The Social Enterprise Mark

A critical review of its conceptual dimensions

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Abstract

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

Prior Work - Recent attempts by the academic community to define the social enterprise sector have run into linguistic and practical problems. Any definition tends to privilege one group of social enterprises over another with the result that co-operative and employee-owned enterprises, or enterprises pioneering public service reform, are marginalised in policy discourse. The arrival of the SEM in the United Kingdom takes place amidst these conceptual and practical difficulties.

Approach – The paper is an exploratory study based on feedback from participants on open access co-operative and social enterprise courses. They were asked to study published SEM criteria then evaluate three forms of social enterprise activity (a worker co-operative, a trading charity and a self-employed consultant). Participants were asked to rank these in order of likelihood of obtaining the SEM.

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

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

Value - The paper suggests there has been a shift away from the values advanced by the founders of the UK social enterprise movement in the mid-1990s towards values embedded in *The Social Enterprise Mark*. The paper proposes a critical research strategy to investigate the origins and potential effects of applying the SEM's criteria.

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

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Introduction

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

The arrival of the Social Enterprise Mark in the United Kingdom takes place amidst these conceptual and practical difficulties. Given that it has proved difficult to create a conceptualisation of social enterprise that is adequate for the purposes of sector mapping, there is understandable interest in the Social Enterprise Mark as a definition of social enterprise (hereafter referred to as "SEM" or "the SEM"). The purpose of the SEM, according to its principal advocates, is to defend the social enterprise 'brand' from government-funded bodies and voluntary sector organisations that are neither autonomous from the state, nor pursuing their social objects through trading. Another argument for the SEM is to prevent private corporations claiming they are social enterprises on the basis of their PR and community-support activities (Finlay, 2010). It is, therefore, timely to engage in an analysis of the conceptual dimensions of the *Social Enterprise Mark* and consider the implications should its legitimacy grow (Allan, 2005).

The motivation for writing this paper comes from a series of private conversations in the social enterprise research community, and seminars at three co-operative and social enterprise courses[1], on the impact of applying the criteria in *The Social Enterprise Mark* to different scenarios. The attitude in the academic community to the idea of a normalising framework has been one of ambivalence (as a policy option), mainly on the basis that it would decrease innovation and devalue the contribution of social enterprises that do not fit neatly into standardised criteria (see Spear, Cornforth and Aiken, 2007; Curtis, 2008; Teasdale, 2011). This paper reviews feedback from seminar participants, and highlights bemusement (and occasional anger) at the impact of applying the SEM's criteria to different types of social economy trading.

It is the explication of this ambivalence, bemusement and occasional anger that creates the justification for further critical research. Kinchloe and McClaren (1994) emphasise that critical research should rebalance accounts of a phenomenon so that hidden discourses surface and dominant discourses can be re-evaluated. The perspective adopted in this paper (and research project) is that this can be achieved though a democratic research design that permits voices previously silenced to counter the effects of distorted communication that arise out of asymmetries in power (Habermas, 1984).

The theoretical perspective of the paper, therefore, is similar to Curtis (2008) in that critical research is regarded as a useful strategy to prevent executive capture of social enterprise and to promote critical thinking regarding its conceptualisation. Ironically, we also argue that it is necessary to *prevent* the subversion of perspectives considered important when social enterprise agencies were created in the UK (see Teasdale, 2011).

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

This paper is divided into five sections. In the first section, the authors surface new evidence on the origins of the social enterprise sector in the UK to distinguish between attempts to 'socialise' enterprise, and enterprises that pursue a 'social purpose'. Having made this theoretical framework explicit, the authors explore the shift in its conceptualisation over the last 15 years. This shift, it will be argued, is linked to the involvement of public, voluntary and charitable sector agencies in the consultations for a Community Interest Company (CIC) and continued attempts to propagate New Public Management in the wake of financial crises.

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

Rediscovering Socialised Enterprises

In tracing the history of attempts to conceptualise social enterprise, it is helpful to distinguish between the member orientation of the co-operative and employee-ownership movements and the beneficiary orientation of charities, non-governmental and non-profit organisations (Borzaga and Defourny, 2001; Kerlin, 2010). The former emphasise: 'open membership' schemes that remove barriers to legal membership; the issue of share capital to members that give powers to elect governing bodies; trading models and wealth sharing arrangements that democratise control of capital. The latter, on the other hand, emphasise: organisational models that prevent the issue of share capital; a preference for non-profit and charitable company governance that inhibits employee and beneficiary involvement; capital raising from philanthropic sources (Ridley-Duff and Bull, 2011).

