

INTRODUCTION TO THE LANDSCAPE FOR SOCIAL ENTERPRISES

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KEY THEMES

- The historical roots of social enterprises (SEs).
- The positioning of SEs within the social economy.
- The size and growth of the social enterprise sector internationally.
- International differences in the role of SEs.
- The role of national, regional and local government in facilitating the development of SEs within the economy.

HISTORICAL ROOTS

The SE (Social Enterprise) is a powerful idea, having its historical roots in the cooperative, community and voluntary sectors. The social enterprise sector can trace its origins back to medieval guilds, but it is the Rochdale Pioneers, founded in 1844, who are normally seen as symbolizing the start of the growth in numbers of SEs (Pearce, 2003). The cooperative principles of working together for a common social purpose worked to address the spiralling poverty levels for those in traditional trades who were displaced during the industrial revolution (Birchall, 1994).

Nearly 200 years later, cooperatives and new mutuals are undergoing a renaissance, offering new solutions and applying them in a modern context. These can range from football supporters' trusts and new models for childcare and care homes for the elderly, to maintaining vital services in rural communities and more traditional activities, such as retail and financial services.

In 1948, the UK government took prime responsibility for services such as health, education and social welfare, which led to the eventual decline of friendly societies. The policies of the Labour Government of the early 1970s stimulated the development

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of the community and voluntary sector. During Margaret Thatcher's Conservative Government (1979–1990), the social sector evolved in the opposite direction – partly as a response to the ideal of individualism behind the free market economic policy at that time (Bull, 2006). Under the Thatcher Government, the welfare state model was replaced by a social policy framework based on neoliberalism, the effects of which were deregulation, privatization and reliance on the market and private philanthropy, resulting in economic and social inequality (Tickel and Peck, 2003). More recently, social demographic changes and the economic problems surrounding the operation of a national health and wider welfare services are stimulating a renewal of SEs as suppliers of such services (Bull and Crompton, 2005).

SEs are part of the wider social economy (as shown in Figure 1.2 later in this chapter). A number of authors suggest that the social economy in the UK and Europe has nineteenth-century origins (Amin et al., 2002; Moulaert and Ailenei, 2005). The European Commission's Social Economy Unit defines the social economy as including cooperatives, mutual societies, associations and foundations and SEs. However, until 12 years ago, the term 'social enterprise' was rarely discussed. Since then, the term has made significant breakthroughs on both sides of the Atlantic (Defourney and Nyssens, 2006).

In 1993, the Harvard Business School in the USA launched its 'SE Initiative' and since other universities in the US. In 1991 including Colombia, Stanford and Yole set-up training programmes for social enterprises or social entrepreneurs the Italian Parliament introduced Law 8/11/1991, n.381 to regulate a new legal form of cooperatives named 'social cooperatives' (see Exhibit 1.1 later in this chapter). Borzaga and Santuari (2003) argue that the growth in numbers of Italian social cooperatives is due to the community's needs not being met by public services.

Similar initiatives have emerged in other EU states and, in 1996, the European Research Network (EMES) was formed to study SEs within the EU. Defourney and Nyssens (2006) propose that European SEs are positioned at the crossroads of the market, public policies and civil society.

MODELS OF SOCIAL ENTERPRISES

Despite the growing interest in SEs, they remain clearly under-researched compared to conventional businesses, charities and the wider social economy. According to Bull and Crompton (2005), this is due to the lack of an agreed definition. Smallbone et al. (2001) identify 16 different forms of SE, dependent on which definition is used. According to Bull and Crompton (2005), SEs are referred to as comprising 'the third sector' – the not-for-profit sector, the social enterprise, non-profitmaking businesses, civil society organizations, non-governmental organizations (NGOs). These terms are used interchangeably, which makes it challenging to bring together the literature for a book of this type. In this respect, Figure 1.2 (later in this chapter), showing Pearce's three systems model, is useful for framing these different literatures and their associated terms. In agreement with Pearce (2003), MacGillivray et al. (1998) argue that SEs can be placed diagrammatically between charitable/voluntary organizations and the private sector.

In the North American model, a SE may be incorporated as either a for-profit or non-profit organization. In the USA, the term SE remains a very broad concept, referring mainly to market-focused economic activities serving a social goal (Defourney and Nyssens, 2006). In some cases SEs are seen as an innovative response to the funding problems of non-profitmaking organizations (Dees, 1998). In contrast, the UK definitions (see the beginning of Chapter 2) recognize the importance of making a profit and what is done with the profit (surplus) created. According to Moulaert and Ailenei (2005), non-profitmaking organizations can be defined as ones that are required to reinvest any profits in these organization, and their activities (charities), whereas not-for-profit organizations may distribute profits between members or stakeholders (cooperatives). In addition, there is a legal distinction in the USA between 'non-profitmaking' and 'not for profit': the former being an organization and the latter an activity, meaning that non-profit-making organizations can engage in for-profits activities, although those profits will be taxed (Jones and Keogh, 2006).

SEs are described as the enterprising wedge of the social economy (Pearce, 2003). The term 'social economy' is only a recent phenomenon in the UK literature, previously being defined as the third, voluntary and/or not-for-profit sectors (Amin et al., 2002; Dart, 2004; Hudson, 2005). Laville and Nyssens (2001) suggest that SEs represent a new dynamic within the third sector. ECOTEC (2003) also provides a useful explanation by defining the social economy as the trading arm of the third sector/system (see Figure 1.2 later in this chapter) and SEs as that part of the social economy primarily engaged in trading.

THE GROWTH AND POSITIONING OF SOCIAL ENTERPRISES

The recent growth of the social enterprise sector in industrialized countries has been well documented (Defourney and Borzaga, 2001; Pearce, 2003; Salamon et al., 2003). Salamon et al. (2003) report a growth in the third sector/social economy across the developed countries of North America, Western Europe, Central and Eastern Europe and in much of the developed world. SEs are now competing in a diverse number of market sectors, including, health and social care, housing, children's services, transport, food and farming, plus environmental services and leisure (Westall and Chalkley, 2007). In fact, Salamon et al. (2003) argue that the rise of the third sector in the late twentieth and early twenty-first centuries may prove to be as important as the rise of the nation state in the late nineteenth and early twentieth centuries.

