, which in turn means that the capacity of citizens to develop cooperative ties may also be determined by state policies'. As a result, 'not all associations are alike when it comes to reproducing social capital' and 'organizational characteristics' had some relationship with an organisations capacity to reproduce social capital (Passey and Lyons, 2006, 492-493). Norris (2002, 14), in a review of social capital across several data sets, argued that detailed conclusions with regard to the measurement of social capital were difficult to make, as the existing data sources were designed for other purposes. Nevertheless, she did conclude that national clusters were in 'fairly predictable patterns' with social capital most evident in the Nordic countries and Anglo-American democracies and least apparent in post-Soviet countries and South American countries. Thus, the ability of social enterprises to contribute to social capital was determined by external societal factors, outside of its control. This then raised the issue of measurement. How can the social capital generated by social enterprise be calculated and what indicators could be used? In certain social institutions, like political parties and elections, it has been held that participation rates could be accepted as a measurement (Putnam, 2000). However, as social enterprises were trading businesses, the social capital outputs generated were less obvious. Also, how could one compare social capital outputs across different social enterprises, as each could be assumed to generate enterprise-specific indicators? Another difficulty, as asserted by Norris earlier, is that many of the existing data sets used were designed for other purposes and thus had to be adapted to measure social capital. Ridley-Duff (2006, 13) noted a key finding from his empirical research with reference to social capital. Social capital was built up between individuals and their interconnecting bonds, thus 'discussion of individuals private, not public lives' was more important than discussion regarding 'political debate' or corporate 'rhetoric'. It was the exchange of personal stories and experiences that was most important. Thus trading-related measures were not a necessarily good indicator of social capital. The 'longevity of trading relationships and the ability to survive disagreements, is a better indicator of the level of social capital' (ibid, 21).

But even those scholars who were unconvinced by social capital accepted its usefulness in showing how activity within civil society can either promote or hamper civic engagement (e.g. Deacon, 2005, 26; Daly, 2007, 162). Although empirical measurement was a difficulty, the concept of social capital and the generation of social outputs by social enterprises did seem to be consistent. Maybe the longevity of personal and business relationships within a social enterprise was as good a measure as could be achieved.

In summary, social enterprises are trading businesses, situated within the community and voluntary sector, attempting to achieve an identified social mission, whilst also achieving financial sustainability. There existed within the literature a diversity of opinion with regard to their definition, motivations, output (both social and financial) and with regard to their management and establishment. The chapter continues with an examination of theoretical explanations, which broadly encompasses concepts in economic theory, sociology and institutional theory.

Economic theory

Frumkin (2002, 65) outlined the starting point for the economic discussion when he asked: 'why does the nonprofit and voluntary sector produce anything in the first place?'. The neoclassical explanation for the existence of community and voluntary sector (including social enterprises) is based upon theories of market failure and then government failure (Friedman, 1990; Whitman, 2000; Sjostrand, 2000; Bacchiega and Borzaga, 2001; Lewis, 2004, Teague, 2007). However, before an examination of market failure could occur, an examination of working markets is needed as the neoclassic economic explanation of a working market is based upon the perfectly competitive market.

Classical economic theory argues that, in the long-run, supply and demand pressures force competitive economic markets to achieve equilibrium between the demand for specific goods and services and the supply of these goods and services by the commercial sector. The mechanism through which this was achieved was the competitive price mechanism, or general price theory (Mansfield, 1999, 36-45; McAleese, 2001, 51-60; Varian, 2003, 3). If the supply of a particular good or service was less than the demand for it, the consumers will pay a higher price in order to secure their needs for what was a scarce resource. Suppliers seeing this will increase the amount produced at the higher price, thus generating higher revenues. This will continue until the quantity demanded by consumers and the quantity released by suppliers was the same, at which time each side was respectively willing to buy or supply the good or service for the price at this equilibrium. If suppliers released more than this quantity, buyers did not need the amount produced, creating a glut on the particular market, forcing production and prices down to the equilibrium price - and equilibrium quantity supplied and demanded. The price mechanism was the 'invisible hand' that Adam Smith referred to in 'The Wealth of Nations' (1776, 456), regarded as the foundation of modern economics. There was recognition that in the short term there would be temporary situations of inequilibrium while both sides adjusted to new situations, particularly time lags as suppliers estimated what new quantity to supply at any new given price, and also time lags due to ramping up or down of production, but these were seen as short-term anomalies which worked their way out of the system quickly. Sjostrand (2000, 202) outlined the assumption underlying these concepts as 'in the beginning there was markets' and these markets were occupied by *'homo economici'* or rational, calculative, economic men'. He added that these were arbitrary assumptions. Perfectly competitive markets rarely exist and thus market failure occurs. As previously stated, neoclassical theory explained social enterprises within a category called 'market failure'[5]. Within this category was a list of explanations like externalities (Coase, 1937), public goods (Weisbrod, 1975; Hansmann, 1987; Kingma, 2003) and contract-failure theory (Hansmann, 1987).