While some academics continue to frame social enterprise in terms of tradition 'non-profit' organisation characteristics (see Haugh, 2005; Domenico et al., 2010), early theorisations of 'social' in the context of both social entrepreneurship and social enterprise owe a debt to the work of Ellerman (1984, 1990). Ellerman argued that entrepreneurship had been 'socialised' in the Mondragon network of co-operatives and proceeded to develop a theory of social institutions based on the acquisition of citizenship rights to governance. Firstly, he argued that social institutions adopt governance arrangements in which the people governed by them have the capacity to influence both the governance system and the selection of governors. It follows from this argument the worker co-operatives and employee-owned firms are 'social' rather than 'private' enterprises, particularly where this is combined with workforce participation and democratic self-management. Ellerman also argued that to sustain socialisation, master-slave norms of employment would have to be replaced with association and partnership models of organising. This perspective was emphasized in early social enterprise policy and definitional debates in both the UK and EU (see Westall, 2001; Borzaga and Defourny, 2001; Ridley-Duff, 2002).

At the heart of Ellerman's argument is an assumption that governing bodies that denythose it governs the power to design and participate in the governance system, and which reinforces this separation through adopting the master-slave norms of employment law, will not be able to sustain a social enterprise. This argument is similar to Turnbull (1994, 1995) who considers in more detail which stakeholder groups are governed by trading enterprises. The "governed", Turnbull argued, are primarily the workforce. Suppliers can deliberately (and legally) diversify their customer base. Customers can (legally) shop around. Employees, typically, have limited scope to do the same after

they enter an employment contract. Unlike a supplier who has legal support to organise their business so they can sell to whoever wants to buy from them and to purchase from any supplier whose goods they can afford to buy, employment contracts normally prevent employees from working for anyone else concurrently without their employer's permission. Employment law also permits the disciplining or sacking of employees who are not 'loyal' to their employer (Erdal, 2011). Employees, therefore, are subject to governance systems at work, and are continually affected by them, in ways that other stakeholders are not.

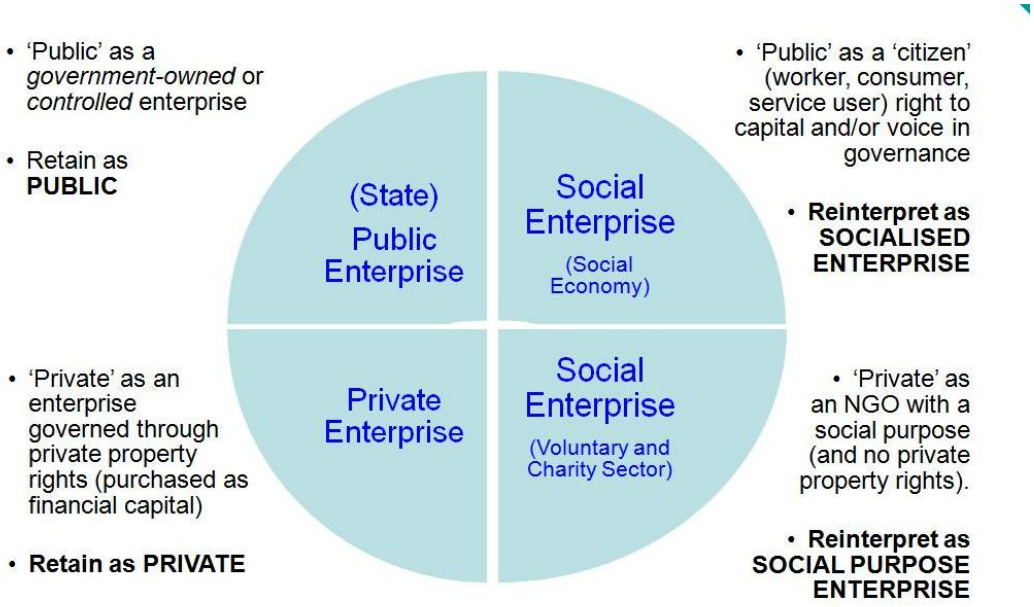
The lack of influence that governors have over the daily lives of customers, suppliers and financiers means that these groups are not 'governed' by the enterprise in a meaningful sense. Their formal inclusion in governance, while helpful to the balancing of multi-stakeholder interests (Turnbull, 2002), is not sufficient to claim that the enterprise is 'social'. For Turnbull, voluntary organisations, charities and co-operatives are not 'social' unless they admit the workforce to membership of the organisation. Furthermore, to be 'social' this membership must be accompanied by a 'voice' that enables members to influence the design of the governance system, and the selection of (at least some) governors.