Salamon et al. (2003), in their work on mapping the third sector in 35 different countries, identified variations between nation states. In more developed countries, the share of the economically active population employed in the third sector is larger than in developing countries. This does not highlight an absence of these activities in developing countries, as many countries have strong familial, clan and community networks that perform the functions of third-sector organizations. Rather, the variations from country to country in the third sector reflect their different cultural, social, political and economic histories.

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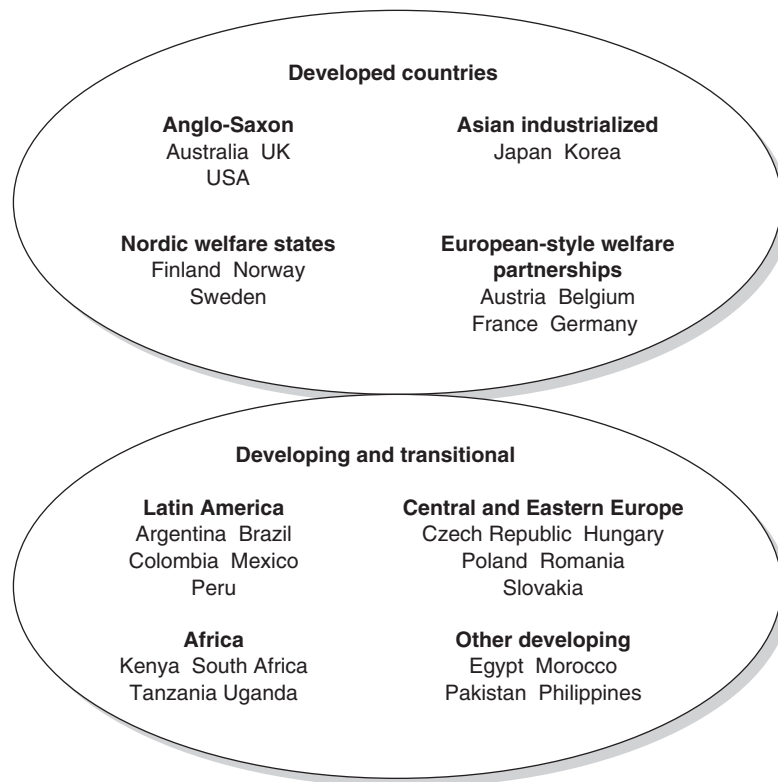


Figure 1.1 Sociopolitical clusters of countries (adapted from Salamon et al., 2003: 37)

Salamon et al. (2003) proposed a number of clusters (as shown in Figure 1.1). In the Anglo-Saxon group, the third sector plays a significant role and exhibits the largest average third-sector workforce of 8.2 per cent combined with a sizeable volunteer presence. Third-sector organizations in this cluster also derive a high proportion of their income from fees and charges.

The distinguishing characteristics of the Nordic cluster include a workforce of 2.5 per cent that is mainly comprised of volunteer labour and others receiving lower than average levels of pay. This is because of the broad welfare state policies adopted by these countries in the early twentieth century. The third sector in this cluster is characterized by strong advocacy and professional organizations staffed by volunteers, deriving income mainly from fees and government support.

The European-style welfare partnerships are characterized by a large civil society staffed in the main by paid employees who are predominantly engaged in social welfare service provision. The sector in this cluster derives significant income from tax revenues. It is important to note that this pattern is not universal across all European countries – Italy and Spain are exceptions (see the case study of Italy in Exhibit 1.1).

The Asian industrialized cluster is characterized by a small third sector – only 3.3 per cent of the economically active population is involved in the sector. The organizations

in it are mainly involved in service provision of health and education, gaining most of their income from fees and receiving little state support.

The third sector in other developing and transitional economies has demonstrated stronger growth in recent years than before due to developments in communications technology and some international initiatives to empower the rural poor, particularly in Africa. The sector in this cluster is characterized in the main (except in Argentina) by lower than average levels of economically active people employed in the sector (both paid and unpaid), plus lower than average levels of government support. Third-sector organizations in these countries have depended heavily on both fees and international private philanthropy for their income.

A more recent development has been the growth in numbers of those organizations involved in ethical or fair trade (see Exhibit 1.4 later in this chapter) representing small-scale producer groups. Fair trade alone is claimed to provide benefits in improved livelihoods to over 7 million farmers and their families in developing countries (Fairtrade Labelling Organization, 2008).

The third sector in Latin America is larger than in other developing country clusters and is heavily orientated towards service functions such as education.

In Africa, third-sector organizations are limited by financial support. An exception to this is South Africa, where 40 per cent of revenue is derived from government compared to 5 per cent in Kenya.

The Central and Eastern Europe cluster demonstrates yet another pattern. It reflects the influence of the Soviet-style regimes that came to power in the aftermath of World War II. The third sector in this cluster is smaller in scale than in both Latin America and Africa due to the direct provision of social welfare services by the state in these countries. Exhibits 1.2 and 1.3 later in this chapter, which discuss the development of the social economy in Poland and Slovenia respectively, illustrate this dynamic.

In the last decade, Britain's third sector has grown significantly (Cabinet Office, 2007):

- the number of registered charities has grown from 120,000 in 1995 to 160,000 in 2005;
- the number of people volunteering once a month rose from 18.4 million in 2001 to 20.4 million in 2005;
- 'charities' turnover has increased from £16 billion in 1997 to over £27 billion in 2004/2005.

In addition, an important dynamic in the development of the third sector is the growth in numbers of SEs. It was reported in the UK 'Small business survey' of 2006 that there are now more than 55,000 SEs in the UK, generating more than £27 billion in turnover and contributing more than £8 billion to GDP, which is over 1 per cent of the UK's total. SEs account for 5 per cent of all UK businesses with employees (IFF, 2005).

The same survey proposed that 475,000 people are employed by SEs, 63 per cent of whom are full-time employees with the majority of SEs also employing some staff on a part-time basis. In addition, two thirds of SEs make use of volunteer labour, estimated to number 300,000 people. This blend of paid and volunteer labour is a unique feature of SEs.

