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Corporate social responsibility and social enterprises:

An empirical study through the lens of Sen's capabilities approach

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ABSTRACT

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Corporate social responsibility and social enterprises:

An empirical study through the lens of Sen's capabilities approach

Keywords: CSR, Corporate Governance, Social Enterprises, Sen's Capabilities Approach, Social Impact

Previous studies by Cornforth (2003, 2004), Cornelius et al. (2008), Cornelius and Wallace (2010), and Wallace and Cornelius (2010) highlight the need for further research in the area of Corporate Social Responsibility (CSR) for social enterprises and how their governance systems facilitate social outcomes when aligned to organisational mission. Against this backdrop, the main aim of this study is: to investigate the extent to which social enterprises (not-for-profit social providers) pursue ethical practices and social policies underpinned by their CSR agendas that enhance their stakeholders' capabilities.

The conceptual framework for the study is built on Amartya Sen's capabilities approach (Sen 1991, 1999). Primary data were collected from face-to-face, in-depth, semi structured interviews with twelve owner-managers of small social enterprises from Bradford, UK. These were designed to understand their enterprise's ethical views towards the development of deprived communities and the role this has in formulating their enterprise's CSR agenda.

The interview data were transcribed and analysed using constructivist grounded theory. The findings suggest that external CSR provision is often prompted as an immediate reaction to problematic issues arising in society. In general, it consequently lacks sustainability and is insufficiently evaluated for long term social impact. It is therefore argued that the CSR agenda for social enterprises should be based more on the organisation's social ethos than the current process. Moreover, the findings emphasise the importance

of social strategy emanating from governance mechanisms as this was identified as critical for the implementation of the CSR agenda so that social value is created in a structured and planned manner.

These findings make a contribution to knowledge by providing conceptual and empirical insights regarding the consequences of social enterprises incorporating capabilities into their CSR policies and practices, and its social impact. Moreover, a conceptual model is developed that reflects the strategic importance of such a convergence in achieving this dual purpose.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

The introductory chapter of this thesis contains a rationale for embarking on this research and hence for the relevance of the research. This chapter contains an overview of this study and explains the importance of extant research and also gaps in the literature, leading to the formulation of the research objectives for the study. Subsequently, the significance of the study will be presented to place the research in its context. Finally, the chapter provides a general outline for the whole thesis.

1.2 Background

The vast majority of research in corporate social responsibility (hereafter, CSR) has been focused on discussions on ethics in large firms, resulting in a fairly substantial body of knowledge. Scholars from different schools of thought contend that research on ethics and social responsibility from the perspective of small and medium-sized enterprises (hereafter, SMEs) acknowledges that a significant difference exists as in contrast to the research based on large firm practices (e.g. Tilley 2000; Spence and Rutherford 2003; Jenkins 2006), although research in CSR in third-sector organisations, in the case of social enterprises specifically, is just emerging. Academic researchers (e.g. Quinn 1997; Vyakarnam et al. 1997; Spence 1999; Tilley 2000; Spence and Rutherford 2001, 2003; Spence and Schmidpeter 2003; Spence et al. 2003, 2004; Jenkins 2004, 2009) assert the importance of ethics and socially responsible practices as they apply to those

small businesses whose central focus has always been largely on their social impact on the communities they serve: but there is less emphasis on internal social responsibility. Various studies have examined the different aspects of internal CSR – namely, health and safety, training and education, work–life balance, workplace diversity and human rights in commercial organisations (Spiller 2000; Longo et al. 2005; Papasolomou-Doukakis et al. 2005; Vives 2006; Brammer et al. 2007). However, research on a related but equally important marker of internal CSR – enhancing employees’ capabilities as an important social provision of social enterprises – is only just emerging.

The key assumption underlying this research is the claim that the community social mission in third-sector organisations may be so embedded that little attention has been paid to developing and implementing internal and external CSR policies and practices, a subject that has so far received far less attention in academic debate. The recognition of the growing significance of the third-sector in general, and social enterprises in particular, in reforming civil society through local economic development has led to heightened interest in examination of the ethicality of this sector’s business practices (Cornelius et al. 2008). This has resulted in a growing number of initiatives at UK government level aimed at engaging social enterprises in the CSR agenda. There is an assumption that social enterprises make a positive contribution to the economic reform of the deprived communities and client groups that they serve (Peattie and Morley 2008). But contributing to the social aspects of communities’ development is questionable from an ethical perspective. This is where UK government policy of reforming civil society

lacks understanding of the social attributes a community must enhance to sustain long-term development.

In a nutshell, this study claims that CSR based on a utilitarian perspective that emanates from the assumption of maximising material resources and growth is incompatible with the philosophical underpinning of social enterprises. It can also be argued that production of material growth is an important indicator in the government policy of reforming civil society and, therefore, social enterprises are seen as a way forward in the UK central governmental policy paradigm (DTI 2002, 2006; Cabinet Office 2010a; Conservative Party 2010a, 2010b).

CSR is a concept that has evolved from different ethical theories and beneficence theory occupies a central place in its development. Beneficence generally relates to ideas of generosity and charity (gifts freely given) and the principle of avoiding harm to others. In regard to CSR, the beneficence perspective demands that organisational decisions and actions should be grounded in the intention to benefit or promote the good of others (beneficence) and do no harm (Nonmaleficence). Both beneficence and CSR focus on how organisational decisions and actions impact on stakeholders but fail to recognise the issue of the sustainability of the good created. This is an important ethical concern that must be taken into account and it reflects economic as well as noneconomic values in articulating CSR policies and practices.

One particular sector that seems to run in line with the values and principles of beneficence is the third sector. CSR is the continuing commitment by third-

sector organisations to behave ethically and contribute to local economic development while improving the quality of life of the workforce, as well as that of their clients, the local community and society at large in ways that are sustainable for both business and community development. Furthermore, the relationship between organisations and their employees can be regarded as a precondition for CSR: to work on community welfare an organisation must first assume a high level of responsibility to its own staff (Johnston 2001). Philanthropic action as part of the fourth pillar of CSR (Carroll 1979, 1995) is often criticised as in fact being irresponsible because of the many economic benefits that companies seek to gain rather than providing genuine benefit to stakeholders. Therefore, in this regard, philanthropy does not equal responsibility; rather, it is an instrumental act that is performed by large organisations on an ad hoc basis. This is where Sen's capabilities approach¹ enters the debate on how to enhance the true philosophical underpinning of social responsibility, where instrumental acts should be seen as means to an end.

1.3 Research Objectives

While the literature referring to CSR has tended to focus on the attitudes and behaviour of larger companies, it often emanates from the perspective of a politico-legal paradigm (Takala and Pallab 2000). This is a paradigm that forces businesses to do the right thing through codes of conduct or law and it also plays an important role in shaping business behaviour (Di Lorenzo 2007). The central focus of Takala and Pallab's (2000) argument is to

¹ Sen (1992) argues that in the capabilities approach freedom consists in the 'real opportunities' that individuals have to achieve what they value or have reason to value. A detail account on Sen's capabilities approach is discussed in section 3.12, 5.6, and 6.7.

suggest that CSR must have a strong component of moral obligation in order to maintain sustainability and to influence the culture within organisations. Much of this has focused on theorising CSR in the private business context, whereas the literature pertaining to the CSR of third-sector organisations, and social enterprises in particular, is small (Choudhary and Ahmed 2002; Kramer 2002; Somers 2005; Todres et al. 2006; Cornelius et al. 2008). In the real-life world of organisations, the focus with regard to CSR has always been closely linked to external CSR. This is proved by a review of past literature reviews, which revealed that most researchers have focused on external CSR aspects (e.g. community involvement and environmental protection), resulting in less attention being focused on internal CSR (Cornelius et al. 2008). Therefore, it is not surprising that the concept of internal CSR (e.g. social responsibility towards employees) is rather vague among researchers. By focusing on the internal social responsibility practices of social enterprises regarding the enhancement of employees' and clients' capabilities, this research proposes to tie in with the so-far-limited existing research in an attempt to narrow the gap in the literature with respect to the philosophical underpinning of internal CSR from the capabilities perspective.

With regard to internal CSR activities, European small businesses are found to underperform on vital components related to internal CSR – namely, working conditions (e.g. health and safety at work) and job satisfaction, work–life balance, equal opportunities and diversity, training and staff development, communication/information to employees and participation in company decisions, and responsible and fair remuneration (Al-bdour et al. 2010). This has resulted in growing interest in internal CSR among many

academic researchers (Spiller 2000; Longo et al. 2005; Papasolomou-Doukakis et al. 2005; Vives 2006; Brammer et al. 2007), and the main focus of these studies has been on benefiting businesses' interests by incorporating internal social responsibility practices.

One of the major aspects of internal CSR is employees' well-being and development, which is the focus of this research. Enhancing employees' capabilities, which are a major marker of internal CSR, has been the main focus of this research for many reasons. First, previous academic studies have tended to explore various internal CSR dimensions that are quantifiable in nature and generally focused on commercial organisations (Spiller 2000; Kok et al. 2001; Papasolomou-Doukakis et al. 2005; Turker 2009). Second, employees' well-being and development are important features of capabilities enhancement that are arguably difficult to assess, but which, in practice, are important indicators of social enterprises' internal ethicality (Cornelius et al. 2008).

By focusing on the context of social enterprises and drawing from Sen's capabilities approach and Aristotelian virtue ethics, the objective of this research is to understand how social enterprises engage in CSR in general and in their external and internal business practices in particular. There is a common assumption that social enterprises ground their business practices in ethical reasoning, based on the argument that they exist to create social goods for the communities they serve, and that therefore their social purpose is the core value underpinning their organisation. It is through this proposed research that the ethicality of the external and internal business practices that social enterprises use to enhance their employees' and clients' capabilities

will be explored, and the research will also criticise the argument that social purpose alone is evidence of ethical business practices.

Evidence shows that community-based CSR activities are often well developed in both the third sector (Cornelius et al. 2008) and the private sector (Spence and Schmidpeter 2003), but certain practices related to employees' development and well-being have been overlooked in the context of social enterprise. It can be argued that the strength of community social mission in many third-sector organisations may be so embedded in the corporate ethos and manifesto that less attention may be paid to internal matters. This argument can be further strengthened by Foote's work in a third-sector organisation where she found that "ethical inconsistencies in employee management appear from clear application of strong and explicit organisational values to external client groups but limited influence on employee management strategies within the organisation" (Foote 2001: 25).