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

For the purposes of this paper, the authors frame this perspective on social enterprise as a 'socialisation' perspective, based on the advocacy of worker co-operatives and employee-ownership in early policy debates (see Westall, 2001 Ridley-Duff, 2002; Teasdale, 2011). This differs from the 'social purpose' perspective rooted in writings on social entrepreneurship, drawn from US influences (Leadbeater, 1997; Dees, 1998) and popular texts on non-profit management (Hudson, 2002). The 'social purpose' perspective emphasises the social goals of the entrepreneur and the social purposes of the enterprises they create (see Martin and Osberg, 2007; Chell, 2007). Whereas the 'socialisation' perspective places organizational citizenship and stakeholder rights to capital ownership and voice at the heart of its perspective, the 'social purpose' perspective de-emphasises these, and places more weight behind institutional arrangements that provide support to social entrepreneurs who pursue a social mission (Scofield, 2011).

Figure 1 shows the 'socialisation' perspective, its grounding in the European perspective on the social economy trading (Monzon and Chaves, 2008) and distinguishes it from social entrepreneurship rooted in US venture philanthropy.

Figure 1 – Theorising 'Social' in Social Enterprise



Interpretation of Ellerman, 1990

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

To illustrate the gradual transition from one perspective to another, the authors now explore the mixed heritage of the social enterprise sector, and the way early practitioners attempted to balance the philanthropic impulse of US/UK ideas on social entrepreneurship with the more commercial and democratic orientation of the EU's social economy and co-operative sector (Borzaga and Defourny, 2001; Kerlin, 2006, 2010; Monzon and Chaves, 2008).

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

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

Spreckley (1981:3)

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

These early ideas were spread through community enterprise movements in Scotland and the North of England (Pearce, 2003), with the language of social enterprise stabilising around 1994 after a conference of co-operative and community business activists (Southcombe, 2009; Spreckley, 2011). The conference organisers took an

emergent definition and incorporated the Social Enterprise Partnership (SEP)[2] to propagate it. They regarded social enterprises as trading bodies governed by social objectives with distinct characteristics (SEE, 2011 [online]):

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

These practitioner-based definitions of social enterprise are strikingly similar to the early empirical research of the EMES network (Borzaga and Defourny, 2001). Between 1996-1999, 13 European research centres collected data in their own countries and concluded that social enterprises can be described as committed to most or all of the following:

- *Social Dimensions*
  - An explicit aim to benefit the community
  - An initiative launched by a group of citizens
  - A decision-making power not based on capital ownership
  - A participatory nature, which involves the persons affected by the activity
  - Limited profit distribution
- *Economic Dimensions*
  - A continuous activity producing goods and/or selling services
  - A high degree of autonomy
  - A significant level of economic risk
  - A minimum amount of paid work (i.e. at least some labour is compensated)

Defourny (2001)

These attempts at definition enable us to flesh out the aspects of enterprise that contribute towards 'socialisation' and 'social purpose'. In Table 1, the authors map the characteristics of these early attempts in terms of: a) contribution to the **socialising** of enterprise through the granting of public/social rights to become owners and controllers of (financial, social and human) capital, and; b) contribution to public/community benefits through **social purpose** enterprise activity. In contrast to the heavily socialised model of co-operatives, the authors found that early definitions of social enterprise introduced more of a balance between socialisation and social purpose. Even with these changes, the socialisation perspective remains strong, as well as European thinking on social economy (Monzon and Chaves, 2008).

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

Table 1 – Theorising 'Social' in Early Theories of Social Enterprise

Characteristic	**Socialisation**	**Social Purpose**
Co-operative Enterprise (based on the International Co-operative Alliance definition in force during the 1970s)		
• Open, voluntary membership	X	
• Democratic governance	X	
• Limited return on equity		X
• Surplus belongs to members	X	
• Education of members and public in cooperative principles	X	X
• Cooperation between cooperatives	X	
Social Audit Toolkit (Spreckley, 1981)		
• Worker and/or community ownership	X	
• Social and commercial aims		X
• Co-operative management	X	
• Social, environmental and financial benefit		X
• The hiring of capital by labour	X	
Social Enterprise Partnership (1994)		
• Being bound to a set of beneficiaries or community		X
• Having a democratic structure	X	
• Having common and shared values		
• Being open and accountable	X	
• Concerned with empowering members	X	X
• Using and developing volunteers	X	X
• Offering workers ownership	X	
• Creating social wealth		X
• Emphasis on co-operation and networking	X	
EMES Research (1996-99)		
• An explicit aim to benefit the community		X
• An initiative launched by a group of citizens	X	
• A decision-making power not based on capital ownership	X	
• A participatory nature, which involves the persons affected by the activity	X	
• Limited profit distribution		X
• Producing goods and/or selling services		X
• A high degree of autonomy	X	
• A significant level of economic risk	X	
• Minimum amount of paid work		X