SEs are part of the wider social economy, illustrated by Pearce's (2003) three system's framework (as shown in Figure 1.2). The diagram separates the private, public and

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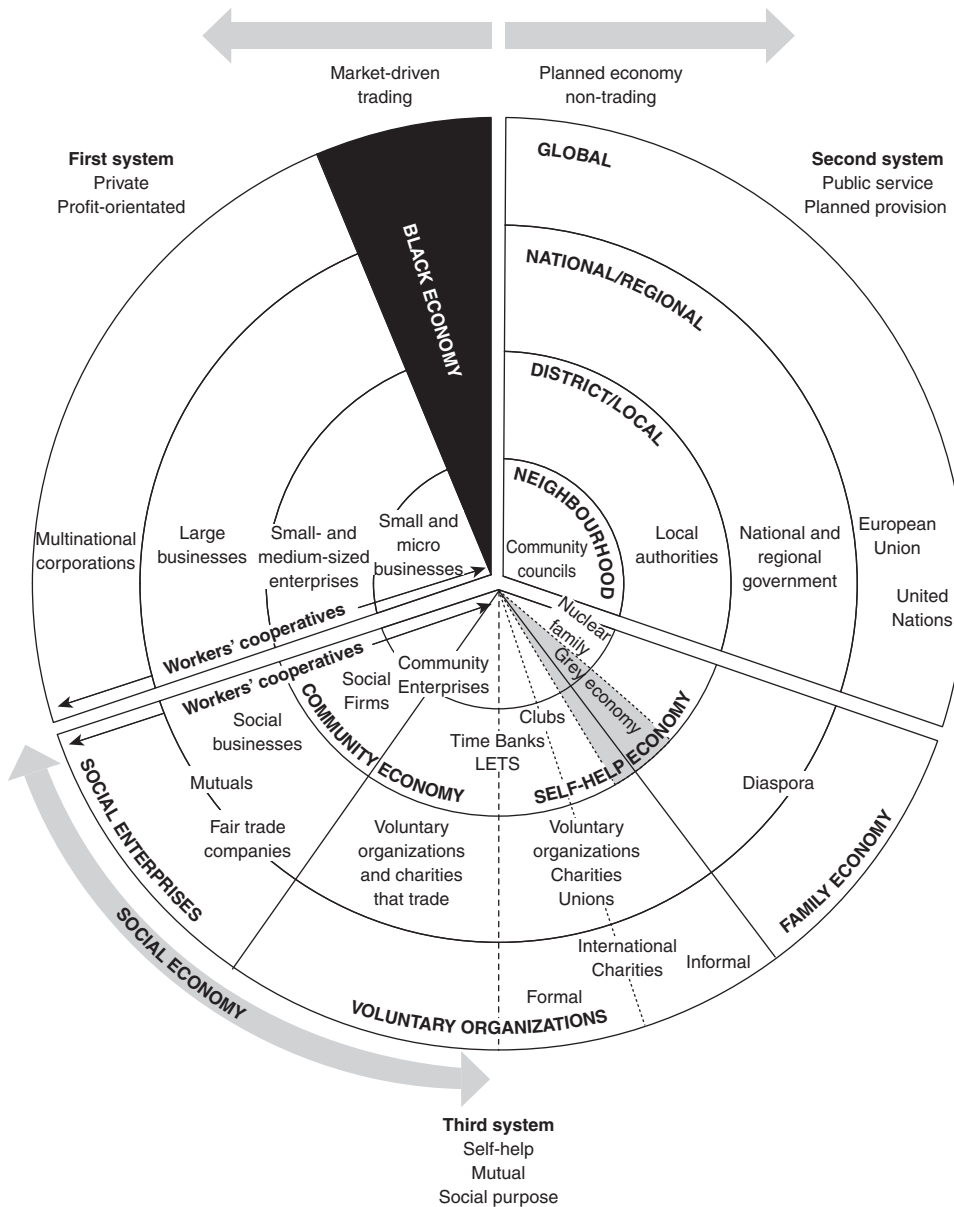


Figure 1.2 Pearce's Three systems of the economy model (Pearce, 2003: 25)

mutual systems (the third system) within the economy and then splits the social economy from within the mutual economy where trading is a dimension of the sector, in contrast to the planned economy of the public sphere. SEs are positioned within the market-driven economy, which is one of the key discussion points covered in Chapter 2. Often the terms social economy, SEs and third sector are used interchangeably, so Pearce's three systems framework is a very useful diagram for explaining the differences between them and where each is positioned in the wider economy.

Pearce's model also shows the diversity and complexity of the social economy. The umbrella term 'SE' also covers a range of organizational types that vary in terms of size, legal structure, activity, geographic scope, income sources, motivations, level of profit orientation, relationship with communities, ownership and culture (see Chapter 2 for forms of SEs).

There are also different conceptions internationally. The USA views SEs more as non-profitmaking social organizations that are clearly delineated from commercial businesses, although sometimes working in partnership with them via activities such as cause-related marketing (Austin, 1999).

THE POTENTIAL OF SOCIAL ENTERPRISES

In Europe, the social economy is a fast-growing sector, significantly outstripping the private sector in terms of job creation (Hudson, 2005). The social economy within the EU has been estimated to cover nearly a tenth of all enterprises and employment, representing nine million full-time jobs. Of these about half (4.8 million) are employed in Europe's 300,000 cooperatives (Hudson, 2005).

According to Hudson (2005) the EU views SEs as an essential part of the European economic model and the European Commission has established a Social Economy Unit in the Directorate General for Industry. For example, almost one third of Europeans are insured by mutual insurers against the risks of illness or old age and about 140 million citizens are members of cooperatives (Hudson, 2005).

In some countries where SEs have been explicitly recognized for the work they do in tackling employment and social issues, they play a very significant role. For example, around 7 per cent of Spain's (GDP) is produced by cooperatives and labour-owned companies (SEL, 2000). Similarly, Branco (2007) explains that the Italian social economy accounts for more than 12 per cent of Italy's total GDP. The social economy in Italy is supported by a detailed and advanced legislative and normative framework that is both fully integrated and integral to the Italian economy and a specific credit system (Branco, 2007). Its key stakeholders are extremely integrated vertically, horizontally and trans-sectorally (the social regional innovation system) within the social economy. According to Branco (2007), SEs in Italy are enterprises run with entrepreneurial attitude to achieve social aims, as shown in Exhibit 1.1.

Exhibit 1.1 The social economy and SEs in Italy (www.teses.eu)

The weight of the 'social economy' in Italy

The social economy sector in Italy accounts for 12 per cent of the total GDP and, in some of the most industrialized regions in Northern Italy, such as Veneto and Emilia-Romagna, this value rises to more than 15 per cent. The size of the social economy in Italy is shown in Table 1.1.