In order to explore the phenomenon briefly explained above, another important objective is to examine the governance systems of social enterprises. This research emanates from the perspective that entails that good governance provides the foundations for good CSR (Conley and William 2005; Aguilera et al. 2007), and that therefore there is a strong convergence between corporate governance and CSR (Jamali 2008) when the social enterprises are taken as context of study. On the other hand, the corporate governance literature on commercial organisations provides evidence that these perspectives have developed along separate lines, although some complementarities have been observed (Lea 2004; Beltratti 2005; Conley and William 2005; Aguilera et al. 2006). Much of the recent

literature on social enterprise governance systems has emphasised identifying the appropriate model of governance system (Cornforth 2003; Dart 2004; Low 2006; Mason et al. 2007; Larner and Mason 2014). The issue of how governance systems can play an important role in producing policies and practices that are in line with ethical and socially responsible values has been overlooked in the context of social enterprise.

The purpose of this research is therefore ***to investigate the extent to which social enterprises (not-for-profit social providers) pursue ethical practices and social policies underpinned by their CSR agendas that enhance their stakeholders' capabilities.*** Most social enterprises are small in nature and often founded and run by social entrepreneurs, and the nature of management provision is grounded in values-based, rather than formal-rules-based, practices. Hence, the important starting point is to consider how social enterprises themselves implicitly define social responsibility. The following sub-questions are formulated to inform the research question:

1. What formal and informal social responsibility practices do they currently follow that are targeted at developing stakeholder capabilities?
2. What human resource management (HRM) practices do they pursue that are informed by their social responsibility agenda?
3. How do they actively invest in the well-being and development of their employees and clients to enhance their capabilities?
4. What are the relevant governance processes for social enterprises?

5. To what extent does Sen's capabilities approach help to formulate and achieve social enterprises' social responsibility agenda for capacity building?

1.4 Significance of the Study

1.4.1 Role of Social Enterprises in Civil Society

Corporate malfeasances have undermined the stability of civil society, and therefore social reforms have attracted heightened interest among international supra-governmental organisations such as the United Nations and the European Union (Eberhard-Harribey 2006). This is due to corporate crises, which demonstrate a strong need to implement CSR policies in all sectors of business to ensure that their practices are in line with ethical and moral values. In this regard, the UK government acknowledges the role of social enterprises in their policy agenda of reforming civil society (DTI 2002, 2006; Cabinet Office 2010a, 2010b; Conservative Party 2010a, 2010b).

The image of paternalistic dependence in the UK welfare state has been criticised in the policy generation for civil society reforms (Cabinet Office 2010a, 2010b; Conservative Party 2010a, 2010b), and therefore a shift in the UK from welfare state to welfare mix embraces the importance of third-sector organisations. The efforts of the UK government to reform and sustain a strong civil society are reflected in the production of a variety of policy documents relating to social and economic development (e.g. ODPM 2005, 2006a, 2006b). Many of these reform initiatives have been set up within consortia comprising private- and public-sector and, increasingly, third-sector partners, with the underlying mission of improving social, economic and

ethical performance (Zadek 2001). Developing and supporting the capacity of social enterprises is an important plank of the European social model. The formation of such consortia enables organisations to establish the means to achieve those objectives that an individual organisation, whether government, public, private or non-profit, is unable to achieve alone. Therefore, given the goal of attaining a sustainable, strong civil society, the UK government stresses the importance of the collaboration of third-sector organisations (TSOs) with the public and private sectors. This will result in sustained economic growth with more and better jobs and greater social cohesion. The central focus of such assertions reflects the UK government's abdication of its responsibility to address community-based civic issues, rather than adequately funding public services, with the implicit assumption that social enterprises are better placed than the state to provide public services (Pollitt and Bouckaert 2004; Cabinet Office 2010a, 2010b).

The implicit element of government social policy agenda emanates from the need to tackle unemployment and development of deprived areas, as many academic writers (e.g. Cornforth 2003; Spears et al. 2007), practitioners and the government recommend that in times of change social enterprises should occupy an important role in civil society reforms. It is the importance of this sector, working in its own right or through partnerships with public and/or commercial organisations, which prevents the social repercussions of damage to local economic development, through various initiatives aimed at social, economic and infrastructural reforms of deprived communities (Selsky and Parker 2005; Corcoran 2006). However, some argue that government is the important driver in building relationships with social enterprises on the

basis that social enterprises are more effective in reaching groups of people who are neglected or 'hard to reach', where the state is reluctant or unable to operate (Pollitt and Bouckaert 2004; Downe and Martin 2006).

The generation of policy on civil society reforms aimed at government and community organisations working together to tackle societal issues and unmet needs has been attracting growing scrutiny due to such collaborations generating minimal results (e.g. Alexander 1999). Alexander (1999) suggests that such a policy plank encourages not-for profit organisations to "provide reimbursable services of individual benefits where the outcomes can be measured and documented ... and financially discourage them from serving populations with deep-seated and chronic needs or providing services to the community when outcomes are difficult to measure" (Alexander 1999: 68). Furthermore, increasing focus on the contract environment emphasises professional competency areas and devalues the work of volunteers, which is an important marker of internal CSR. Others have argued that capacity building and sustainability are the main indicators for social enterprises' survival to provide long-term quality social provision in their own right (Diamond and Southern 2006; Cornelius and Trueman 2007; Cornelius et al. 2008). However, the benefits of local knowledge and community trust in social organisations give this sector a distinctive edge over the public sector in enabling social progression, a fact admired in many other scholars' work on third-sector organisations (e.g. Jan-Khan 2003). Therefore, this gives impetus to the role of social entrepreneurship in the management of business.

1.4.2 Is Social Entrepreneurship the Way Forward in Social Enterprise Management?

Recent UK government policy has advocated the role of social entrepreneurs in the field of social enterprises as being to produce “a society where people come together to solve problems and improve life for themselves and their communities; a society where the leading force for progress is social responsibility, not state control” (Conservative Party 2010a). It is suggested that through the policies on third-sector organisations that entrepreneurship has been actively promoted as a management framework of social enterprises, to allow them to perform a diversity of functions that are integrated into the maintenance of active civil society. The social entrepreneurship process involves weighing up the social and economic behaviour that leads to social and economic values (Chell 2007). Much of the literature on social enterprises relates to the field of social entrepreneurship, where researchers attempt to conceptualise this construct in a number of contexts, specifically including the public sector, community organisations, social action organisations and charities (Wallace 1999; Cook et al. 2001). Social entrepreneurship, commonly defined as “entrepreneurial activity with an embedded social purpose of rejuvenating the civil society” (Austin et al. 2006; Austin and Reficco 2009), has become an important phenomenon in the research of social enterprises on a global scale (Mair and Marti 2006; Zahra et al. 2008).

It can be argued that an underlying aim of UK governmental policy on third-sector organisations is to encourage social enterprises to incline more towards the commercial end of the spectrum to help the government to

change its paternalistic image. Put simply, there is growing pressure for social enterprises to generate a surplus without relying on state aid. Thus, this requires an alternative model of management for social enterprises, one where outcomes are split between not-for profit, social benefits on the one hand, and generation of wealth that is reinvested in the business to attain sustainability on the other hand (Dees 1998; Tracey et al. 2004). This is to suggest that social enterprises that conduct profitable activities to support their non-profit activities to ensure their survival are embracing an entrepreneurial business model.

These initiatives are of great importance in the development of TSOs, but in order to ensure that such organisations are operating in accordance with moral and ethical values, close investigation is required with regard to both how an organisation acts and also its service provisions and the social and economic impacts on the lives of employees and clients. This gives impetus to the emerging interest in developing an understanding of CSR in social enterprises from an ethical perspective, specifically in relation to impact generation.

1.4.3 Emergence of CSR in Social Enterprises

The reasons for the emerging interest in CSR in social enterprises are closely linked to the reaction to social regression caused by corporate failure. Therefore, at the governmental and/or supra-governmental level policies are produced to ensure all sectors of the economy incorporate CSR in their codes of conduct to ensure their operations are ethical.

1.4.3.1 Marketisation of the Not-for Profit Sector

Government cuts in various public services and a decline in private donor contributions have led social enterprises to embrace market methods and values to become sustainable in terms of providing goods and services (DTI 2002, 2006; Cabinet Office 2010a, 2010b; Conservative Party 2010a, 2010b). In spite of the decline in governmental and private contributions to the sector, growth has increased in this sector, and the rationale behind this is the adaptation of many commercial economic activities, e.g. charging fees for services, selling products and other profit-making ventures (Bush 1992; Freeney 1997). Therefore, in the current situation, social enterprises' focus on economic activities has largely shifted to guiding policy creation and management models.

Hodgkin (1993) argues that, unlike corporations, not-for-profit organisations have an obligation to represent the community interest; thus, they must consider not only what is legal but also what is ethically and morally the right thing to do. However, a shift from doing the right thing ethically to a business-like mentality has been noticed due to the important plank of the UK central government's policy on third-sector organisations that encourages not-for-profit organisations to endorse a business-like model by collaborating with the for-profit sector to enhance capacity and financial solvency (Salamon 1993; Dees et al. 2001 Diamond and Southern 2006; Cornelius and Trueman 2007). Many scholars (see Hodgkin 1993) counter this by arguing that the business model is inherited from the corporate world and is therefore incompatible with not-for-profit organisations, given that this sector stresses the value of community participation, due process and stewardship rather

than risk-taking and competitive positioning (Alexander and Weiner 1998). There is a danger that too much focus on profit generation and funding in the context of social enterprises' partnerships with government may lead organisations to shift away from their underlying social mission. This further entails that non-profit organisations may be led to compromise their social mission (Ryan 1999: 134) and replace a benevolent spirit with a mindset of competition (Bush 1992). However, Wallace and Cornelius (2010: 46) argue that adaptation of the business model should only be considered in order to stay financially solvent, whereas sustainability "should be viewed as organisational determination to maintain service provision over time, in order that a long-term view can be taken regarding addressing social issues".