This conceptual balance was maintained when Social Enterprise London (SEL) formed in 1998. SEL's Memorandum and Articles provides further clues to the context, motives and values amongst founders' of early social enterprise development agencies. Figure 2 shows company (Memorandum of Association, Jan 1998). In this statement of objects, the influence of the co-operative movement and New Labour are evident. Terminology remains characteristic of 'socialisation' (e.g. participatory democracy, co-operatives, co-operative solutions) and this reflects the orientation of the co-operative development agencies and worker co-operatives that collaborated in its creation (see Appendix A). The inclusion of objects regarding 'equal opportunity' and 'social justice' are characteristically Blairite and 'third way' (Haugh and Kitson, 2007).

Figure 2 – Memorandum of Association, Social Enterprise London

Memorandum of Association – Social Enterprise London – 26th January 1998.

C. Objects

(1) The objects of the company are:

(i) To promote the principles and values of the social enterprise economy in Greater London and its environs.

(ii) To promote co-operative solutions for economic and community development.

(iii) To promote social enterprises, in particular co-operatives and common ownerships, social firms, and other organisations and businesses which put into practice the principles of participatory democracy, equal opportunities and social justice.

(iv) To promote, develop and support local and regional economic resources and opportunities.

(v) To address social exclusion through economic regeneration.

(vi) To create a regional framework to support and resource development of the social enterprise sector.

Source: Companies House

From 1995 onwards, US perspectives on social entrepreneurship began to surface in European debates (see Ridley-Duff and Bull, 2011). Social entrepreneurship networks, and the vast majority of other regional support agencies, did not form until after the incorporation of the Social Enterprise Coalition in 2002. In the context of the Social Enterprise Mark, the incorporation of Regional Infrastructure for Social Enterprise Ltd (RISE) in March 2003, a social enterprise support agency for the South West of England, is particularly relevant. Interestingly, and perhaps significantly, the Memorandum and Articles of both the Social Enterprise Coalition and RISE contain simpler statements of support for social enterprise with no mention of co-operative values or participatory democracy. The Social Enterprise Coalition (registered in April 2002) lists only four objects which can be summarised as:

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

When RISE was registered in March 2003, the number of objects is reduced to just one:

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

The connection of both SEC and RISE to the co-operative movement is maintained through the use of model rules created by ICOM (Industrial Common Ownership Movement), and the registration of both organisations by Julie Woodfine at the Co-operative Union in Manchester[3]. However, it is noteworthy that this move to vagueness regarding objects, values and principles coincides with consultations on a Community Interest Company (CIC) throughout 2003. As a result, the government decided to jettison stakeholder democracy as a statutory requirement, and to introduce a statutory requirement for a not-for-profit clause that prevents the transfer of residual assets from an organisation to private individuals upon dissolution (DTI, 2003; Ridley-Duff and Bull, 2011).

[3] This was established by retrieving the incorporation documents for all companies from Companies House.

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

The Social Enterprise Mark

RISE's thinking on social enterprise developed through a pilot study on the SEM in 2008. As the champion of the SEM, RISE consulted a wide range of organisations (including representatives from Co-operatives UK) to establish a standard that would communicate its value to the wider community and consumers (Finlay, 2011). The SEM was launched nationally in 2010 with an attractive discount for early adopters (£99). From 2011, the annual fees have been increased. They now range from £350 - £10,550 depending on the annual income of the social enterprise. The Social Enterprise Mark Company (2011) listed approximately 450 SEM holders in September 2011.

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

> *In order to be eligible for the Social Enterprise Mark, applicants must demonstrate that they are a social enterprise whose key driver is trading and that they operate for wider social / environmental benefit.*
>
> *Applicants will need to provide evidence in two key areas:*
>
> 1. *Show through their constitution that a sufficient proportion of the profit made by the business is spent on socially beneficial purposes, and that, on dissolution of the business, all residual assets are distributed for socially beneficial purposes.*
> 2. *Show by their activities and their accounts that trading is a key driver and that profit generated is used for social or community benefit – whether by the social enterprise itself or by another agency.*

RISE, 2008: 1

Table 2 contains a summary of the criteria developed to evaluate whether an applicant for the SEM has a legitimate claim to be identified as a social enterprise.