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*(Continued)***Table 1.1 The social economy and third sector/total employed in Italy**

Number	Employees	% of total workforce	Members/ volunteers (millions)	Income (€ billion)
Total social economy				
>250,000	1.3 million	5.4	<10	136
Third Sector (not-for-profit organizations)				
>235,000	490,000	2.0	<3.3	40
Cooperatives				
>50,000	814,000	3.4	>9	96

Source: Branco, 2007

According to Branco (2007), the Italian social economy sector is made up of four key organizational forms:

- the SEs;
- the cooperatives and social cooperatives;
- the Organizzazioni non lucrative di utilita sociale (ONLUS);
- the new social Holdings.

SEs are regulated by art.1, comma 1, D.L. 24/0372006, n.155, defined as:

A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners.

There are specific and clear conditions that need to be fulfilled in order to be considered a SE. The 'non-lucrative organizations of social utility' (the translation of the Italian, *organizzazioni non lucrative di utilita' sociale*, abbreviated as ONLUS) are not-for-profit organizations registered, if conditions prescribed by the law are satisfied, in the official book of ONLUSs. If an organization is registered as ONLUS, it benefits from fiscal deduction and value-added tax (VAT) exemption for part of its institutional activities.

A phenomenon particular to Italy is the system of cooperatives and social cooperatives, which conform to a specific legal framework and possess specific characteristics and benefits. The system is fully supported by a specific banking system based on credit cooperative banks (and ethical banks).

The social cooperatives' main purpose is to improve the lot of people and bring about the social integration of citizens through community development. The typical characteristics of social cooperatives include that they:

- are small in size;
- are connected with the local community;
- are very close to the world of volunteering;
- generate social services that are not in competition with existing public services;
- have a social and economic targets;
- create new employment opportunities;
- ensure the active participation of members in the organization.

There are three registration types for social cooperatives including:

- *Type A*: for the management of social health and educational services;
- *Type B*: for the introduction to the labour market of disadvantaged people (this is the fastest-growing of the three types);
- *Type C*: a consortium of cooperatives, with at least 70 per cent of the organizations being social cooperatives.

To be eligible for registration as a social cooperative, it is compulsory to fulfil the requirements of Law 381 and be registered in a special official book kept at local government offices.

The 'social holdings' organizational type – gruppo cooperativo paritetico – introduced in 2004 by the art. 2545-septies Italian civil code, represents the most recent legislative development in the Italian social economy sector. Social holdings are groups of at least two organizations that are SEs, ONLUS, private institutions, public institutions, cooperatives, agencies and so on where the majority of members (and votes – 1 member = 1 vote) are cooperatives.

Social holdings allow for the:

- participation of different organizations, both public (municipalities, regions) and private, for-profit companies (limited by shares);
- ability, by so doing, to cover different fields of action and work on local, national and international tenders;
- combining of strengths that can allow for increased contractual power, improved cost efficiency and greater lobbying power.

An example of a social holding is the Gruppo Paritetico Promolavoro, based in the Veneto region in north east Italy. It is the sum of seven cooperatives, supplying services for the benefit of both elderly people and young nursery children of one to five years of age.

As a result of joining the European Union, transition states such as Poland have experienced an increasing interest in SEs. There exists a political will for new solutions to emerge from the social economy sector (Reichel and Kozakiewicz, 2007). Initiatives are under way in Poland to formulate regulations concerning a new legal form of SEs and/or criteria that would allow other organizations to be classified as SEs. This will result in the enactment of concrete legislative proposals in the area of the Polish social economy (Reichel and Kozakiewicz, 2007). The modern history of the social economy in Poland is outlined in Exhibit 1.2.

Exhibit 1.2 The social economy and SEs in Poland

The social economy has a strong tradition in Poland. However, in the past, because of historical circumstances (120 years of occupation under the rule of Prussia, Russia and the Austro-Hungarian Empire), it was mainly a tool for sustaining Polish identity.

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Between the two World Wars there existed more than 20,000 cooperatives and mutual insurance associations had 50 per cent of shares in the Polish insurance market. After World War II, social economy organizations, including cooperatives, were downgraded or eliminated by the communist regime.

Currently in Poland there is evidence of a growing interest in social economy organizations and an increase in their numbers. It is claimed that the main source of this increase is the non-governmental sector – still young, yet dynamic. EU integration has also caused an increased interest regarding the role of the social economy in Poland. However, there is still low awareness in Poland regarding the terms social economy, SE or social entrepreneurship (Reichel and Kozakiewicz, 2007).

Hotel Klos (www.klos.tpn.org.pl) is a good example of a new SE that has been set up in Poland, with support from the Equal fund (a European social fund). This SE, based near Lodz in Poland, rehabilitates people who are suffering from schizophrenia. As part of this rehabilitation, Hotel Klos provides training and employment in all aspects of running a hotel.

The inspiration for this SE came after a visit to the Forth Sector (www.forthsector.org.uk/index.htm), an SE based in Scotland, that has developed a number of successful SEs to develop employment opportunities for those excluded by mental health problems. One of its SEs is the St Mary's Place guesthouse in Edinburgh.

Hotel Klos was opened in 2005 with a mixture of financing from the European Equal project, National Fund for the Disabled, National Health Care Agency and the municipality of Lodz. Hotel Klos is a good example of NGO partnerships, with European, national and local authorities working together. This SE is also supported by the Polish Social Economy Centre, which provides advice and help.

The rehabilitation centre situated near to the hotel site provides support for patients in the form of group discussion and group activities (there is a riding stable and so on on the grounds of the hotel), emotion and stress support, creative training and life skills training. Sheltered employment training in the hotel is provided in all areas, including catering, front-of-house reception duties, secretarial, restaurant waiting skills, plus the duties of porters and cleaners. Physiological support is also provided to beneficiaries during the training programme.

The first 31 beneficiaries taken through the hotel training programme have already found jobs in the developing Polish tourist industry. This is an early sign of success and the next set of beneficiaries are currently being trained in the hotel.

To achieve financial sustainability, Hotel Klos aims to build up its occupancy rate. It aims to target the residential conference market by selling its services to other third-sector organizations and the socially responsible corporate sector. (A study visit was undertaken by the author in April 2008.)

In addition, the social economy in Slovenia is also in an early stage of development, as shown in Exhibit 1.3.