Externalities can be defined as situations where third parties either incur a cost or accrue a benefit from the operation of a market, good or service. Pollution can be cited as an example. In Ireland, the Environmental Protection Agency (EPA) licenses industrial plants that generated pollutant by-products. Under the licence, the polluter could generate a certain level of by-products under controlled conditions. However, by-products still leaked into the environment, into the air, water table or waterways and rivers. When this happens, consequences ensue. Fish died, air quality deteriorated and caused medical conditions like asthma, dinking water quality deteriorated affecting livestock and unfiltered water sources. Those who suffered the consequences

[5] For an extensive discussion on the different economic theories to nonprofit organisations see Anheier, H & Ben-Ner, A (Eds.), 'The study of nonprofit enterprises – theories and approaches', (Kluwer Academic/Plenum Publishers, New York)

of the pollution accrued a negative external cost as a result of the licence, even though they were not a contracting party to the original agreement. Externalities can also be positive. In foreign direct investment (FDI) a government enters into contractual arrangements with a large foreign corporation to establish a large manufacturing operation. The corporation was awarded capital grants, a low tax environment, support in recruiting and training employees, and achieved its business objectives. The government created employment for a number of its citizens, added to national income, increased tax revenues and lowered the numbers seeking employment. All citizens derived a benefit from this even though they were not individually a party to the contract.

A *public good* is any good or service where consumers expect the delivery of same as a matter of right. An example is national defence. All citizens expect national defence to be delivered by their government. Like all classic public goods, national defence demonstrates two essential characteristics. Firstly non-rivalry: the consumption of the public good does not reduce its availability to other consumers. Secondly non-excludability: no consumer can be prevented from deriving the benefit of the public good. Using the example of national defence, anyone within a country's boundary will accrue the benefit of national defence measures without affecting anybody else's ability to accrue the same benefit, regardless of their contribution to the cost of these measures.

Non-competitive markets are markets that, for whatever reason, do not operate at economic optimality. The result has been the development of local monopolies usually caused by the high cost of entry for potential competitors. There may be many reasons for the creation of such markets: geographic isolation as in the delivery of services to parts of the Australian outback, technological factors as in the initial introduction of mobile communication technology in Ireland, and there were monopolies and oligarchies created by legislation or licence, the new airport authorities for example.

The main author in relation to the development of the *contract-failure theory* was Hansmann (1980, 2003). Hansmann (2003, 119) outlined the need for social enterprises by 'the degree to which consumers do or do not feel that nonprofit firms offer them greater protection from exploitation than do for-profit firms'. A cornerstone of this case was the presence of asymmetric information, 'where consumers (and donors) cannot accurately assess the extent of the quantity and quality of the offered goods or services' (Ortmann & Schlesinger, 2003, 104). Several scholars have identified the presence of information asymmetry in a market as a key explanation for social enterprises (Weisbrod, 1998c, 6; Sjostrand, 2000, 204; Bacchiega and Borzaga, 2001, 283-284; Ben-Ner, 2002, 10-15). Ben-Ner (2002, 13) outlined the issue with reference to the '*souk'*, an oriental market. For a tourist with little local information, the souk was a place of potential economic danger as they did not know the sellers, had little knowledge of local customs or relative prices. Thus 'what for the tourist is an economically hazardous interaction with an untrustworthy seller, for the local consumer this is a secure exchange'. Thus, a social enterprise acted as a redress to information asymmetry in markets because it did not have a profit motive and was less likely to take advantage of the customer and thus the customer can have 'trust' in the organisation. (Abzug, 1999, 135-136; Frumkin, 2002, 67). This was the justification for the 'non-distribution constraint' (Bacchiega and Borzaga, 2001, 279; Hughes, 2006, 433, Ridely-Duff, 2006, 4). Ridley-Duff (2006, 4) correctly asserted that making profit was not the issue *per se*: 'there is an implicit assumption that profits are desirable so long as they can be channelled towards the collective needs of socially excluded groups, rather than already wealthy individuals'.