Table 2 – The Conceptual Dimensions of the Social Enterprise Mark

Based on 2008 Pilot Project	Based on Voice 2010 Launch
• Be an eligible legal form (not a sole trader, not a partnership or traditional profit-distributing company, probably not a co-owed [employee-owned] company or limited liability partnership). • Adhere to shareholder restrictions (only have shareholders that "constitute a community benefit" or apply the dividend cap set out in the Community Interest Company legislation). • Have own constitution and governing body • Profit predominately used / distributed for social / environmental purposes (including residual assets). • Have 50% or more income from trading, and have traded for at least one year. • Evidence that social / environmental objects are being achieved.	• Social and environmental objects can be evidenced in constitutional documents. • Must be an "independent business", legally constituted, with autonomous governance. • Must earn 50% or more from trading, evidenced using "standard accounting practices" • Devote 50% or more of the organisation's profits to "social/environmental purposes" • Ensure that **all** residual assets are distributed for 'social/environmental purposes" (if dissolved). • Can demonstrate that social/environmental objects are being achieved.

In these criteria, it is evident that there has been a discernable change in the conceptualisation of social enterprise over time. As with the CIC, there is a requirement for a conventional not-for-profit dissolution clause. Even though guidance states that the

SEM is not limited to specific legal forms, the not-for-profit dissolution clause is likely to further narrow the legal forms that are eligible for the award. In the UK, only Community Interest Companies, Community Benefit Societies and Charities are required by statute to have dissolution clauses in their Articles of Association. Other forms of social enterprise, in particular (worker) co-operatives, employee-owned businesses and wealth sharing social enterprises that adapt a plc or CLS (company limited by shares) will find it harder to achieve recognition (see Chapter 7, Ridley-Duff and Bull, 2011).

While some care has been taken not to exclude 'socialised' enterprises unnecessarily – through the preservation of arrangements that allow the distribution of profits to members - the characteristics of socialised enterprises are no longer explicitly valued or evidenced (see Table 3). A number of characteristics from earlier definitions are absent: ownership by the community or workforce is not a requirement; co-operative management and/or networking is no longer expected; there is no requirement to assess or report on workforce and stakeholder democracy.

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

Characteristic	**Socialisation**	**Social Purpose**
Social Enterprise Mark (RISE, 2008-2010)		
• Explicit and 'wider' social / environmental objects to benefit the community.		X
• Legally constituted, with a non-profit dissolution clause that secures residual assets for 'social/environmental purposes'.		X
• 50% or more trading income (evidence by standard accounting practices)	-	-
• 50% or more of trading surpluses (profit) invested in social/environmental purposes		X
• Independent business with autonomous governance	X	
• Can demonstrate that social/environmental objects are being achieved		X

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

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

Methodology

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

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

These research commitments were operationalised by designing a learning activity that invited participants to apply the criteria in Table 2, together with the full published criteria developed by RISE / The SEM Company, to different types of social economy trading. This activity was undertaken by three groups of students who were learning about co-operative and social enterprises (total sample 42 participants).

The first group of participants comprised 16 people on a 2-day taught course. The majority of this group were co-operative and social enterprise practitioners working to support or establish co-operatives and social enterprises. It included people from the Co-operative Group, Co-operative Party, Co-operatives Yorkshire & Humber and various Community Interest Companies as well as overseas academics establishing social enterprise courses, and students undertaking dissertations in social entrepreneurship. The second group (also comprising 16 participants) was drawn primarily from the public sector. It included 14 people employed by a local authority controlled housing association who were forming a social enterprise working group to support tenant-led enterprises. The final two in the second group worked directly for (or in) social enterprises, and were acting as additional advisers to the project. The third group comprised 10 people studying for an MSc Charity Resource Management. All participants were senior managers or trustees in registered charities studying a module called *Charity Trading and Social Enterprise*. Participants in the second and third groups had less familiarity with the history and development of social enterprise than the first group.

Whilst opportunity samples run the risk of surfacing only a subset of perspectives, the diverse composition of the groups mitigated this danger. The selected groups enable consideration of the likely impact of the SEM within different social enterprise constituencies. The reaction of participants, if consistent across the groups, provides an authentic indication of the likely impact of the SEM amongst potential applicants. Prior to undertaking the activity with the second and third groups, the authors expected that they would reach different conclusions to the first group.

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

1. "Would a democratically owned and controlled enterprise in which the workforce decides for itself how to distribute its own surpluses (on a one-person, one vote basis) be eligible for the *Social Enterprise Mark*?"

2. "Would a trading charity with a range of social and environmental projects, but in which members of the workforce are not permitted to participate in governance or strategic decision-making be eligible for the *Social Enterprise Mark*?"