The capabilities approach gives a perspective on CSR in the social enterprises that concerns embracing the significance of the intangible benefits that social enterprises' clients and employees will gain by enhancing their capabilities. In most cases, much attention has been paid to generating the material well-being of their members and clients. In order to create a balance, the importance of social entrepreneurship in managing enterprises with a social cause has attracted much interest in the literature, based on the argument that social entrepreneurs embrace the language and skills of the business world without losing sight of their organisations' underlying mission. The importance of the involvement of social entrepreneurship in the third sector derives from the assumption that it will make it possible to create a balance between an organisation's underlying social mission and its economic activities that seek to increase the material well-being of service recipients.

Sen's capabilities approach is rooted in a critical discussion of utilitarianism (which concentrates on happiness, pleasure and the fulfilment of desire) and acknowledges the role of Rawls's *Theory of justice*. Sen's critique of utilitarianism echoes Rawls's criticism of the sacrificial dimension of utilitarianism – maximising global or relative utility does not take into account the social and economic inequalities that occur between individuals and communities. This not only highlights how social enterprises should take a balanced approach in their social provisions but also echoes Foote (2001), who states that too much emphasis on external stakeholders may increase inequalities among internal stakeholders (such as employees).

Nussbaum (1999) and Sen (1999) classify capabilities into three types. These are *basic capabilities* (reflecting the innate ability of individuals to function as human beings), which can be transformed into *internal capabilities* (with the support of the surrounding environment), and *combined capabilities*, defined as internal capabilities combined with suitable external institutional and material conditions for the exercise of the function. For example, an employee (paid or voluntary) may possess the knowledge (e.g. through education) and abilities to use his/her voice in the transformation of health and safety in the workplace but may be restricted in doing so because of the absence of an empowering culture (a consequence of the constraints placed on the workplace culture, or combined capabilities).

1.5 CSR Research in Social Enterprises

In practice, the problem of involving social enterprises in the burgeoning CSR debate has not been helped by a general lack of understanding and

knowledge of the current levels and types of social enterprises' engagement, nor indeed by the relative paucity of academic research in this area (Choudhary and Ahmed 2002; Kramer 2002; Somers 2005; Todres et al. 2006; Cornelius et al. 2008). The utilitarian perspective on CSR has been criticised by many ethicists (e.g. Cornelius et al. 2008; Wallace and Cornelius 2010) based on the argument that a capabilities approach can provide a sound philosophical understanding of CSR in the context of social enterprises' role in civil society reforms, rather than of unfocused generic social responsibility per se, or ad hoc philanthropy. However, both anecdotal and extant surveys indicate that many social enterprises already practise various kinds of silent social responsibility, but that much of this socially responsible activity remains uncharted and unsung, particularly within small social enterprises.

Ethics in social enterprises is such a new area of research that most of the academic work in this territory has been conceptual and lacking in empirical evidence. The growing significance of social enterprises raises some concerns about policymaking with regard to social responsibility practices and governance issues. The distribution constraints of non-profits and the multi-stakeholder model are governance solutions intended to support the ability of such enterprises to target and solve social problems.

CSR has traditionally focused exclusively on the corporate sector but due to the increasing development and importance of third-sector organisations in the economic system, third-sector has had to engage in CSR activities as part of its double bottom line strategy (Lozano and Kusyk 2007). This argument can be further strengthened from a perspective that entails, social

enterprises much emphasis on the social benefits for communities, to treat employees requires equal attentions in order to create a social equilibrium. However, this is not to contend that social enterprises do not employ ethical values in their business practices. This is a challenge when investigating CSR in social enterprises, as most social enterprises base their social responsibility practices on the double bottom line perspective and can argue that their initiatives are in line with ethical values.

Given the paucity of CSR research in social enterprises, SMEs' attitudes to CSR will be presented and compared to draw out some of the similar trends that social enterprises may experience. Social enterprises are closely compared with small private businesses, based on the assumption that both run on a business model that reflects profit generation. In social enterprises, profit maximisation is desired to benefit the primary aim(s) of the business – *the social purpose(s)*. In contrast to this view, Spence and Rutherford (2001) argue that profit maximisation and shareholder enrichment is the primary responsibility of small private businesses. Therefore, both small for-profit businesses and social enterprises have distinct primary aims and, in regard to this, SMEs may use employees as a means to an end. On the other hand, social enterprises are a welcome answer to addressing human development in a way that is about going beyond merely providing solutions to societal problems. For example, it can be argued that a social enterprises employs people to tackle the unemployment issue but, on the other hand, Storey (1994) argues that growth in SMEs also plays an important role in generating employment at the local community level. Therefore, from a philosophical point of view, the ethical assumptions that underpin social

enterprises do not just concern employing people, but, rather, should also focus closely on the development and well-being of employees as part of their internal social responsibility practices (Cornelius et al. 2008). Cornelius et al. (2008) further argue that Sen's capabilities approach provides a suitable framework that social enterprises may employ to ensure that attention is paid to internal CSR given that such enterprises are expected to do real good for employees' development and well-being.

1.6 Corporate Governance in Social Enterprises

There is a growing body of research on the governance of voluntary and community organisations in the UK (e.g. Cornforth 2003), but it has neglected to take into account an increasingly important sector of the economy: social enterprises. Due to the dual nature of this sector, many researchers (e.g. Cornforth 2003; Low 2006; Spears et al. 2007) therefore draw on existing research on the governance of not-for-profit and small private businesses to draw out some of the main formal or informal governance practices.

Much of the recent research on governance systems in social enterprises (e.g. Cornforth 2003; Dart 2004; Low 2006; Mason et al. 2007) tends to focus on identifying the significant model of governance systems deployed by this sector. A multiple stakeholder approach and democratic management style prevail in social enterprises' governance systems in Europe. The importance of a governance system in enhancing social responsibility practices to take into consideration issues of human development and well-being has been ignored in the literature. The challenge in researching governance systems in social enterprises arises from this sector's blurred boundaries, that is,

between non-profit and for-profit organisations, as argued by Dart (2004: 415). This interest has generated a need for empirical research to explore and understand the importance of a governance system that is based on ethical reflection and is strongly linked with CSR in social enterprises. This research tends to reflect on Elkington's assertion in regard to understanding the governance systems of social enterprises: "Corporate governance is fundamentally about such questions as what business is for, and in whose interests companies should be run, and how" (2006: 522). In the context of social enterprises, one aspect of improving the effectiveness of governance policies and practices is the evaluation of the extent to which organisations deliver tangible and intangible CSR related outcomes for the service recipients. From the capabilities perspective, in developing governance policies and practices the focus must be placed on increasing the capabilities of employees and clients as a major, normative concern.

1.7 Thesis Structure

This thesis will consist of seven chapters. Following the introductory chapter, chapter 2 and 3 will provide an overview of the literature on social enterprises, CSR, corporate governance and the capabilities approach and it proposes the theoretical framework of the thesis. These chapters will also review the challenges in theorising and researching CSR and corporate governance in social enterprises. These chapters will conclude with a theoretical framework based on the literature gap identified.

Chapter 4 presents the methodology underpinning this study. This chapter reviews the philosophy of research and discusses the research methods

appropriate for this research as well as the data collection and analysis processes.

Chapter 5 presents the findings of the qualitative data gathered in semi-structured interviews. The chapter presents the themes related to how social enterprises view and practise their CSR agenda; internal formal and informal CSR and governance practices in relation to CSR; and understandings of the capabilities approach that embeds CSR agendas and governance systems in social enterprises.

Chapter 6 contains the discussion of the themes presented in the findings chapter and situates their importance in the theoretical perspectives highlighted in the literature. This chapter also presents the proposed model that emerged from the discussion of findings.

Finally, chapter 7 summarises key insights gained from the analysis of the thesis and the contributions of the study. In addition, this chapter presents a critical evaluation of the limitations of this research and recommendations for future research.

CHAPTER 2: CORPORATE SOCIAL RESPONSIBILITY AND SOCIAL ENTERPRISE

2.1 Introduction

Despite many years of vociferous academic debate regarding the concept of CSR, it has been widely acknowledged that no shared definition of CSR exists in the literature (Garriga and Mele 2004; Whitehouse 2006). Mainly, two perspectives, economic and ethical, tend to articulate theories to develop understanding of CSR. Utilitarian theory shows more inclination towards the economic perspective on CSR, which tends to delineate the maximisation of economic growth for the greatest number of people. In contrast to this, defences of human dignity, individual freedom and capabilities tend to ground their justifications in the capabilities theory perspective, which attempts to develop an understanding of CSR in order to articulate the social parameters of social provisions (Sen 1999). It can be noted from the literature that CSR is rooted in beneficence theory, which is linked to psychological studies of human nature and human behaviour.

Research into CSR in social enterprises is currently in a predicament. This is because much of the CSR literature embraces large organisations and the findings from these studies are scaled down to 'fit' SMEs without adapting them to or understanding the particularities of small firms (Spence 1999).

Another issue in regard to the applicability of 'CSR' in small businesses is the term itself, which encapsulates different theories and interpretations.

Southwell (2004) suggests the term 'responsible business practice' as

opposed to CSR and also concludes that CSR is not the most appropriate term for small business, even though it is commonly used in business contexts and academic debates. Because of the peculiarities of SEs, some might suggest a different term.

Foote (2001) contends that third-sector organisations tend to focus heavily on external matters, which in turn leads these organisations to overlook the well-being and development of their employees. Some researchers argue that CSR is of paramount importance in third-sector organisations, and social enterprises in particular, and that their internal practices for treating employees in an ethically responsible way require empirical investigation (e.g. Cornelius et al. 2008). Social enterprises must focus on employees' well-being and development as part of their social responsibility practices because, as Greenwood (2002: 264) argues, "employees tend to sacrifice more of themselves to the needs of the organisations". In a nutshell, social enterprises constitute an emerging field and the tumult of CSR requires close investigation in order for a conceptual understanding appropriate to this sector to be developed.

2.2 Corporate Social Responsibility (CSR)

The emergence of CSR is gradually becoming a leading issue in business, government policies and civil society reform agendas, as well as in academia (Moon 2004; Moon et al. 2009). Although a growing number of enterprises embrace the concept and introduce initiatives on a voluntary basis, the term has repeatedly been labelled as ambiguous (Frankental 2001) and ill-defined

(Preston and Post 1975) and its legitimacy has been the subject of much debate (McGee 1998; McWilliams and Siegel 2001; Sweeney 2007).