Exhibit 1.3 The social economy and SEs in Slovenia (www.teses.eu)

The social economy in Slovenia has its historical roots in the cooperative movement. The first law on cooperatives was adopted in 1873 (when Slovenia was part of the Austro-Hungarian monarchy, but under Austrian administration). In 1937, when it was part of the kingdom of Yugoslavia, Slovenia also passed the law on economic cooperatives (1937). This law made it possible for small groups of people to establish a cooperative with the aim of supporting the development of individual and family entrepreneurship through mutuality and solidarity. Cooperatives at this time were mainly set up by cattle and sheep farmers, wood processors, vine-growers and milk producers. The cooperatives shared their income or profits between their members and developed their own saving and lending financial institutions.

In the period 1944–1949, the Yugoslav communist government decreed that existing cooperatives were to be owned by the state and guided by political committees in order to serve national plan objectives (the Soviet model). Thus, they became alienated from their members and the memberships' ownership of their cooperatives was lost.

Currently, a new type of social economy in Slovenia is evolving after the dissolution of the socio-economic self-governance system and the associated labour law of the former federal country Yugoslavia, of which Slovenia was one of the federal republics.

Unfortunately, two transitions – first, from state capitalism to a socialist self-governance society in the period 1945–1990 and, then, to a market economy – resulted in confusion for the Slovenian public. Before 1990, under self-managed socialistic communities and societies, Slovene citizens experienced both high levels of employment and social welfare services. Therefore, the majority of Slovenian citizens are still quite confused about the terms 'social economy' and 'social entrepreneurship'. Also, this is partly due to the fact that 'entrepreneurship' during the transition time became associated with entrepreneurs who had no social conscience.

Today, Slovenia is trying to structure new socio-economic tools to balance conflicting development goals, increase economic efficiency and create social justice. To reach these socio-economic aims, the Slovenian government has recognized that the social economy and social entrepreneurship must play an extremely crucial role. The Slovenian government believes that community stakeholder participation is key to maximizing the potential benefits from the development of the social economy (Bunc et al., 2007).

Exhibits 1.1, 1.2 and 1.3 appear to agree with the analysis of Defourney and Borgaza (2001), who propose that international differences tend to reflect different levels of social and economic development – in legal frameworks, the nature of welfare systems and the historical development of the social economy in the different countries.

WHY THE GROWTH OF SOCIAL ENTERPRISES?

The recent growth in the social enterprise sector across industrialized countries has been well documented. According to Salamon et al. (2003) this growth is due to a number of factors, including a reawakening of active citizenship due to advances in information technology and rising literacy levels. The increasing number of educated people see third-sector organizations as vehicles for making a difference to societies affected by perceived state or market failures. Other factors include liberal developments in institutions such as the Catholic Church, particularly in Latin America, stimulating the formation of many community groups. In addition, the work of Western charitable foundations committed to empowering the poor is also important. More recently, there has been recognition by multilateral organizations such as the World Bank (WB) of the importance of engaging citizens when implementing development agendas.

Globalization has resulted in significant expansion of world trade (more than ten fold), resulting in an increase in global per capita wealth. However there are some negative consequences of this, including human rights abuses, environmental degradation, climate change, public health scares, a widening gap between rich and poor nations, declining commodity prices and growing poverty in less developed countries, and these are of concern to civil society (Doppelt, 2003; Elkington, 1997). According to Bornstein (2004) the gap between the poorest and richest countries continues to grow, resulting in the poorest 50 per cent of the world's population accounting for just 5 per cent of global income.

Civil society has responded in a number of ways. Social entrepreneurship has emerged as a global phenomenon, led by social activists and their networks, providing new market models for solving community problems (Nicholls, 2006). Consumers have responded, resulting in a growth in ethical consumption. The Co-operative Bank's 'Ethical purchasing index 2005' (Co-operative Bank, 2005) reports that ethical consumerism in UK markets is worth £29.3 billion per year. Spending on ethical food (organic, fair trade and free-range) was up by 18 per cent to £5.4 billion. A further £11.6 billion was accounted for by ethical finance, up from £10.6 billion in the previous year. The rapid development of fair trade SEs, such as Cafédirect and Divine Chocolate (formerly Day Chocolate), is an example of such a response, combining social entrepreneurship with a growth in ethical consumption (see Exhibit 1.4).

Exhibit 1.4 The growth of fair trade

Civil society has responded to the predicament of marginalized producers by the rapid emergence of the fair trade market, both within the UK and internationally (Barratt Brown, 1993; Crane and Matten, 2004; Lowe and Davenport, 2005). UK fair trade sales have grown to a level of £490 million (Fairtrade Foundation, 2007), demonstrating a growth of 80 per cent on 2006 sales.

Fair trade is a system aimed at offering the most disadvantaged producers in developing countries the opportunity to move out of poverty by creating market access under beneficial rather than exploitative terms. The objective is to empower producers to develop their own businesses and wider

communities through international trade (Nicholls and Opal, 2004: 6). Fair trade is defined as 'a trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of marginalized producers and workers – especially in the South' (Lowe and Davenport, 2005: 499).

A number of authors report that ethical factors are increasingly important in influencing consumers' buying behaviour (Nicholls, 2002; Shaw et al., 2006). Harrison et al. (2005) propose that the exploitation of developing countries is high on the list of consumer issues. Consumers are now not only concerned with the intrinsic properties of the product but also supply chain and production issues such as human rights.

Ethical consumption is the conscious and deliberate choosing of certain products and services over others based on personal moral beliefs and values. It is about making decisions that are about more than self-interest. Worldwide, consumers spent over £1.6 billion on products being the Fairtrade Mark in 2007. This is a 47 per cent increase on 2006 and now means that over 1.5 million producers and workers across 58 developing countries are benefiting from fair trade (Fairtrade Labelling Organization, 2008).

The 'Ethical purchasing index' also reported that more people than ever said they recycled (94 per cent), supported local shops and suppliers (80 per cent), avoided a product or service on the basis of the company's reputation (55 per cent) or actively chose a product or service on the basis of a company's reputation (61 per cent)

Also vital to the growth of SEs in the UK has been the change in emphasis by the government, moving away from providing grants and towards giving contracts via the competitive tendering process. Further, the deregulation, devolution and privatization of welfare states across the world during the past 20 years is a key factor in this growth (Goerke, 2003).