3. "Would a sole trader making their living entirely from providing advice and guidance to social enterprises at below market rates be eligible for recognition?"

They were asked to rank the examples in order of their likely eligibility for the SEM. In the first two groups, their responses were written up on a white board/flip chart for further group discussion. As these results puzzled the authors, the conduct of the activity was changed with the third group to ensure that tutor and group discussion was not influencing participants' conclusions. They were divided into five discussion pairs and asked to individually write down their rankings on paper before reporting them to the wider group for discussion.

The next section reports the findings and key points made in follow up discussions. In research terms, this provides evidence from a 'focus group' type activity, and is offered as a valid justification for further critical research, but not as conclusive evidence.

Findings

All groups, overall, put the trading charity (Case 2) ahead of the worker co-operative (Case 1), and the worker co-operative ahead of the sole trader (Case 3). They felt the

worker co-operative (Case 1) would need to evidence an asset lock and external beneficiary group before being eligible for the SEM. The authors found that groups were consistent in this view, despite their diverse experiences in the charity sector, social economy and public sector.

Participants on the first course, who had much more experience of establishing and running social enterprises, objected strongly to the way the criteria would prevent award winning social enterprises that are employee-owned[4] from achieving recognition (such as Sunderland Home Care Associates). Participants from co-operative infrastructure bodies questioned whether the Mondragon Co-operative Corporation (an enterprise that is cited by agencies as one of the world's leading examples of social enterprise) would satisfy the SEM criteria.

In Group 3 (charity trustees and managers) roughly half the group felt that their organisation would meet the SEM's criteria even though they had not previously considered their organisation to be a social enterprise. One charity student felt strongly that a charity should not be awarded the SEM unless its workforce and stakeholders were recognised in its governance system (even if it met all other criteria). Similar views were expressed amongst participants in the first group as they perceived that the definition of social enterprise had been reframed to advantage enterprises with charity-like characteristics (social purpose) instead those with co-operative characteristics (socialisation). Participants noted the irony that the founders of Social Enterprise London (which included four worker co-operatives and four co-operative development agencies), as well as winners of regional and national social enterprise awards, may be seen as ineligible for the Social Enterprise Mark. This became such a talking point amongst experienced practitioners that it continued in e-mail correspondence and meetings (including one with Peter Holbrook, CEO of the Social Enterprise Coalition) after the course.

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

In the case of a sole trader (Case 3), all three groups of participants felt they would be the least likely to qualify for the SEM because of the requirement to incorporate and control on the distribution of residual assets. In practice, this means that a consultant, working solely in the social economy providing advice and training – perhaps counter-intuitively – cannot be recognised as engaged in social enterprise. This is all the more surprising when self-employed people who profit maximise are instantly recognisable as advocates of private enterprise. Conceptually, however, participants did recognise that self-employed people can engage in social entrepreneur*ship,* and that there are bodies (such as ASHOKA and UnLtd) that recognise their work as individuals.

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

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

Discussion

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

SEM criteria value philanthropic concepts such as 'social objects' and 'community/public benefit', and private enterprise concepts such as 'market trading', 'incorporation' and 'accounting', but not co-operative concepts such as 'participatory democracy' and 'democratic control of capital'. The early formulations of social enterprise invite an assessment of whether the Articles of Association define the process by which the workforce and service user/customer participate in governance and wealth sharing. These criteria, however, are absent from the SEM.

This point is noted in Westall (2009) during the final phase of developing The Social Enterprise Mark criteria. She states:

> *The Social Enterprise Mark is 'a label which tells customers about the wider social or environmental impact they offer' …It is important to note that the focus is on impacts not processes and that there are restrictions on profit distribution. There is therefore little working through as yet on inherent values and social benefits as processes rather than external impacts which has resulted in some interesting exclusions of particularly co-operatives and mutuals…You also cannot be a company limited by shares under the proposed criteria which would mean that organisations such as Café Direct would not be included at the time of writing.*
>
> Westall (2009:6-7)

Given the co-operative roots of the movement (in the UK and EU), this formulation of social enterprise is likely to be – and remain - divisive. Co-operatives UK recognise many types of co-operative enterprise, including many forms that have no asset lock written into their constitution. This does not prevent them from socialising their ownership, management, governance and wealth sharing processes. Indeed, the essence of co-operativism is that members democratically control the capital of their enterprise (ICA, 1995, 2005). Attempts to remove democratic control - to which a statutory or regulated asset-lock contributes - places assets into the hands of industry regulators (and legal professionals) reintroducing a hierarchical rather than a mutual model of social control. This being the case, the SEM criteria undermine "the principles of participatory democracy" advocated by Social Enterprise London (1998).