CSR is a phenomenon that is defined differently through the reflection of various economic, political and/or ethical theories. It is a dilemma that has been captured by Votaw (1972: 25), who writes that “corporate social responsibility is a concept which has different meanings and tends to change its meaning according to the context of the situation”. To further illustrate this, Frankental (2001) argues that “CSR is a vague and intangible term and this can mean anything to anybody, and therefore is effectively without meaning”.

Neither the instrumental theories emphasising managers’ primary aim of maximising the wealth of shareholders nor an idealised interpretation of moral and ethical philosophies substituting voluntarism has presented arguments for ethical CSR practices to provide a theoretical synthesis of economics and ethics. CSR is a concept concerned with those business practices that are aimed at more than profit maximisation. However, the CSR concerns of businesses making profits as well as performing other duties towards employees, community and environment often lack justification, conceptual clarity and for failing to give adequate ethical guidance to management who must decide which courses to pursue and with how much commitment.

2.2.1 CSR as a Field of Scholarship

The field of CSR has grown significantly and the ambiguity within the literature in defining CSR has resulted in the articulation of a great proliferation of theories, approaches and terminologies (Garriga and Mele

2004), which try to define CSR conceptually and/or in practice and which stem from very different understandings of CSR. This concept is hard to pin down from the perspective of SEs, because by its nature it encapsulates other concepts such as corporate citizenship (Matten et al. 2003) and corporate sustainability (van Marrewijk 2003), which are not familiar in the social enterprise sector. Furthermore, corporate sustainability and CSR seem to have converged in recent years to the extent that there is a remarkable congruence between such concepts. Building on the thinking of Windsor (2006), there is unresolved debate in ethics itself, “where unclear semantics and specialist terminologies make the concept as continuously mixed up in terms of context, content and perspectives” (Fassin et al. 2010: 2). Many scholars such as Carroll contend that defining CSR is “an eclectic field with loose boundaries, multiple memberships, and differing training/perspectives; broad rather than focused, multidisciplinary; wide breadth; brings in a wider range of literature; and interdisciplinary” (Carroll 1994: 14).

Therefore, many scholars such as Lantos (2001), Garriga and Mele (2004), Meehan et al. (2006) and Windsor (2006) attempt to categorise CSR theory in a more specialised manner based on the motivational factors for corporate engagement. Motives for the pursuit of CSR are based on the likelihood that CSR will produce financial benefits and the desire to improve long-run firm-level competitiveness in terms of profitability and growth (business case) (Margolis and Walsh 2003), or else they result from the role that an organisation should play in society by “giving something back to community” (ethical practice) (Worthington et al. 2006). For instance, Garriga and Mele (2004) cite four different foundational theories that develop an understanding

of CSR from the theoretical perspective. This includes instrumental theories (where an enterprise engages in social acts to achieve economic results), political theories (concerning the responsible use of power in society), integrative theories (concerning an organisation's response to social demand), and ethical theories (based on corporations' ethical responsibilities to society) – all of which indicate the importance and relevance of CSR for organisations (such as to improve profits, to improve relations with stakeholders, etc.). The same is true of Lantos (2001), Meehan et al. (2006) and Windsor (2006), who explore the benefits and limitations associated with theories that try to integrate ethical and economic concerns to some degree. Aguilera et al. (2007) illustrate that the developmental history of CSR stems from three types of motivations: instrumental (financial and growth benefits), relational (corporate image and its relations with stakeholders) and morality-based (businesses' role in society on ethical grounds). The main argument in the theoretical debate on CSR among these scholars concerns the assumption of the role a business plays or should play in society and therefore strengthens the rationale of researching CSR and its importance and relevance in business engagement.

2.2.2 Economic versus Ethical Conceptions of CSR

A review of the literature reveals that arguments on developing understanding of CSR have mainly been driven from two main perspectives: economic and ethical. Authors (see Garriga and Mele 2004; Windsor 2006, Aguilera et al. 2007; etc.) implicitly highlight one of the main debates within the field of CSR – CSR as a theoretical construct (ethical perspective) versus CSR as an applied field (economic perspective). Proponents of the ethical

perspective focus on ethics and in this sense suggest that organisations should be responsible for doing what is right for society: it is their ethical and moral obligation. This is the case with ethical theories including stakeholder theory, universal rights based on human rights, sustainable development and the common good approach (Garriga and Mele 2004), which emphasise organisations' ethical duty to recognise the intrinsic value, in and of themselves, of stakeholders, who also have a legitimate interest in the activities of the organisation. Therefore, many scholars have attempted to synthesise stakeholder theory with normative moral theories such as Kantian theory (Evans and Freeman 1988); Rawls's theory of justice (Phillips 1997) and other theories of distributive justice (Donaldson and Preston 1995), with the underlying assumption of exploring why an organisation should or must consider the various stakeholders' interests that affect or may be affected by corporate actions. The synthesis implicitly assumes that the motivation for engaging in CSR is important because it has implications for how companies react. In this regard, CSR arising from the ethical perspective stresses that organisations should embrace the mentality of doing the right thing instead of being driven by greed for any advantages or benefits accruing to themselves or stakeholders as a result. The implication is that discussion on CSR cannot ignore the significance of the different assumptions that often originate from philosophical, and more specifically ethical, paradigms. Therefore, these ethical and moral underpinnings play a role in locating CSR in the realm of abstract theory.

The economic perspective has its philosophical underpinning in the instrumental theories of the modern era and its traditionally accepted theories

on the role of corporations as an instrument of wealth creation. This perspective includes theories that advocate maximisation of shareholder value. For instance, shareholders' conception of CSR is anchored in the economic and legal responsibilities that a firm owes to its owners (Amaeshi and Adi 2007). Advocates of the shareholders' perspective, e.g. Friedman (1970: 32), contend that "the primary responsibility of business is to pursue profit maximisation for its shareholders by staying within the limits of the law". This view raises questions on the credibility of CSR, as it can be viewed as being at the extreme end of the business spectrum, where CSR is justified by an economic logic that leans heavily on its ability to provide tangible and intangible benefits such as competitive advantage, cost minimisation, equilibrium, market efficiency, optimal returns on investments and market dominance (Amaeshi and Adi 2007), first to shareholders and second to stakeholders (e.g. Davis 1973; Business for Social Responsibility 2004). Haigh and Jones (2006) also conclude that the instrumental economic benefits that a firm seeks to gain have been the main motivational driver in decision-making on whether to pursue CSR. Korhonen (2002) expresses a similar viewpoint. He argues that CSR is heavily converged with the economic paradigm where the assumptions underlying organisational decisions are rooted in rational economic principles. He further contends that such decisions are bound to generate profits for shareholders of firms and, therefore, lack room for emotions, feelings and benevolence. This review of the literature on the economic perspective on CSR explains why instrumental theories tend to be well grounded in current CSR practice but do little to address the normative side of CSR that is missing in much current corporate

practice. Therefore, to some extent, normative CSR has tended to attain a wider and more enthusiastic acceptance in the literature than in corporate thinking and practice (Beaver 1999).

Political and integrative theoretical aspects (Garriga and Mele 2004) explicitly examine the role of business in society in order to help close the gap between practical and abstract theories; this is embodied in the analysis of Preston and Post (1975, 1981) and also emerges in the discourse of corporate citizenship (Matten and Crane 2005). However, Windsor (2006) illustrates the role of three competing approaches in the developmental history of CSR: ethical responsibility theory, economic responsibility theory and the corporate citizenship concept. The first two viewpoints are grounded in moral and political philosophies, as briefly discussed above. Corporate citizenship is a term sometimes used synonymously with CSR, which entails different interpretations. However, corporate citizenship discourse originates from the supposition that as a citizen in society a corporation carries some moral and ethical rights and responsibilities (Andriof and McIntosh 2001). In short, the integration of the core values of society into business practices underlies theories originating from ethical and political philosophies. Building on the thinking of Rorty (2000), Windsor (2006: 98, cited in Cornelius et al. 2008: 356) contends that there is unresolved debate in ethics itself, “where moral philosophy is trapped between Kant (i.e. duties) and Dewey (i.e. pragmatism)”. This is a sphere where the creation of such theories lacks the support of empirical evidence and tends to fall at the abstract end of the continuum, and, therefore, further development of the theories is needed to improve their relevance to practice. This gives impetus to the emergence of

further development of mixed CSR theories, where both the normative underpinnings and the relevant key contextual factors are taken into account to help explain and predict CSR activity.

In the context of the broad choice of theoretical perspectives available, this thesis strongly agrees with Garriga and Mele (2004: 53), who contend that there should be “a new theory on the business and society relationship”, one that integrates economic, ethical and political perspectives to guide the policies and practices of CSR. CSR has been through many tough stages to establish its theoretical understanding as a concept or a theory; it is hard to simplify because it encapsulates different ethical theories along with economic theories. CSR is a controversial field based on the realm of philosophy – ethics – where controversies seem to be most acute. In the following section, different ethical theories will be discussed that underpin the philosophical understanding of CSR.

2.2.3 Ethical Theories and CSR

Three prominent ethical theories (utilitarian, deontological and virtue ethics) are discussed in the literature by the social thinkers of the 17th and 18th centuries, such as Jeremy Bentham, David Hume, John Locke, John Stuart Mill and Adam Smith, who reflect on the close connection that exists between ethics and political economy.

2.2.3.1 Utilitarian Theory

Utilitarianism is a philosophical line of thought in line with the views of Jeremy Bentham and John Stuart Mill that concerns maximising the utility or happiness of the greatest number of people. Happiness is the central feature

of utilitarianism. This perspective has had many important consequences for reflections on morality as this theory “tends toward pragmatism in striving for the goals set according to the mission or vision” (Whetstone 2001: 107).

Utilitarian ethics shows little regard for the intentions behind actions taken to achieve the ends in question. According to this view, any action can be justified if the intended ends are judged to maximise the overall good and, therefore, such actions become morally obligatory (Hausman and McPherson 2006). This line of reasoning points to the limits of ethical utilitarianism combined with ethical relativism (Van Staveren, 2007). The former view deems business practices to be ethical if these are accepted by the majority of the people.