Information asymmetry would appear an attractive economic explanation for social enterprises. However, to cite Hansmann (2003):

> 'We have long had good reason to believe that problems of asymmetric information between firms and consumers do not suffice to explain or to justify the large market share of nonprofit

> firms in the human services industries…the important task facing scholars is to understand better what *other* factors help explain the presence or absence of nonprofit firms in various industries today… and what public policies might best assure that the nonprofit form is used where, and only where, it has an advantage over alternative ways of organizing production'
>
> (Hansmann, 2003, 121).

Friedman (1990, 26-27) argued that 'in thinking about market failures, it is often tempting to interpret the problem in terms of fairness rather than efficiency. Externalities are then seen as wrong because they are unfair, because one person is suffering and another gaining…this is a mistake'. Whitman (2000, 1) expounded the idea that a 'market failure' may still be the 'best of all possible worlds' as the cost of addressing the market failure may be higher and less economically efficient from a neoclassical viewpoint. The real issue was opportunity cost. Economists should compare real-life situations against the next real alternative and, therefore, a situation was economically efficient or not depending upon the 'opportunity cost' incurred, as the opportunity cost not only looked at the actual financial cost incurred but also included the cost of the income foregone by not investing in the next most productive option.

Most of the explanations presented so far have been demand-side explanations. Supply-side explanations have also been presented. Frumkin (2002) outlined succinctly the core of the supply-side explanation as:

> 'The supply-side approach to nonprofits, grounded in the ideas of entrepreneurship, has distinct advantages over the demand-side approach. First, it takes seriously the idea of agency and individualism within nonprofit organisations. It explains the rise of nonprofits not by looking at large amorphous phenomena such as government and market failure, but rather by looking into the minds and hearts of individuals'.
>
> (Frumkin, 2002, 135-136)

The role of social entrepreneurs is a subject that appeared in several works (Brinckerhoff, 2000; Badelt, 2003; Young, 2003; Anheier, 2005). According to Anheier (2005, 127) 'social entrepreneurs differ from business entrepreneurs in that, instead of creating monetary value or economic value for the firm, they create social value'. This was augmented by Badelt (2003, 144) who argued that the theoretical development of social entrepreneurship 'provides explanations of nonprofit behaviour to a large extent in qualitative terms'. Meanwhile Young (2003, 162) believed that 'economic theories of nonprofits is necessarily incomplete without a well developed supply side construct'. Bacchiega & Borzaga (2003, 44) defined the nature of social enterprises by way of a 'distinctive incentive structure'. These incentives structures used a variety of mechanisms to ensure that all agents involved (donors, managers, staff etc.) '…behave consistently with the organizational goals'. These incentive structures were different to those used by for-profit firms and allow nonprofits to operate with a competitive advantage in the provision of 'personal and collective services'. In another explanation BenNer and Gui (2003, 14) suggested 'relational goods' as an explanation for social enterprises, defining a 'relational good' as 'local public goods that arise from relationships that extend beyond the mere exchange of contractible items, these public goods can be enjoyed only by participating in a social process'. They formed their argument around the fact that social enterprises were better able to facilitate these interpersonal economic relationships than for-profit firms due to the fact that they were driven by other than economic benefit. However, they also asserted that the benefits of relational goods were higher in mutual, rather than entrepreneurial community and voluntary organisations because of the higher level of beneficiary involvement in the organisations' governance.

Bacchiega and Borzaga (2001, 279) have observed that most of the economic explanations were compatible within a supply and demand context. Accordingly, they argues that Hansmann and Weisbrod explained why people would want to buy from a social enterprise whilst Ben-Ner and the 'entrepreneurial approach' explained why people would set up a social enterprise. Anheier (2005, 131) concurred and noted that 'to a large extent, the various theories are complimentary rather than rival, and taken together, offer a convincing answer in terms of demand and supply conditions'.