In respect of Mondragon, there is sufficient flexibility in the SEM criteria regarding the payment of dividends and profits to members to accommodate their practices. At Mondragon, members have capital accounts which are their personal property. These personal accounts can receive trading profits (varying from 40 – 70% in any one year), but are drawn out only when staff leave or retire (BBC, 1980; Whyte and Whyte, 1991). In practice, it would be rare for a Mondragon co-operative to exceed the 50% threshold because most co-operatives contribute to infrastructure bodies as well as reserves. However, the accounts can be used as security for bank loans and mortgages, and members retain democratic powers to decide on the distribution of collective assets in cases of dissolution (Oakeshott, 1990). As members retain voting rights over the use of

assets during dissolution (even though such examples are exceedingly rare) they will not satisfy the criteria in the SEM.

As things stand, trading, incorporation and profitability - previously *the means* (rather than the purposes) of the social economy - have been reframed as the *ends* of social enterprise (Dart, 2004). While these 'ends' might be important for evidencing 'enterprise' in social purpose organisation, they do not evidence 'socialisation' in a company limited shares (CLS), a public limited company (plc), or one limited by a members' guarantee (CLG). This being the case, the SEM does not yet provide a framework that meets the needs (or aspirations) of a significant part of the social enterprise movement.

Whether the SEM provides appropriate criteria, however, is only part of the issue. Curtis (2008: 280) highlights how frameworks like the SEM act to 'normalise' the regulation of social entrepreneurship and facilitate "state-sponsored social enterprise". Regulated social enterprises, that adopt a form suitable for public and charitable investment, provide a useful vehicle for quasi-markets, deregulation and 'business-like' management practices characteristic of New Public Management (NPM) (Hood, 1995). This may explain why statutory powers of intervention were given to the CIC regulator, but not to the organisation's own stakeholders. It may also help to explain why the SEM received public funding and follows some of the norms established by the Community Interest Company (on the dissolution clause, dividend cap and accounting practices). Curtis, however, argues that this standardisation undermines "self-emerging" social enterprise development grounded in voluntary action, community enterprise, trade union activism and co-operative development. In these cases, he argues, it is 'grit that makes the pearl', a metaphor for the way that resistance to a dominant discourse acts as the catalyst for the creation of new legal forms, information systems, and management practices that value diversity, difference and dialogue.

Rejecting NPM, however, depends on an enhanced role for critical thinking. Unlike traditional knowledge development under NPM, in which a 'critical perspective' is seen as a check and counter-balance to dominant 'rationalist' norms, co-operative and employee-owned social enterprises adopt a critical perspective as their starting point for designing systems of ownership and control (see Ridley-Duff and Bull, 2011, Erdal, 2011). Following the managerial logic implicit in critical theory (Alvesson and Deetz, 2000; Parker, 2002) information systems can be designed to share and reveal information to internal and external stakeholders, and prevent management control of it. Governance systems, likewise, are designed to include enterprise stakeholders at various stages of decision-making, and not to inhibit their participation or promote their exclusion.

It is noteworthy that the characteristics of enterprise put forward by early contributors to social enterprise (labour hiring capital, co-operative ownership and networking, extending worker ownership, participatory management) are now more likely to be found amongst advocates of employee ownership and co-operativism, and less amongst the ranks of social entrepreneurs (see Davies, 2009; Erdal, 2011). The regulation of the CIC model by the state, and particularly the inclusion of an asset lock, transforms it into a charity-like vehicle for the transfer of state assets to community interest companies, and social investment in 'public' services. As the Social Enterprise Mark embeds many of the assumptions of the CIC model in its own evaluation criteria, this makes it relatively easy for CICs to obtain the SEM. At the time of writing 72 (of approximately 3,700) CICs were listed as SEM holders. In contrast, only 19 (of approximately 5,000) co-operatives had applied, with 17 being successful (Finlay, 2011). There are two reasons not to be surprised by this. Firstly, co-operatives already have strong brand recognition that they may want to protect. Secondly, the SEM criteria – unlike the ICA criteria which focus on socialisation (see Table 1), are almost all focussed on social purpose (see Table 3).