Utilitarianism is an ethical theory with historical connections with economics. It is often perceived according to the classical utilitarian view, which insists on maximisation of the economic value of agents and which creates difficulties for its use in justifying CSR (Renouard 2011). This is also in line with Friedman’s (1970) assertion that maximising average or total utility can be justified as long as creation of utilities is underpinned by traditional moral rules. However, Renouard (2011: 85) highlights some of the limitations of this perspective by stating that “maximising economic values may lead to increase of inequalities between people and between groups, where too much focus on wealth creation tends to ignore the other social aspects of well-being and social value creation”. This problem emanates from the conception of utilitarianism, where the focus is only on maximising average utility, and the distribution of wealth is ignored (Hausman and McPherson 2006).

Utilitarianism is more inclined towards economic theory and scarcity is a factor frequently raised by economic theorists to encourage the maximisation of wealth for the greatest number of people (Renouard 2011). Proponents of economic theory do not disagree with ethical considerations but tend to emphasise economic benefits over ethical or social benefits instead. Utilitarian ethics' inclination towards economic theory may lead to the moral justification of the prevalence of profit-making and economic value maximisation (Renouard 2011: 87). That is why the narrow perception of utilitarianism is inconsistent with what ethical behaviour is considered to be. Utilitarian ethics cannot define CSR with precision, whereas it seems compatible with Friedman's (1970) view of CSR, as well as Carroll's (1979) first pillar of the CSR pyramid, according to which the primary social responsibility of a business is to use its resources to generate profit by staying within the rules of the game.

An economic perspective on developing understanding of CSR, whether in the form of utilitarianism or egoism, embodies a positivist epistemological stance, which relies on "the assumption of an objective world external to the mind that is mirrored by scientific data and theories" (Gephart 2004: 456).

2.2.3.2 Deontological Theory

Using the deontological approach to CSR, Kant (1998) attempts to develop an ethical theory for all rational beings based on universal moral duties and rules. Kant notoriously rejects the utilitarian explanation and advocates reason based on universal duties and laws (Kant 1998: 422). Deontological ethics perceives CSR as the duty of an organisation to meet the moral demands of society. This implies that organisations have a responsibility as

moral agents to respect the moral rights of human beings and “all human beings are considered to be equal and therefore should never be turned into means for other people’s ends” (Van Staveren 2007: 23). Kant also criticises the place of prudence in ethics on the basis that prudence merely advises, while the law of morality commands (Reath and Timmermann 2010). Further strengthening Kant’s argument, it is always a problem to judge whether corporate philanthropy is driven by genuine morality or is merely prudent from the ethical CSR viewpoint. Kant emphasises that moral rules should be followed as a duty; this implies that policymakers tend to look at the rules that can be engaged in developing CSR policies to guide business practices as moral duties. CSR based on the Kantian ethical perspective may help to reduce negative externalities in an economy and society.

There are few limitations associated with Kantian rules-based ethical theory when applied to the business environment. Human beings are a complex species and sometimes managers encounter moral dilemmas that cannot be resolved by applying the rules. This is where virtue ethics enters into the debate, to develop managers’ further understanding in order to practise virtues to resolve disputed situations. Friedman (1970) considers an organisation to be an artificial person, with the people in the organisation having the real responsibilities. Hence, considering the latter argument, virtue ethics puts great emphasis on the character of a person. However, in contrast to that view, Fisher (2004: 392) further maintains that “people tend to be associated with ethics, whereas organisations have a social responsibility to protect and enhance the society in which they operate”.

2.2.3.3 *Virtue Ethics*

Another perspective on ethical analysis can be grasped from Aristotle's virtue ethics. His approach places great emphasis on being a good person, and generally defines virtue to be a qualitative characteristic of a good person. Aristotle also acknowledges that outcomes and actions cannot be disassociated from a person himself/herself (Vranceanu 2005); this is in line with the reasoning that virtue ethics attempts to ground itself in a teleological basis (Bertland 2008). According to Aristotle's illustration of virtues, a good person always takes good action, and such a habit of doing good action helps to develop a virtuous character.

Many schools of thought argue that virtue ethics should be given preference over the other ethical theories (Duncan 1995; Jackson 1996). However, Koehn (1995) further illustrates that taking virtue ethics itself dictates its significance over the other ethical theories. Therefore, it can reasonably be argued that considering the role of ethical theory alone in regard to developing understanding of CSR is not a wise option. Even Aristotle's views on virtue ethics tend to establish their connection with economic theories, based on the argument "that maximising the economic status of a greater number of people is not the end in itself but the means to achieve further ends that are extra-economic and concerned more generally with human development" (Giovanola 2009: 435). This argument is in line with the philosophical assumption of social enterprises that profit generated by this sector must be entrepreneurially responsibly induced into internal and external social and economic matters to enhance its clients' and employees' capabilities to help them develop their well-being and flourish. Virtue ethics is

not against the maximisation of economic value for a great number of people, but tends to argue that, in the pursuit of profit maximisation, business practices and decisions must be based on “universal virtues – respect for others, integrity, fairness, responsibility, wisdom and prudence” (Vranceanu 2005: 100).

Robert Solomon illustrates some of the hallmarks of the defence of virtue ethics in his work *Ethics and excellence* (Solomon 1992). He argues that virtue ethics is about character rather than rules and that virtue ethics will help a manager of good character in an institution to identify and react morally to ethical dilemmas in order to bring out the good for all. Based on this argument, Solomon strongly emphasises that virtue ethics considers business as a practice (Solomon 1992: 118). Virtue ethics has been greatly praised in the literature as providing a platform to handle the ethical issues pertaining to business internal situations as it touches on the dimension of human characteristic choice (e.g. managers) of resolving such issues (Solomon 1992; Murphy 1999).

One of the problems associated with virtue ethics, in terms of its applicability, is that the word ‘virtue’ itself is ambiguous (Solomon 1992) and provides insufficient information as to how it fits within the business world. Aristotle’s virtue ethics was developed by primarily considering the individual.

Therefore, the critics of virtue ethics’ role in CSR argue that virtue ethics is an individualistic theory that is inappropriate for organisations or society (Van Staveren 2007). In contrast to this view, it can equally be argued that the modern western philosophies in the field of ethics are rooted in individualism. However, Sen’s (1992, 1999) capabilities theory (strongly influenced by virtue

ethics) has been acknowledged to bridge a gap between economic and ethical theory based on the argument that economic growth must help human development and well-being to flourish.

In relation to ensuring that an enterprise engages in CSR at the internal level, virtue ethics provides a sturdier approach to the evaluation of managerial practices. Van Hoof (2001) argues that principle-based ethics can sometimes mislead the handling of situation, as many moral dilemmas are too complex to be resolved with principles alone. However, a virtuous manager can identify the situation without experiencing any moral conflict, and such recognition exists before any moral principles are applied to the situation (Bertland 2008), since no rules take into account the complexity of a real-life situation. This is where the capabilities approach enters: a manager of virtuous character will be able to identify and recognise opportunities for his/her employees to develop the character of a good human being.

2.3 Social Enterprise

2.3.1 Social Enterprise – A Branch of the Third Sector

The concept of social enterprise first appeared in Europe and more precisely in Italy (Defourny and Nyssens 2008; Defourny and Nyssens 2013), and in relation to the UK its history extends as far back to the 18th century and the Victorian social landscape (Hines 2005) as a means to fund socio-economic agendas.

Academically, various business and management schools of thought have shown significant research interest in third-sector organisations, and

particularly social enterprises (Ritchie and Lam 2006; Westall 2007). Due to the social and ethical associations of this sector, many other disciplines, such as CSR and corporate governance, have envisaged social enterprises as a dominant framework. However, the concept of social enterprise means different things to different people, and reaching a level of common understanding is still challenging in this sector. Much of the interest lies in identifying and associating the reference of specific activities carried out and/or the nature of organisations and institutions.

Social enterprises, unlike other hybrid organisations, face difficulty in establishing a uniform definition because of their composite nature, embracing the private and public spheres (Defourny and Nyssens 2013). Ambiguity and complexity in defining social enterprise erect barriers to articulation of its conceptual development (Austin et al. 2006). Many schools of thought conceptualise social enterprise by reflecting on differences in governance, trading, equity and investment, asset locks, membership and stakeholder arrangements, profit-making, profit distribution and tax treatment (Cornforth 2003; Pearce 2003; Rose 2004; Mason 2010; Young and Jesse 2014). Due to constant debate on aspects of 'making profit and profit distribution' a new term, 'more than profit', has arisen from social enterprise conferences (Ridley-Duff 2008).

Developing a unified definition of social enterprise will remain tricky because of the unique and complex nature of social enterprises. This debate is perceived to exist among the academics to create a significant distinction that gives this sector its common understanding derived from not-for-profit and private businesses. On the other hand, business practitioners in the context

of social enterprise focus on making differences to vulnerable people's lives. As Allison Ogden-Newton (Chief Executive of Social Enterprise London) suggests, "establishing a unified definition of social enterprise is not a battle worth fighting; if we try, it will lose us the war" (Ogden-Newton 2011).

2.3.1.1 Social Enterprise: Trends and Issues

Social enterprises are known as non-profit organisations with the fundamental aim of providing goods and services to benefit local economic and social development. Social enterprises in the UK have received great recognition because of their achievement in supporting activities generally overseen by the public sector. The philosophical purpose of the social enterprises is reflected in on Nussbaum's thinking:

the purpose of society (and thus indirectly of social enterprise as an integral part of that society) is to make available to every citizen the material, institutional and educational circumstances in which good human functioning may be chosen – to give everyone the capability of choosing to live the good life. (Nussbaum 1990: 263)

Understanding of social enterprises in Europe is being developed by the EMES European Research Networks where a group of scholars argues that there is an ideal type of social enterprise, or a set of guiding principles to which all social enterprise ventures, no matter what form they take, should aspire (Young and Jesse 2014: 1312). The goal pursued by social enterprises is, explicitly, something other than profit; it concerns making a contribution to local economic development (Peattie and Morley 2008) by providing a wide range of goods and services, such as creating employment, providing goods and services to disadvantaged community groups, developing skills and building confidence, advocacy and advice, information and guidance, etc. All

these initiatives reflect the primary duty of social enterprises: to encourage maximum levels of reinvestment in economic activities.