Challenges to the economic argument

Seibel and Anheier (1990, 14) argued that 'neither the market failure nor the state failure thesis can explain why a third sector is needed to compensate for failures in the first place. Why do market and state not compensate each others' shortcomings, as assumed in classical political economy, instead of resorting to a third sector?' The main counter-arguments to the economic explanations above have been based upon challenges to the basic assumptions of neoclassical economics. Gassler (1986, 14), noted that 'any field as new as the economics of nonprofit enterprises can expect a piecemeal development for a while as different gaps are seen and closed up. However, there is a fundamental reason why this field in particular can have such a confusing development: that reason is rooted in the restrictive assumptions of neoclassical theory'. In particular, challenges were made to rational choice theory and to pure rationality as the main characteristic of economic man or *'homo economici'* (Minkler, 1999; Sjostrand, 2000; Gui, 2000). Minkler (1999) outlined the argument:

> 'Suppose I give you five dollars. What is my motivation? According to economists employing utility maximization, the act must satisfy my preferences. If my preferences are materialistic, then I expect some "thing" in return from you, whether it be past, present, or future. Perhaps the act was an investment in reputation that I will be able to profit from later. If we allow non-materialistic preferences, then the act may have satisfied my preferences over your material well-being. In that case, I possess preferences over your preferences and, to use common language, my act may have resulted in the warm feeling of giving, or at least reduced some feelings of guilt. The notable point, however, is that no matter how my preferences are specified, the reason I gave was to satisfy my own preferences. Our preferences over your material well-being may coincide, but the reason I give to you is to satisfy my own preferences. As such, you are merely an instrument to me (and, perhaps, I to you). This representation is assured by construction; utility maximization necessitates that I

> only take actions in order to increase my own welfare, governed by my preferences'
>
> (Minkler, 1999, 4).

Several challenges have been based upon sociology and the reductionst nature of rational choice theory. Sjostrand (2000, 205) argued that the assumptions behind rational choice theory were too reductionist and that in fact economic man was more akin to *'homo complexicus'* (ibid, 207). Richter (2001, 3) pointed to the fact that sociologists allowed for various types of human action, including rational action, whereas economists only assume perfect rationality. Hughes (2006, 431) asserted that 'rationality does not imply that individuals make "good" choices, only that the behavior is consistent and therefore predictable. The notion of a good choice is subjective and beyond the scope of economic theory. Economic theory remains objective, looking at factors that influence decisions rather than imposing one's values on the quality of another's choice'. Minkler (1999, 10) continued that 'with few exceptions, economists seem to ignore the fact that the most successful firms are characterized by cooperation, not opportunism. Relatedly, we also seem to miss the fact that many production processes are alienating—workers are treated as instruments'.

Richter (2001, 8-9), in a discussion on New Economic Sociology (NES) outlined its main sociological concepts and criticisms of neo-classical theory. These were that economic actions were social actions and thus removing the social context of the transaction is unrealistic. Second, that social action is embedded in ongoing social relations. Third, economic institutions had a social construct and thus pure rational choice theory, enacted by an individual without reference to any other economic actor is unsustainable. Several scholars have discussed issues relating to relationship, duty and commitment. Minkler (1999, 15) discussed the issues of commitment and duty and how this can reconcile with rational choice assumptions. Ben-Ner and Gui (2003, 14) asserted that 'economic actions also have relational motivations such as the pleasure of exchanging feelings and ideas…and for belonging to a group'. Gui (2000, 141), in his criticism of rational choice theory, suggested 'a shift from the exchange paradigm to the broader concept of "encounter". These encounters create 'relational goods' and contribute to 'relational assets' (ibid, 159). 'In other words, personal interactions are complex situations where individual acts are combined in such a way that outcomes also depend on perceived dispositions and intentions' (ibid, 151-152).

Another implication was that the neoclassic view of 'exchange' was too narrow and that the economic view of altruism as the explanation for community and voluntary activity, as self-interest with guile was also reductionist (Minkler, 1999, 10; Gui, 2000, 154). Exchanges are often complex and problematic (Gui, 2000, 145). Pure economic utility maximisation was not the only reason for exchange nor was it the only mode of carrying out a transaction, face-to-face interactions also existed (ibid, 146-147). Overall, the criticism of the economic explanation of social enterprise was that it was too reductionist and failed to explain the 'social' side of social economic activity in a convincing manner. However, Hughes (2006, 433) has noted that for 'nonrelated business activity, the principle of profit maximization was perfectly suited and for mission-related activities, the theory may be adapted to suit the goal of welfare maximization'.