Interestingly, the SEM (albeit not obviously) contains a clause that provides an escape route from 'rationalist' thinking and managerialism (Grey and Mitev, 1995). One

evaluation criteria, potentially, offers a pathway back to participative democracy. The last criterion of the SEM requires that applicants provide evidence that their social and environmental objectives are being achieved. This requirement, depending on the way it is interpreted and operationalised, requires some form of social audit and reporting. Social auditing was developed in the worker and community co-operative movement at Beechwood College as a methodology for reviewing their social and environmental impact (Spreckley, 1981). It has subsequently been used by many social enterprises as a methodology for governance (Pearce and Kay, 2008; Southcombe, 2009).

The significance of the "Beechwood model" - and the SEN model that followed - is that it advocates a participative and inclusive approach to governance. This regards employees, volunteers and beneficiaries (i.e. customers and/or service users) as stakeholders in organisation development. Even if social enterprises have hierarchical structures that initially exclude volunteers and/or workers from policy development and strategic decision-making, social audit acts as the catalyst for their reintegration into co-operative management. This, it is claimed, protects (or re-establishes) the social nature of the enterprise by countering the discourse and practices of private enterprise management. In short, it provides a pathway back to *socialisation* of enterprise by supporting inclusive governance processes, and not just econometric measures of social impact.

In concluding this section, therefore, there is a clear case for further exploration of the origins and development of the Social Enterprise Mark to uncover how its conceptualisation and criteria were socially constructed, who they benefit, and what impact they are having. Particularly important for any further exploration is a consideration of the SEM's effect on stakeholder involvement in governance, wealth sharing and decision-making to see whether the requirements regarding audit offer another way to socialise enterprise development processes.

Conclusions

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

Firstly, the SEM's focus on social purpose at the expense of socialisation makes it more attractive to the public, private and charitable sectors as they seek to reinvigorate the principles of New Public Management (Hood, 1995) and accelerate the break up of state institutions. As the state is broken into more business units, the SEM provides a way to legitimise the enterprises that take over public services, but without fundamentally altering labour relations or limiting management control. The dissolution clause, at least on paper, retains community control over state assets, but it relies on regulation (rather than participative democracy) as the institutional enforcer of social purposes and governance. Which is more effective in practice?

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

Furthermore, regulated assets locks are, arguably, less appropriate where a large number of small shareholders have created an enterprise to lift themselves out of poverty. As Yunus (2007) argues, there is rationale in favour of for-profit social

enterprises where the incomes of the workforce are low, and the enterprise is socialised. In the UK, at the present time, the poorest 50% of the population own only 1% of the nation's liquid assets (ONS, 2006). Socialised 'for-profit' enterprises that increase their income and build up their assets provide obvious social and commercial benefits. In these circumstances, a 'trust law' mentality (and not-for-profit dissolution clause) would make it hard for people to lift their communities out of poverty. If a for-profit social enterprise fulfils its social purpose by lifting people out of poverty, it remains social in the sense of being socialised. They keep people out of poverty, even if they cease to alleviate it directly (Ridley-Duff and Bull, 2011).

It is this last point that invites consideration of giving explicit recognition to the social benefits created by enterprises that transform labour relations through worker control and employee-ownership. There is strong evidence from Mondragon in Spain (Whyte and Whyte, 1991) and Emilia Romana in Italy (Retaskis, 2011) that these arrangements can transform regional economies with the lifetime of a person.

In arriving at a conclusion to the question *"Do the criteria of the Social Enterprise Mark provide an effective framework for evaluating an enterprise's claim to be social?"* this phase of research provides the answer 'yes, in respect of evidencing an enterprise's claim to have a social purpose and make a social impact' but 'no, in respect of encouraging the socialisation of entrepreneurship, ownership, governance and wealth distribution throughout the social economy'.

In the next phase of research, it will be necessary to deconstruct the the SEM's evaluation criteria by conducting a historical analysis of the way it developed. Aside the many background reports and on-line discussions that now exist, interviews with the people who participated in its development will be helpful. To avoid executive capture, and ensure those affected by the SEM have an equal voice it its future development, interviews will also be needed with applicants and holders of the SEM, as well as those who were denied the SEM, and who actively chose not to apply for it. For this reason, a strategy based on purposive and snowball sampling through existing social enterprise networks offers the best opportunity for theoretical sampling (Glaser and Strauss, 1967).

The third and final stage of the research will involve a web-based diagnostic survey that asks the question 'how social is your enterprise?' and evaluates responses against different social constructions of social enterprise. This will enable further testing of the theoretical conclusions in this paper and offer a range of options for developing inclusive criteria that legitimises different types of social value creation.

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

Appendix A

Founders and Initial Directors / Subscribers at Social Enterprise London

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

Founders and Initial Directors at Social Enterprise Coalition

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

Founders and Initial Directors / Subscribers at RISE

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

Source: Companies House

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