In order to aid the generation of social goods, social enterprises tend to utilise market-based strategies in their businesses' processes (Kerlin 2006). Recent work by Kerlin (2013, 2015) reinforces adaptation of an institutional perspective to address the relationship of social enterprise form to context and develops a framework that helps explain why different types tend to emerge in various national settings. She further develops a comprehensive framework informed by key features of macro-institutional frameworks to show how socioeconomic and regulatory institutions at national levels encompass the diverse form of social enterprise. The Department of Trade and Industry (DTI; 2002) provides an arguably robust definition of a social enterprise, based on the tacit assumption that it is:

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

The communitarian perspective on social enterprises' existence is that they strive for maximum impact on the lives of the poor and disadvantaged peoples whom traditional capitalism and for-profit organisations tend to ignore on the basis that such groups of people are insufficiently affluent. Social enterprises ground themselves in many economic and social models to justify their business practices. However, Arthur et al. (2006) maintain that the hegemonic discourse within the literature raises the “business model” above all other perspectives. Based on the business model of social

enterprises, it can be argued that accumulation of assets and capital is justified by effectively fulfilling the primary aim of providing social benefits.

In the following section, the profit-making and profit-distribution aspects of social enterprises' activities are taken into consideration based on the argument that too much focus on profit-making may lead to social mission drift. Hence, the ethical rationale behind the business practices of social enterprises raises some concerns and therefore requires close investigation.

2.3.1.2 Profit-making and Profit Distribution Views of Social Enterprise

Social enterprises in the UK are perceived to ground their ethos in social capital and local-level involvement. Ethical values underpin the undertaking of any economic activities needed to fund or facilitate their primary purpose of social provision. To achieve this primary purpose (i.e. social provision), social enterprises pursue ventures grounded in social value that may have a variety of market and non-market motivations (Young and Kim 2015).

Business ethicists tend to be concerned that focusing too much on profit maximisation by relying heavily on the market ideology of the businesslike approach may pervert the ethicality of social enterprises' practices (Evers 2001; Foster and Bradach 2005). In regard to profit distribution, two distinct views exist in the literature; the first is against profit distribution, while the second is that profit distribution is the purpose of social enterprise. To further clarify profit distribution in social enterprises, Haugh (2005: 3) contends that "social enterprises are prevented from distributing their profits to those who exercise control over them". Profit distribution among managers raises the concern of their prioritising their personal interest in profit maximisation over the primary aim of social businesses. Furthermore, Jones and Keogh (2006)

state that “profit in social enterprises is generated but on a not-for-personal-profit basis” and accumulating social benefits for recipients is the key aim of making profit through economic activities. DTI policies and community interest company (hereafter, CIC) legislation do accompany the distribution of surpluses to individuals, but “not-for-profit” rhetoric pervades policy development and academic debate (Borzaga and Defourny 2001). The rationale of regulating CICs is to enforce the limitation on the assets and earning distribution and to preserve the social purpose of the organisation (Ebrahim et al. 2014).

The main areas of dispute centre on the issue of profit distribution to individuals or external shareholders, whereas profit-making per se is not an issue in the context of social enterprise. Indeed, the core understanding of social enterprises’ business practices implicitly assumes that profits are desirable so long as they can be channelled to achieve sustainability, independence and potential to maximise social and environmental impact (Jones and Keogh 2006). The concept of social enterprise grounds its argument in the strong ideological assumption of investing profit in the common good of society and thus preventing individual appropriation of wealth. This is a belief that social enterprises incorporate in their economic activities to respond to key civic needs and act in line with the moral values of the social responsibility paradigm.

Social enterprises are encouraged to incline towards the mentality that assumes “profit is good” because it boosts social reinvestment. This mentality is much emphasised among social business practitioners and is echoed in the definition used by the Social Enterprise Coalition:

“A social enterprise is not defined by its legal status but by its nature: its social aims and outcomes; the basis on which its social mission is embedded in its structure and governance; and the way it uses the profit it generates through trading activities”. (New Economics Foundation/Shorebank Advisory Services 2004: 8, cited in Ridley-Duff (2008))

Based on the above definition, it can be perceived that social enterprise's *raison d'être* (Edwards 2008) is to provide solutions for social causes with the help of the profit it generates through economic activities. These enterprises tend to treat profit as a means to achieve their economic and social aims. Whether social enterprises distribute profit or not, and whether their juridical structure corresponds to one or other of the established forms, becomes secondary to their willingness to view profit as a means of achieving the social aims of a more humane market and society.

The need to maintaining long run stability and sustainability has become apparent for social enterprises as their hybrid business activities pull them in opposite directions (Young and Kim 2015). On the one hand, they operate in a highly competitive funding environment where responding to the imperatives of their economic circumstances is vital for their financial solvency. On the other hand, they are charged with delivering substantial social benefits; something which is meaningful and sustainable. The importance of carefully examining the social performance of social organisations is receiving increased academic interest (e.g. Cordery and Sinclair 2013; MacIndoe and Barman 2013; Sillanpää 2013). Due to the challenge of exhibiting social performance, Young and Kim (2015) contend that social organisations tend to embrace transformative change in their structure, legal forms or even missions, mainly due to negative market externalities and, for social enterprises, in balancing goals. Their study

implicitly suggests that seeking transformative arrangements is regarded as an appropriate approach to managing the hybrid nature of social enterprises, helping to address mission drift and continuing to create valuable social benefits as a result of engaging in more profit-making activities.

2.4 Social Enterprise and Ethics

Any discussion on the ethical practices of businesses draws on Milton Friedman's (1970) seminal work on business ethics and the hegemonic claim that staying within the rules of the game is the only obligation of businesses in society. To begin by exploring Friedman's polemic (1970: 254, cited in Bull et al. 2010: 251):

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

The “rules of the game” establish a framework to evaluate the moral aspects of business activities, whereas profit maximisation is perceived to be the primary aim of business in Friedman's thesis. Ebrahim et al. (2014) suggests that the mentality of profit generation has impoverished the ethical norms of societies. The behaviour of private organisations in causing financial, social, and ethical damage further raises doubts about their probity.

It is believed to be third-sector organisations, and particularly social enterprises, that embed moral duty in business beyond economic rules by default. Therefore, social enterprises' business practices, driven by ethical and social values, will not cause harm in the local community and will also prevent further loss of the social and moral values of a cohesive society. To a

greater extent, ethical values and moral codes have acquired a vital place in the ethos and manifestos of organisations. This is particularly in line with the philosophical underpinning of social enterprises, where the primary focus of business is to maximise the social benefits to recipients (Pearce 2003). In addition to this, Bull et al. (2010) further emphasise that social organisations tend to belong to the paradigm of moral and ethical businesses, where the primary aim of creating social benefits gives their ethical position greater legitimacy than that of businesses of other types, e.g. for-profit businesses.

2.4.1 Contemporary Ethical View of Social Enterprise

Contemporary moral philosophies underpin the philosophical existence of social enterprises based on the argument that sees a dichotomy between creating good for oneself (i.e. enterprise) and good for others (e.g. community). Social enterprises reflect the economic model by inclining towards the economic end of the spectrum, engaging in market activities and increasingly being at the mercy of the market ideology, which raises some concerns in regard to the ethicality of their practices. This has prompted increased interest in exploring the real 'ethicality' of this sector's business practices. In regard to the importance of internal CSR in social enterprises, it is vital for such social businesses to balance their focus on internal social problems (i.e. employees' well-being and development) and external social problems (clients') to enhance the legitimacy of solutions, which benefits all stakeholders. Social enterprises seem to have strayed from their founding goals, and to prevent the further exacerbation of difficulties in fulfilling the core duty of such businesses, contemporary ethical perspectives such as

that of 'CSR' must be included in their organisational ethos and manifestos.

2.5 CSR and Social Enterprise

Research into CSR's significance in the context of social enterprises is an emerging field, and therefore it can be surmised without any doubt that no prior research has been done that can be claimed as reflected well. Social enterprises have their normative underpinning in the social, economic and ethical realms. This is a sector that requires close investigation in regard to its appreciation of CSR. Much of the literature on understanding CSR has focused on private businesses, and the literature pertaining to the CSR of third-sector organisations (TSOs), and particularly social enterprises, is small (Choudhary and Ahmed 2002; Kramer 2002; Somers 2005; Todres et al. 2006; Cornelius et al. 2008). Nevertheless, it is striking that there has been relatively little discussion of CSR in social enterprises.

CSR has traditionally focused exclusively on the province of the corporate sector, but the increasing importance of third-sector organisations has required this sector to engage in CSR activities as part of their double bottom line strategy. In the UK, social enterprises seem to be keen on engaging in social responsibility practices without explicitly acknowledging their association with CSR; for example, Eden Project Ltd is a social enterprise of charitable status that has considerable social and economic impact on the local community (Chell 2007: 12). Although social enterprises by their nature provide social provisions and tend to care more about social causes, this does not necessarily mean that social enterprises are actively engaged in

ethical practices, and therefore the prevalence of their ethical practices including 'CSR' are of paramount importance to academic researchers and in governmental and EU agendas. However, it seems to be highly complicated and complex to identify, investigate and communicate CSR in social enterprises. Given the paucity of CSR research in social enterprises, SMEs' attitudes to CSR practices will be outlined and compared in this section, to explore whether social enterprises may experience similar trends in relation to their ethical practices.

It has been acknowledged that SMEs have been actively engaged in social responsibility practices in communities in general. Jenkins (2009) argues that many of these practices engaged in by SMEs are arguably ethically appropriate but they do not involve such practices as 'CSR'. It is because of the hegemonic work on CSR in SMEs by various dedicated scholars (e.g. Spence 1999; Spence et al. 2003; Moore and Spence 2006; Perrini et al. 2007) that the European Commission acknowledges the need to identify a different approach to CSR in SMEs from that taken within large firms. Jenkins (2006) further concludes that "an integrated approach is needed to help SMEs to understand what CSR means for them and how to integrate it into core business practices". To further strengthen her argument, Spence (2007) suggests that a different vocabulary and appropriate language must be embraced in order to endorse the core message of socially responsible business practices. These schools of thought also argue that empirical research is necessary to develop a theoretical framework for CSR that can be better understood and that is applicable from small and micro firms'

perspectives. This is in line with one of the aims of this research: to explore social enterprises' attitude to ethical business practices including 'CSR'.