Institutional theory

Institutional theories are 'built around the concept of legitimacy rather than efficiency or effectiveness as primary organizational goals' (Dart, 2003, 415). One such discipline was New Institutional Economics (NIE), described by Klein (1999, 456) as 'an interdisciplinary enterprise' combining concepts of economics, law, organisational theory and sociology but whose 'primary language is economic'. From early work in this field by Ronald Coase (Coase, 1937) and later work by economists like Oliver Williamson (Williamson, 1991), a line of investigation into the role and impact of institutions, and the impact of institutional and individual interaction on market outcomes was developed. The aim of this work was the development of a more realistic understanding of the operation of markets. According to Powell and DiMaggio (1991, 3), 'the new institutional economics add a healthy dose of realism to the standard assumptions of microeconomic theory'. DiMaggio and Powell (1991, 63-63) contended that 'structural change in organisations seem less and less driven by competition or by the need for efficiency. Instead, we contend, bureaucratization and other forms of organisational change occur as the result of processes that make organisations more similar'. They continued to ask the question as to why there was such 'startling homogeneity of organizational forms and practices?' (ibid, 64). Their answer was 'isomorphism' (ibid, 66).

Isomorphism is the process by which organisations conform to the expectations of key stakeholders, industry standards or society in general (DiMaggio and Powell, 1991; Dart, 2004; Helmig, Jegers and Lapsley, 2004). There exist several forms of isomorphic pressures. In the economy and business there are pressures that forced organisations to deliver services in the most competitive method possible at the lowest cost. These result in 'competitive isomorphism'. In civic, public and in the community and voluntary sector, there are pressures to conform to different organisational forms. These are driven by conformity to the administrative, political and bureaucratic systems and result in 'institutional isomorphism' (DiMaggio and Powell, 1991; Cooney, 2006).

DiMaggio and Powell (1991, 67) looked at the underlying pressures causing institutional isomorphism and defined three such causes; coercive pressures, mimetic pressures and normative pressures. Coercive isomorphism was the result of legal and political systems, compliance with tax codes for example. Mimetic isomorphic pressures occurred when organisations try to mimic more successful organisations (ibid, 69). Normative isomorphic pressures were the result of professionalism and the conformity of management styles and philosophies (ibid, 70).

Several scholars discussed the implications for social enterprises from institutional theory: especially how it could explain the 'social' side of social enterprise. Cooney (2006, 145-146) asserted that the major question regarding social enterprises was the tension between the competitive forces with regard to the business side of the organisation and the institutional forces with regard to the social side of the organisation and how these were balanced internally. Helmig, Jegers and Lapsley (2004, 112) concurred and concluded that 'sociological theories that suggest NPO[6]s may indulge in mimicry of public or private sector bodies in the pursuit of legitimacy may have validity' and that economic theorists have 'failed to explain the microeconomic internal functioning of NPOs'.

Some scholars have argued that social enterprises derive legitimacy from using terminology and perspectives from the marketplace (Theuvsen, 2004; Dart, 2004). Dart clarified this point:

> 'If business values, business models, and business language have become dominant and are the sociocultural environment's preferred modes of problem solving and preferred structures of organizing, then it follows that even social-sector organizations can be accorded legitimacy by adopting the language, goals, and structures of this ideologically ascendant form. Thus, moral legitimacy of social enterprise can be understood because of the consonance between social enterprise and the pro-business, ideology that has become dominant in the wider social environment'.
>
> (Dart, 2004, 419)

He continued that 'government, foundation, or federated funders might find social-enterprise activities pragmatically legitimate because such activities could reduce social-purpose organizations' need for these groups' funding, or because such activities offer innovative solutions to social problems' (ibid, 417). Thus, social enterprises conform to the expectations and belief-values of key stakeholders and funding agencies as if they 'do not produce outcomes of value for stakeholder groups, then their pragmatic legitimacy could swing sharply into question' (ibid, 418).

[6] Nonprofit organisations (NPOs) is the American definition for community and voluntary organisations.