Demographic changes, such as ageing populations, combined with changing attitudes to health issues in society has also meant that governments have responded by promoting the social enterprise sector. This response is a way of both modernizing public services and delivering new solutions to new challenges. There is evidence to show that SEs can be effective providers of public services. The success of Greenwich Leisure in London lies in the fact that it is linked to some 30 other UK local councils contracting their leisure/recreational services to other SEs (leisure trusts). In addition, 30 of England's top ten councils' recycling services are run by SEs (Allan, 2004). SEs also contribute to the production of social capital – those bonds of trust and reciprocity that have been found to be critical preconditions for democracy and economic growth (Salamon et al., 2003). One government interested in the social economy is the UK's New Labour Government, which came to power in 1997. The role of this government will now be explored.

THE ROLE OF THE GOVERNMENT IN THE UK

Pearce explained, 'The striking development of the last five years has been the growth in political and administrative support for SE in the UK, especially since the 1997 General Election' (Pearce, 2003: 91).

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The Government in the UK has identified SEs as being an important part of its economic and social policy. In Prime Minister Gordon Brown's words, 'SE is the new British success story, forging a new frontier of enterprise' (Westall and Chalkley, 2007: 6).

SEs are proposed as catalysts for revitalizing disadvantaged UK communities through employment and countering welfare dependency (OECD, 2003). It is also important to note here that this drive towards a more enterprising orientation within the third sector is coupled with a reduction in grant funding for voluntary and charity-sector organizations. In 1999, the Treasury first identified a role for SEs in tackling social exclusion as part of its strategy to stimulate enterprise in disadvantaged communities (HM Treasury, 1999). This led to the development of the Phoenix Fund, which closed in March 2006, but has provided support for the creation of community development finance institutions (CDFIs), some of which provide access to funding for SEs, and funding for business development support projects in disadvantaged communities, a number of which have focused on SEs (see Exhibit 1.5). Following work by the Social Investment Taskforce, a new tax credit to promote enterprises in disadvantaged communities was also introduced that can support the capitalization of CDFIs.

Exhibit 1.5 Community Loan Fund North West (CLFNW)

The CLFNW, established in May 2000, is a CDFI working in the North West of England, providing loan finance to the voluntary and community/social economy sector. The funders include the Co-operative Bank, Northwest Regional Development Agency (NWRDA), British Nuclear Fuels (BNFL), AMEC, Granada, Riverside, Cheshire Building Society and Liverpool Housing Trust. Priority is given for loans of up to £250,000 to those organizations that contribute to economic regeneration and social inclusion. The maximum repayment period is 10 years with interest rates 2.5 to 5 per cent above the base rate.

SEs in the North West that have received funding include social firm Dove Designs and Lister Steps Limited, a community nursery based in Liverpool. The CLFNW could play a growing role in the future, due to reduced grant funding available from European (SRB, ERDF and ESF) and Lottery Fund sources (interview with Roy White, 2007).

In 1999, the Government's strategy for neighbourhood renewal identified the need to better understand SEs in order to provide improved levels of support (DTI, 2002). In 2000, Patricia Hewitt, then Junior Minister of State, brought a focus on SEs to the DTI. In 2001, the SE Unit was set up within the DTI to both coordinate policymaking and be a champion for SEs. Nigel Griffiths MP was also appointed the first junior minister for SEs. The Unit's 'social enterprise: a strategy for success' document, launched in 2002 (DTI), identified barriers to growth and made recommendations for overcoming them in order to make SEs better businesses.

This strategy document highlighted the need to create an enabling environment, make SEs better businesses and establish the value of SEs (DTI, 2002). To enable SEs,

the document highlighted the need to coordinate SEs activities across national, regional and local government and educate both local authority procurement officers about the value of SEs and managers of SEs about the process of public procurement.

To make SEs better businesses the document identified the need to provide support and training via both UK business links and the Small Business Service and improve the finance and funding landscape for SEs by working with partners to increase the capitalization of community development finance institutions (CDFIs). By September 2003, 23 CDFIs were in existence.

In parallel to social enterprise: 'strategy for success', the Cabinet Office carried out research into reforming legal structures such as provident society legislation and the creation of community interest companies – a new legal form for SEs. Similarly, other new legal forms for SEs, mainly of the cooperative model, exist in France, Portugal, Spain and Greece. For example, the Portuguese 'social solidarity cooperative' was created in 1997. This type of cooperative provides services with the objective of integrating socially excluded groups.

A significant development in May 2006 has been the establishment of the Office of the Third Sector (OTS) within the Cabinet Office. According to the OTS, 'we have been set up to drive forward the Government's role in supporting a thriving sector, and bring together sector-related work from across government' (interview with Steven Wallace, 2006). Figure 1.3 shows how both the SE Unit at the DTI and the Active Communities Directorate (ACD) at the Home Office have been combined in the Office of the Third Sector (OTS). This move will counter some of the criticisms made of the government that have centred on the lack of joined-up thinking across different government departments. The OTS has allocated £515 million to support third-sector programmes to build capacity in the sector.

Westall and Chalkley (2007) argue that the forming of the OTS is due to the difficulties of clearly differentiating SEs from voluntary and community organizations. In November 2006, the OTS launched the new 'social enterprise action plan: scaling new heights'. This policy document declares the following intentions.

The action plan will drive change in four areas:

- embedding the cultural change that is already under way, especially by inspiring the next generation to start thinking about the social impact of business;
- improving the advice and support available to start-up and growing SEs;
- tackling the barriers to accessing finance that restrict the growth of SEs;
- enabling SEs to work effectively with government in pursuit of common goals.

The action plan builds on the first 2002 government strategy, 'social enterprise: a strategy for success' (DTI, 2002). In addition, other government departments have also launched initiatives for SEs, including the Department of Health (DoH), which, in 2006, set up its SE Unit to work with SEs to identify pathfinders that will lead the way in delivering innovative health and social care services. A SE fund of £73 million over four years has been established from April 2007 to help with set-up costs (Marks and Hunter, 2007).