In terms of methodological approach, research on small businesses tends to focus on owner-managers rather than on the organisations as a whole (e.g. Dawson et al. 2002); this is in line with the context of social enterprises: the majority of these enterprises are registered as community interest companies (CICs) and are likely to be small or micro firms and run by very few managers. According to the EU and DTI definitions of social enterprise, 89% of social enterprises employ fewer than 49 employees and 49% 10 or fewer (Cornelius et al. 2008). Indeed, much research on the ethical aspect of entrepreneurs is drawn from the social entrepreneurship literature (e.g. Hannafey 2003) instead of social organisations.

The individuals (owner-manager/founder-manager) are the focal point of discussion exploring similarities between private and social enterprises. Individuals' personal values and motives prevail in the discussion on SMEs' CSR (Jenkins 2009). Jenkins (2009) further suggests that SMEs are so embedded in their local communities that engaging in community initiatives is an obligation for SMEs. Establishing similarities between the culture of social enterprises and that of SMEs has been criticised by Chell (2007), based on the argument that the culture of social enterprises is embedded in voluntarism, ethical behaviour and missions with a social cause. In contrary to this view, Chell (2007) further argues that owner-managers of small businesses demonstrate strong ideological commitment on pragmatism and instrumental actions, with the aim of profit maximisation to increase shareholders' value. CSR is broadly discussed in the literature, but given the

nature of this research, it is pertinent to also identify the various aspects that comprise the internal mechanisms of CSR.

2.5.1 Social Enterprise and Human Resource Management (HRM)

Social enterprises continue to be heavily reliant on government grants and philanthropy to sustain their core economic operations. HRM practices generally spend most time on building and sustaining the complexity of relationships with potential external resources (Foote 2001) and therefore tend to overlook crucial human management issues. Social enterprises exist predominantly to tackle a wide range of social and environmental issues (key features of the triple bottom line) (Cornelius et al. 2008) and operate in all parts of the economy, and it could be argued that many of their internal CSR practices require close investigation. Thus, from an ethical and moral perspective, social enterprises are responsible for asserting ethically responsible practices regarding the development and well-being of their employees as well as their service provision to external stakeholders.

Emanuele and Higgins (2000) challenge the internal CSR practices of the non-profit sector by implying that social enterprises must practise ethical treatment of their employees. They conclude with the claim that the “same pressure for ‘corporate responsibility’ among the third sector must be exerted, as we demand in the private sector” (Emanuele and Higgins 2000: 92). For Vogt (2005), building on the thinking of Winstanley and Woodall (2000), incorporating an ethical basis into human resource (HR) practices is the key to doing common good in the development of the workplace.

Employees’ development and well-being as part of organisations’ social practices is vital to the sustainability of such social organisations. It has been

clearly evidenced in the literature that sustainability is linked with social enterprises' concern of generating profit, whereas the important aspect of employees has failed to gain much attention in the policy agenda and academic debate.

2.6 Employee Welfare and Business Ethics

2.6.1 An Ethical View of HRM

However, the rationale of this research emanates from the assumption that achievement of business-oriented performance outcomes in order to achieve sustainability has obscured the importance of employee development in social enterprises, which could be regarded as an important marker of internal CSR and is a neglected area of inquiry within the field of HRM. That is why researchers (see Greenwood 2002) express the view that *internal* standards of business behaviour need to be evaluated and improved by applying ethical standards. In this regard, the link between ethical beliefs and HRM is of paramount importance, because these values implicitly serve as a role for shaping preferences for HRM policies and practices. Much of the literature in relation to HRM has focused on issues such as fair wages, working time and conditions, health care, protection against unfair dismissal, training and participation in the business, equality of opportunities, and employees' well-being as the important markers of internal social responsibility practices (Carby-Hall 2005; Vives 2006; Fuentes-Garcia et al. 2008). Carby-Hall (2005) and Fuentes-Garcia et al. (2008) have explored the internal markers of CSR from the HRM perspective in private organisations and indicate that social responsibility practices towards employees involve

respecting and recognising effective ways of carrying out the employment contract. The element of 'respect' has also been highlighted in a Green Paper on promoting CSR in the form of responsible and non-discriminatory practices of investing in human capital through training and development of employees (European Commission 2001). Carby-Hall (2005) contends that the changes in the law have prompted businesses to embrace respect for their employees as part of internal social responsibility. For example, the laws on redundancy and unfair treatment, which date back to 1965 and 1971 respectively, illustrate how responsibility for 'respect' has grown. He concludes that the role of corporate lawyers is not merely to provide legal advice but goes beyond that to being proactive in handling social issues, and to the "need to understand, to anticipate and to respond to the emerging social issues prior to their becoming legal issues" (Carby-Hall 2005: 224).

Winstanley et al. (1996) highlight a number of ethical concerns within HRM arising from the strategic focus underlying organisational practices. Jackson and Schuler (1995) and Wright and McMahan (1992) suggest that HRM practices drawn from strategic focus lean heavily on macro-level organisational theory, finance and economics. The assumption underlying basis of these models is a highly instrumental approach to controlling employees in order to achieve strategic goals. Pursuing strategic goals by incorporating strategic amplification of HR presents HRM as rhetorical and manipulative, and, thus, as a tool for management of employees, especially within the context of some of the developments of the past two decades (Winstanley et al. 1996). These developments include increased job insecurity (resulting from changes in employment conditions and contracts),

deregulation (increased regulations may prevent ethical attitudes being embraced in carrying out employment contracts), and decline in management integrity. The implication here is that the enactment of such developments may compromise ethical practices towards employees due to business needs. For Peccei (2004), these developments have occurred due to HR practices that are heavily oriented towards achieving business performance outcomes that have obscured the importance of ethical treatment and employee well-being in its own right. Similarly, Grant and Shields (2002, cited in Francis and Keegan 2006) express a similar viewpoint. They argue that the strong relationship between organisational business performance and HRM practices is often built at the expense of employee well-being and development, resonating with Winstanley and Woodall's (2000) assertion that employee well-being and ethics have received little attention within the HRM literature, and that "the ethical dimension of HR policy and practice has been almost ignored in recent texts on HRM, where the focus has shifted to 'strategic fit' and 'best practice' approaches" (Winstanley and Woodall 2000: 6). Goncalves and Neves (2012) have investigated the internal practices of HRM and the social impacts such practices have on employee well-being. They conclude that ethical HR practices that focus on employee training and development exhibit a strong association with employee well-being, and "the more organisations invest in employees' training and development the better processes will be communicated, encouraged and shared, [and] the lower their levels of anxiety and greater their enthusiasm, affective well-being and work satisfaction" (Goncalves and Neves 2012: 37). However, modern corporations approach HRM as a management tool for controlling employees

and as an integral and key factor in the maintenance of competitiveness and high organisational results. Therefore, Sennett (1999) further emphasises that modern market-led corporations treat workers as a means to an end through a bureaucratic style of management in which labour is seen as purely contractual and workers are added or shed in response to market demand. Such corporations no longer carry on a pretence of 'soft' HRM, but well-being could be regarded as an important marker of 'soft' HRM.

Within this context, Greenwood (2002) scrutinises the role of philosophical ethical theories in the production of a framework for HRM because of their abstract nature. In this regard, she argues that stakeholder theory, which is held to be more compatible with HRM, is overlooked in the literature on the relationship of ethics with HRM. It is this abstract nature of philosophical ethical theories that has driven Winstanley et al. (1996) to implicitly embed the stakeholder perspective in their defined 'user-friendly ethical framework' for HRM (see table 1 below; cited in Greenwood 2002), which is applied in nature.

Practitioner-focused ethical theories (Winstanley, Woodall and Heery 1996a)	Moral foundations of employee rights (adapted from Rowan 2000)
<ol style="list-style-type: none"> 1. Basic human, civil and employment rights, e.g. job security, feedback from tests 2. Social and organisational justice, e.g. procedural justice, egalitarianism, equity 3. Universalism, e.g. Kantian principle of an individual's right not to be treated as a means to an ends 4. Community of purpose, e.g. social contract of the organisation, shareholder view of the firm 	<ol style="list-style-type: none"> 1. Fair pay based on concepts of equity, distributive justice, autonomy, respect 2. Safety in the workplace based on the principles of avoiding harm and respect 3. Due process in the workplace based on concepts of respect, fairness and honesty 4. Privacy based on concepts of respect, freedom and autonomy

Table 1: User-friendly ethical models for HRM

Greenwood's (2002) thesis of embedding the stakeholder perspective in an ethical framework for HRM arises from critiques of ethical HR practices that are focused on micro-level issues. Therefore, she strongly emphasises that a stakeholder perspective on ethical HRM will bring into relief both the macro (ideology) and micro (specific policy) aspects of HRM. Her assertion has been supported by many researchers (e.g. Donaldson 1999; Jones and Wicks 1999), who suggest that both macro and micro views should be incorporated in producing a theoretical understanding of ethical HRM. This pluralistic view entails that organisations not only morally fulfil the interests of employees, but, rather, go beyond that with the intention of furthering those interests (Greenwood 2002). This highlights the implicit assumption of raising the bar of ethical HRM standards (trading off the economic advantage of the shareholder against the interests of others). This is where, Greenwood (2002) also cautions, 'soft' HRM (which contends that employees' interests should be seen in line with the moral stakeholder perspective) results in greater difficulty in identifying the unethical nature of such practices (using employees as a means to a profitable end). She (2002: 272) articulates this point in stating that "surely a wolf provides less threat than a wolf in sheep's clothes because we know to approach it with caution". Her view resonates with many sceptical commentators' suggestions that 'soft HRM' is just 'hard HRM' in disguise, with the former showing greater concern from an ethical standpoint but being viewed more as rhetoric than as having strong associations with HR practices.

Engaging in ethical practices internally that involve respecting the need for human dignity, equality and social protection carries the advantages of

establishing a productive workplace and a competitive business (Somavia 2000). Papasolomou-Doukakis and Krambia-Kapardis (2005), building on the thinking of Somavia (2000), investigate the relationship between an ethical climate and the reputation built by engaging in CSR in large organisations in Cyprus. With regard to internal provision of CSR, this study reveals that an organisation can enhance its corporate identity by engaging in responsible HRM practices that include 1) providing a safe and friendly working environment, 2) encouraging employees' participation in business, 3) encouraging employees' participation in social causes, 4) investing in employees' training and development, 5) implementing an equitable reward and wage system, 6) respecting employees' dignity and treating them fairly, and 6) providing childcare support and health support. This study also implicitly supports the Bartels et al.'s (1998) view that engaging in an ethical response to employees will enable organisations to establish an ethical climate, which is a prerequisite for and supportive of the implementation of ethical codes and policies.