One implication might be the development of path dependency within social enterprises as they conformed to these norms. Kramer (2004, 222) asserted that recent research demonstrated that the 'greater the scope and responsibilities of a nations nonprofit sector, the more it is likely to generate the same bureaupathologies usually ascribed to government'. Richter (2001, 9) concurred and emphasised the importance of path dependency, stating that 'path dependency of institutions matters, not necessarily efficiency'. However, Dart (2004, 419-421) argued against path dependence, asserting that moral legitimacy, which sees social enterprise not only as a revenue-generating organisation but as the 'preferred model of organization' by stakeholders and society, is the 'species of legitimacy with most strong relevance to explanations of social enterprise'.

A synthesised theory of economics explaining the 'business' side of a social enterprise and institutional theory explaining the 'social' side, would seem to hold value. However, to date, this synthesised theory had yet been developed and remains an open question. One associated concept to institutional theory that needed more detailed discussion was 'embeddedness' which had some implications for social enterprise

Embeddedness

Embeddedness is a sociological concept which asserts that the development of institutions and sectors within a society are determined and influenced by societal factors such as historical development, the shape of the legal, political and administrative system and cultural and social norms within the specific society. Salamon and Anheier (1998) developed the concept as 'social origin theory' which emphasised understanding the community and voluntary sector and social economy within their national historical origins and development. Several authors have referred to social enterprises as having specific social 'moorings' (Salamon and Anheier 1998; Lewis, 2000; Evers and Laville, 2004; Anheier, 2005). Thus, terms like 'voluntary', 'community' and 'social enterprise' 'are highly culture-bound and dependent on different legal systems, particularly fiscal and corporate law. What is more, 'countries differ in the way they group some of these organisations into larger sets or "sectors" of one sort or another' (Salamon and Anheier, 1997, 495).

In a comparison of the development of the community and voluntary sector across several countries, Anheier (2005, 35) concluded that 'the development of the nonprofit sector is embedded in the broader political and social development of a country or region. Its development is shaped by political cultures and forms of government, but also by cultural and religious factors and sociological aspects of class cultures'. Political ideology and political historical development also played a role as 'ideological aims and political hopes continue to have an influence on thinking on the third sector' (Anheier & Seibel, 1990, 379). They also made reference to a distinction in Europe between civil law and common law countries. Civil-law countries like France, Germany, Austria and Italy seem to have developed a 'state-oriented third sector', whereas common-law countries like the United Kingdom, the United States, Canada and Australia have developed a more 'market-oriented third sector' (Ireland fitting into this latter category). However, differences between common-law and civil-law legal systems have narrowed in recent years and are 'often overwhelmed by other factors' (Salamon and Anheier, 1997, 499).

More recently, Breathnach (2007) has observed:

> 'Van Til (2007), Meijs (2007), Donoghue (2007), O'Ferrall (2007), Strom (2007), Arnold (2007) and others alluded to the impact of historical, political and economic contexts on nonprofit sectors in various countries. The impact on the very possibility of nonprofit organisations, on the sustainability of individual nonprofit agencies, and on the role and potential of these actors was identified'
> (Breathnach, 2007, 81-82)

It would be interesting to define the social moorings of Irish social enterprises *vis-à-vis* other European countries. As an example Lindsay and Hems (2004, 266) in a discussion on the French community and voluntary sector, asserted that 'unlike virtually every other nonprofit sector, [the French nonprofit sector] did not emerge from a desire to address problems of social need… rather, the French nonprofit sector emerged as the result of the ideological struggle between republicanism and the Catholic Church over the rights of the individual'. They continued that 'as far as the French social economy is concerned, despite a variety of organizational forms such as associations, mutuals, and cooperatives that are economically active and deliver social benefit, socially entrepreneurial activity in the French nonprofit sector is virtually nonexistent'.

Summary

Social enterprises have been presented as a relatively recent phenomenon being spurred by the need of the community and voluntary sector to commercialise in response to changes in its external socio-political environment. They fit into a broad spectrum of organisational forms between purely philanthropic and purely commercial. Social enterprises are drawn as a hybrid social/commercial institution whose primary goal is the achievement of social mission. They have been established and driven by social entrepreneurs, although this has been a contested term, and delivered social value that may contribute to social capital, although this was also contested. The business side of the social enterprise can be explained through economic theory although it had difficulty in framing a coherent explanation of the social motivations of those involved. Institutional theory made a relatively coherent explanation for the 'social' motivations of those involved, however a synthesised theory had as yet proved elusive. In the next chapter social enterprises in the Irish case will be examined in more depth.