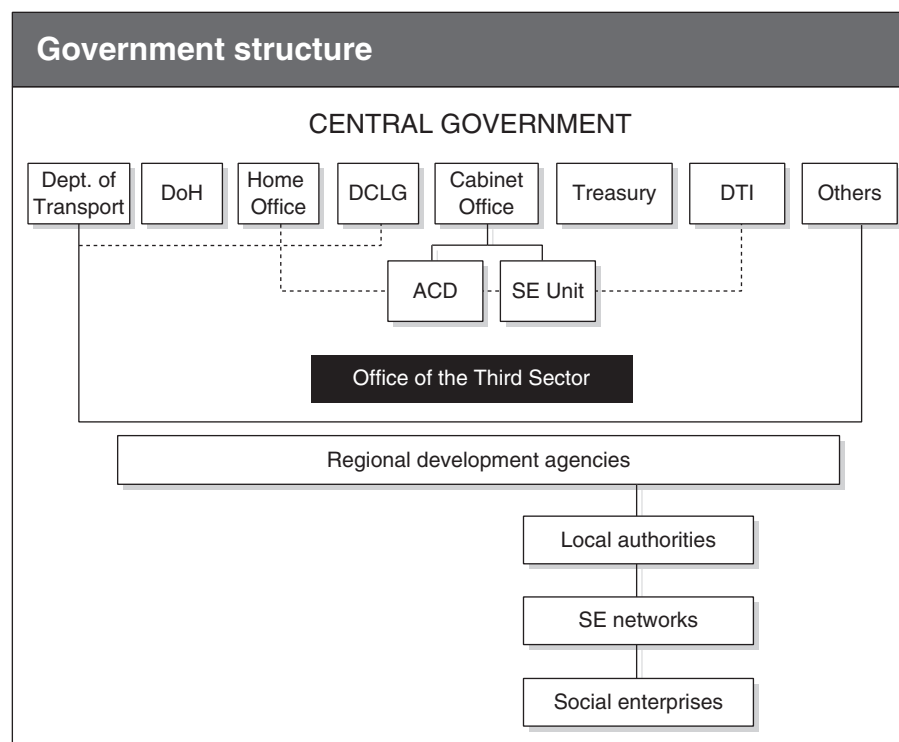


Figure 1.3 The government departments concerned with (interview with Khan, 2007)

In addition, the Department for Environment, Food and Rural Affairs (DEFRA) recognizes the important role SEs can play in achieving its strategic objectives, particularly in sustainable development (DEFRA, 2007). SEs have also been identified as playing an important role by local government. The Department for Communities and Local Government (DCLG) published its Local Government White Paper, 'Strong and prosperous communities' (DCLG, 2006) and has announced a £2 billion fund for neighbourhood regeneration and strengthening communities (2008–2011) to be focused on disadvantaged areas in the UK. Also, the Department for Culture, Media and Sport has announced that it will engage with the third sector to ensure local communities are fully involved in the development of the 2012 Olympics (OTS, 2008).

Further, other recent UK government policy initiatives include Partnership for Public Services (PPS). The aim of PPS is to support innovative approaches and learn from the third sector, build its role in holding services to account, plus effective commissioning and improving procurement.

The PPS plan lists five key outcomes:

- coordinated specialist guidance and support with commissioning services from the third sector;
- increased understanding of the third sector among commissioning and procurement officers;

- provision of awareness training for councillors and public-sector officers on the benefits of third-sector involvement in the shaping and delivery of public services;
- provision of awareness and skills training for the most significant 2000 commissioners concerned with correctional, employment, children's, education and training, health and social care services as well as other local services.
- Improved third-sector bidding capacity, particularly among smaller organizations.

Clearly the aim is develop a partnership culture between SEs and the UK public sector. This shows that public-sector procurement is a key aspect of the relationship between the social economy and the public sector. The support of SEs appears to fit with the political agenda to reform public services by contracting out services via the public sector's procurement and tendering process. This modernization, using SEs, is potentially more acceptable to many stakeholders, particularly trade unions, than awarding contracts to purely private-sector providers. However, progress in this area is not uniform across the different sectors in which SEs compete. SEs have broken into the procurement of a range of services, including leisure, homecare, waste and the employment, plus the training of the long-term unemployed (worker integration). Why SEs have not made the progress expected in public-sector procurement will be explored further in Chapter 2.

For New Labour, successful SEs can play an important role in helping deliver on many of the Government's key policy objectives. The OTS (2006) set out a range of attributes associated with SEs:

- helping to drive up productivity and competitiveness and increase levels of enterprise;
- contributing to socially inclusive wealth creation by tackling some of society's most entrenched social and environmental challenges;
- enabling individuals and communities to work towards regenerating their local neighbourhoods;
- set new standards for ethical markets, raising the bar for corporate responsibility and, in some cases, transforming markets;
- showing new ways to deliver public services;
- helping to develop an inclusive society and active citizenship;
- deliver sustainability;
- attract new people into enterprise.

There is also a strong focus in the Government's policy on increasing the business capacity of both the voluntary and charity sectors in the UK, particularly where public-sector contracting is concerned. It means that a number of voluntary and charity-sector organizations are in transition, moving towards becoming SEs. This is demonstrated by the dominant income source of UK charities now being *earned* income, recorded at 47 per cent. Voluntary income represents 45 per cent, with investment income at 8 per cent (Cabinet Office, 2007).

of age, 8.5 per cent are engaged in social entrepreneurship (Harding, 2004). All ethnic groupings are more likely than their white counterparts to be social entrepreneurs. Black Africans are three times more likely as whites people to be social entrepreneurs and black Caribbeans are twice as likely.

SEL's work includes offering business advice, delivering training programmes, network events, policy and research work and consultancy services.

London is made up of 33 different local authorities. In April 2004, SEL, with the support of the London councils, set up LA Connects, which is the first UK forum to bring together local authorities regarding the development of SEs to create a pan-London SE strategy (interview with Khan, 2007). According to Sabina Khan (interview, 2007), 'the aim is to build a consensus around SE. SEL also plays an active role in ensuring SE features in the 2012 Games. We are running a programme "Winning with 2012" in conjunction with the Cabinet Office and the SE Coalition to deliver on this'.

Within the United Kingdom, other such networks exist at a regional level that work very closely with the Social Enterprise Coalition (see Exhibit 1.7).

Exhibit 1.7 The Social Enterprise Coalition (SEC) **(www.socialenterprise.org.uk)**

The SEC is the UK's national body for SEs and has a combined membership of 10,500 organizations working in the social enterprise sector. It aims to share best practice and influence government policy at all levels to create an enabling environment for SEs.

The SEC has had a significant impact on central government, with all key government departments now containing SE units of their own (see Figure 1.3). It also works with banks and legal bodies to forward the interests of the sector and raise awareness.

Set up in 2003 on the recommendation of the All-Party Parliamentary Group on Social Enterprises, the SEC was funded by a small innovation grant from the DTI. The SEC's Board is 25 people strong and they represent its key members, which include national representative bodies such as the National Council for Voluntary Organizations (NCVO), Co-operatives UK, Social Firms UK, Sporta and seven regional SE networks with their own subregion groupings. The SEC's key departments include business development and policy and research.

According to Cherry Read, former Head of Policy and Communications at the SEC (interview, 2007), 'we need to discuss where we will have maximum future impact? Do we build the sector via more SEs, further infrastructure support, building SEs' management capacity or raising the awareness of the sector?' Cherry also believes that the impact of SEs goes beyond the social enterprise sector: 'we are a catalyst for change within both the private and public sectors. We hope to see more convergence from all parts of the economy to the SE paradigm shift. Our aim should be to change society'.

The Government's vision is of a dynamic and sustainable social enterprise sector strengthening an inclusive and growing economy. Emerging from the devolution of the welfare state, privatization, deregulation and the drive for the 'Third Way', SEs have much to accomplish (Amin et al., 2002; Giddens, 1998).

Although the social enterprise has been identified a growth sector, there have been difficulties encountered in fulfilling its potential. One of the major barriers to growth in the social enterprise sector identified by the SE Unit of the DTI is 'complexity and lack of coherence within the sector, combined with widely varying skills and knowledge bases'. Therefore, central to the Government's strategy for success in the sector the policy of working more closely with training providers and encouraging SEs to move away from grant dependency and towards self-financing their activities. Pivotal to the Government's strategy for the sector is the Social Enterprise Coalition (SEC).

Managers of SEs are thus challenged to constantly adapt to a changing environment – a balancing act that requires strategic reflection and analysis to achieve ongoing sustainability. Pressures to improve performance have led to the adaptation of business practices in the third sector. It is important to note here that, in the UK, the social enterprise is being viewed by all political parties as a solution to many societal challenges (Westall and Chalkley, 2007).

Peredo and Chrisman (2006) identify the social enterprise in the Asian Pacific area as a route to both building small-to-medium-sized business' capacity and an approach to business that will foster sustainable development in the region. Both the UN (2001) and World Bank (2001) forecast that poverty will rise in poor countries and are particularly concerned about the negative aspects of globalization. Small-to-medium-sized businesses in Asia that are unable to compete and the resulting poverty gap that this will create are of concern. Of the world's poor, 75 per cent live in rural communities in poor countries, leading to out migration to already overcrowded cities. This leads to an increasing economic burden on the women and children left behind (Peredo and Chrisman, 2006).

SEs are emerging from civil society organizations (CSO)/non-governmental organizations (NGOs) in the emerging markets of Latin America, Asia and Africa. Faced with the reduction of international charitable donations, such organizations are developing entrepreneurial strategies to generate income to further their social missions (Etchart and Davis, 2003). According to Peredo and Chrisman (2006), community-based enterprises (CBEs) that are managed and governed to pursue economic and social/environmental goals can result in local sustainable development. These organizations, led by social entrepreneurs, face high levels of uncertainty and risk, stemming from both political and economic instability and lack of access to capital markets.

One such organization is the Association of Craft Producers (ACP), based in Kathmandu, Nepal (see Exhibit 1.8). The ACP is led by Meera Bhatari (its Executive Director), who was awarded the Ashoka Fellowship in 1992 for her contribution to women and development in Nepal. The Ashoka Fellowship is awarded to extraordinary individuals with unprecedented ideas for effecting change in their communities. Ashoka is a global non-profitmaking organization that searches the world for inspirational social entrepreneurs (www.ashoka.org).

Exhibit 1.8 The Association of Craft Producers (ACP), Nepal

The ACP, established in 1984, works with over 1000 groups of small-scale women producers in 17 districts throughout Nepal. It provides design, marketing, management and technical services for the low-income, primarily female craft producers there. The aim is to empower the women to earn regular, adequate wages to improve their overall standard of living.

Nepal is an extremely poor country, despite four decades of development, and remains one of the poorest in South Asia, with two out of three Nepalese people living in poverty and 38 per cent of the population living on less than US\$1 a day (DFID, 2003). The country has also been faced with civil war due to the Maoist insurgency.

Meera Bhatari (2007) explains that, 'ACP is involved in the whole development process. We have changed the notion that crafts are only for hobbies and part-time work, and women can be quickly and effectively trained to produce high-quality crafts'. Meera is keen to stress that 'ACP is not a charitable institution but operates very much on a business base with full accountability'. The ACP also believes in inclusivity, attaching equal importance to both urban and rural poor, while also trying to maintain a balance between the range of ethnic groups living in Nepal. The ACP maintains two shops – one in Kathmandu of 3600 squarefeet and one in Pokhara with 2000 square feet. Despite a growth in total sales of 34 per cent since 1997, Meera is still not satisfied with the ACP's sales performance: 'to meet the demands of our international customers we need to improve our access to relevant and timely market information. This is difficult for a country so far away from some of its key markets such as the US'. (Source: Interviews with Bhatari, 2003 and 2007)

CONCLUSIONS

There are clear international differences concerning the role of SEs. This demonstrates the impact of different levels of social and economic development, specific legal frameworks and the nature of different welfare systems.

Previous international research has tended to focus on comparisons between Europe and North America. However, there is literature emerging that relates to the role of SEs in international development and from regions such as Latin America and Asia.

It is also clear from this chapter that, in both Italy and the UK, SEs are embedded within the third sector. In these countries, too, SEs are involved in a wide range of activities. However, there are differences between the countries approaches. Italian laws stress a particular governance model through a requirement to involve the various stakeholders. The British model highlights the business character of SEs as usually 50 per cent of their income needs to be market-based for these enterprises to be seen as SEs.

The role of the UK's New Labour Government in setting policies specific to SEs is an illustration of how policy can influence the growth of SEs. It fits with the 'Third Way'

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political agenda, which promises to combine social justice with economic innovation. It is also clear that networks and other support structures are important if SE growth is to be facilitated.

This chapter has shown the scale of the social enterprise sector and the contribution SEs make to economies and societies worldwide. Although this is difficult to quantify accurately, there appears to be universal agreement that it has grown significantly. Despite this growth, we must also be aware of the challenges facing those voluntary and charity organizations that are making the transition to becoming towards SEs and develop support frameworks that recognize this dynamic.

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