In the literature, much of the research, including empirical and theoretical research, focuses on the role of philosophical ethical theories in evaluating the HR practices of large organisations (Henderson 1997; Legge 1998; Winstanley and Woodall 2000; Greenwood 2002, 2011), and therefore little is known about ethical HR in small businesses. Hence, it is of paramount importance to explore HR policies and practices in small businesses, including those in the third sector, through an ethical lens. The recommendation to explore the weaknesses of HR policies and practices within the milieu of small businesses is also supported by the literature, which

asserts that the numbers of poor HR outcomes have been driven by the absence of sophisticated HR practices in this sector. This also highlights the concerns as many social enterprises are small (DTI 2002). Bacon and Hoque (2005) suggest that there is a far greater degree of informality in HR practice in small businesses than in large private firms and that “this sector has been characterised as the natural home for ‘bleak house’ employment relations practices typified by direct management control, poor terms and conditions, high staff turnover and little training” (Bacon et al. 1996: 82).

2.6.2 Small Businesses and HRM Practices

The research interest on HR and SMEs emanates from the view of “small businesses as a simple scaled down version of large firms” (Storey 1994: 10). A large firm’s management is run on the premise of the division of power between owner(s) and managers (Berle and Means 1932; Bolton 1971). In contrast to this, a small firm’s owner-manager(s) have central command in running and managing business activities (Kotey and Slade 2005). Scholars have found a number of characteristics of human resource development (HRD) in small businesses that distinguish them from the rather dominant view of HRD that takes the large organisational view, because of combinations of factors argued by Cassell et al. (2002) to be ‘resource paucity’. In addition, to support this argument many other scholars suggest that the precise nature of HR practices in small businesses is disputed (Scott et al. 1989), compounded by factors including the dominance of informal practices based on unwritten custom (Ram et al. 2001), a business-oriented attitude (Deshpande and Golhar 1994), and, mainly, a lack of HR specialists to deal with issues of employee relations (Boxall and Purcell 2003; Bacon

and Hoque 2005; Woodhams and Lupton 2006). The rationale behind the dominance of such informal practices is that the associated benefits that small businesses seek to attain, such as cost-efficiency (job training is often given by the owner), and that vague job descriptions enable employees to become multitasked (Kotey and Slade 2005).

Unfortunately, small businesses encounter emotional challenges in practising their HR practices in an informal way. According to Ram and Holliday (1993, cited in Bacon and Hoque 2005: 1980), HR practices in family-owned small businesses are grounded in a 'negotiated paternalism' framework of management that "evolves as informal family loyalties generate a sense of mutual obligation requiring few sophisticated HRM practices". This may illustrate how informal HR practices are built on the foundation of harmonious and close relationships between employer and employees. The implication here is that what the owner may see as flexibility, the employees may see as unfair treatment. Within this context, the reality of the emotional relationship between employer and employees in small businesses is far more chaotic, where the employer is often seeking a balance between manipulating employees emotionally by exploiting their vulnerabilities and informal support from family members (Cornelius et al. 2008). This results in high staff turnover and dissatisfaction, and in extreme cases informal practices make it hard for small firms to survive in the highly regulated business world (Deshpande and Golhar 1994). This is a tremendous pitfall in small businesses, where planning of HR policies has fallen short. This causes the ambiguity in this sector where owner-managers exhibit highly personalised attributes in their informal management styles (Matlay 1999; Wilkinson 1999).

Many other studies suggest that the instrumental aspect of personalised informal HR practices tends to mean HR is viewed as less important (McEvoy 1984) and this creates difficult working situations for employees in small firms. Most small business owners, in practice, tend to lean more towards the finance, production and marketing end of the spectrum (Golhar and Deshpande 1997) and unknowingly make the outcomes of these values the employees' responsibility. Cornelius et al. (2008: 360) observe this point by stating that "such emotional proximity between employer and employees occurs as an obstacle for staff to assert their independence in the business, further complicated by the presence of informal HR practices".

The nature of diverse ownership traits determines the behaviour of HR practices towards the implementation of HR policies. The UK government considers the implementation of more sophisticated HR policies as central to the economic success of the sector. Therefore, government initiatives tend to assume that "improving the growth capability of UK businesses will only be achieved by raising performance across a range of areas such as management skills, workforce development, and the use of innovation and adoption of best practice across different business functions" (Small Business Service 2002: 4). In contrast to this view, owner-managers of small firms are particularly resistant to such legal regulations and view them as an additional burden on business success and growth. Cassell et al. (2002) have explored how, despite UK government initiatives to develop the capability of small firms in people management, such as Investors in People (IIP), the reactions have been mixed, with 62% of the sample declares little or no participation in the IIP process. They further contend that small firms'

owner-managers' priorities incline more towards the financial performance of businesses, while investment in employee development and skills is overlooked in favour of financial objectives. Bacon and Hoque (2005) describe internal and external influences that prevent small firms from implementing sophisticated HR policies in their employment practices. With regard to internal influence, the main influences are workforce skills mix (skilled workforces tend to be treated well compared to unskilled workforces, and employers are willing to invest in skilled workforces) and management training (lack of awareness and inability to follow structured employment procedures). Marlow (2002) argues that unskilled workforces in small firms tend to have low levels of awareness of their legal entitlements, which the small firm employer views as a chance not to implement HR policies. In regard to external influences, small firms are reluctant to embrace advice from formal government institutions, because small firms tend to lean towards informal advice from local business links and family and friends, rather than publicly funded sources of support. Another external factor arises from the relationship between small firms and large organisations, where small firms are imposed on by HR policies dictated by large firms. Bacon and Hoque (2005: 1990) observe this point in stating that "large customers demonstrate coercive behaviour in relation to imposing HR policies on small firms in supply chains". The assumption underlying these influences on small firms' engagement with HR policies illustrates their reliance on reactive approaches that inhibit their capacity to make changes in their 'people issues'. This is a problem that policymakers have been keen to address: employers' lack of commitment to investment in employee development.

Employers' lack of commitment is also underpinned by a situation often cited anecdotally by small firms, where they may want to avoid investing in transferable and soft skills because they fear that their trained employees will be poached by other employers. Owners of small firms avoid practising formal HR policies due to the lack of associated benefits that a business can gain. Therefore, such experiences show that small firms can lack adequate systems to ensure the efficient management of HR. This creates challenges for policymakers to encourage small firms to implement formal HR policies while not destroying the informal nature of the sector.

2.6.3 Ethical Behaviour, CSR and the Social Enterprise

A social enterprise is oriented towards activities with social orientation and intention (Johnson 2000), through a mechanism that works on economic principles to generate the surplus required for reinvestment in the business, thus ensuring its sustainability (Mitra and Borza 2010). Much of the research on social entrepreneurs and social entrepreneurship emanates from the pressure that a social enterprise faces to become sustainable by engaging in commercial activities. Thus, this suggests that social organisations are best placed at the business end of the spectrum (Dees 1998). The underlying assumption is that a social enterprise embraces entrepreneurial behaviour to stay financially solvent in the long term. Therefore, the transformation from conventionally understood non-profit to social enterprise drives the emergence of social entrepreneurship.

Indeed, recent empirical work on social entrepreneurship illustrates how most social enterprises have the same challenges that many commercial entrepreneurs do (DTI 2002; Bornstein 2004). Many authors anecdotally

state that CSR is a way of promoting social entrepreneurship. This further demonstrates a revival of interest in CSR, particularly in the discourse of SMEs. In Europe, the academic debate on CSR and ethical issues acknowledges the paucity of research on SMEs (Thompson and Smith 1991; Quinn 1997; Vyakarnam et al. 1997; Spence 1999; Spence and Rutherford 2003; Jenkins 2004; Fassin 2005; Fassin 2008). Brenkert (2002: 34) goes as far as saying that “business ethicists have treated the ethics of entrepreneurship with benign neglect”. Jenkins (2004: 38) points out that “CSR discourse is based on the myth that large companies are the norm” and that solutions for large companies can just be transplanted into small firms without modification or understanding of the particularities of smaller organisations (Spence 1999). Some authors (see Castka et al. 2004) even raise questions in regard to the business case for CSR, particularly in SMEs. This pertains, first, to the perception that small firms show a lack of involvement in activities that fall into the category of CSR, as many of them do engage with community social welfare activities as they are often embedded in local communities (Spence et al. 2004). There is an assumption that the focused pursuit of profit maximisation prevails in the behaviour of small businesses’ owner-managers’, much of whose time is consumed by running business activities. This results in owners’ lack of commitment to and involvement in gaining awareness of and implementation of social responsibility practices. Jenkins (2004) examines the rationale behind such behaviour and concludes that individual personalities and differing ownership structures are the main components of small firms. This is further complicated where a small business revolves around a family structure that

dictates the business's approach to complying with ethical values, including CSR. An Additional insight can be gained within this context, where the family character of the business most frequently impacts on its approach to social responsibility, with family commitments being very much intertwined with business values (Janjuha-Jivraj 2003; Jenkins 2004; Spence et al. 2004).

This void has been recognised and squarely placed on the table at the level of policy aimed at SMEs. Therefore, support for and encouragement of CSR among SMEs has been inextricably pervading the European Commission's policy agenda on CSR (Eberhard-Harribey 2006). Within this context, the European Commission launched a call aimed at engaging SMEs in CSR, to help and support them and spread awareness, as a means of enhancing their competitiveness. In this regard, at European and national level, policymakers have adopted a position on CSR to promote and encourage businesses to behave in an ethically responsible and sustainable manner (Albareda et al. 2007). In order to do so, governments tend to introduce codes of conduct and regulations as a framework for implementing social responsibility practices. Albareda et al. (2007) suggest that governments have been relying heavily on soft tools (e.g. collaborating with and facilitating private business and civil society stakeholders) as a new framework for promoting CSR among small businesses. This idea is also supported by Fairbrass's (2011: 949) assertion that a "*voluntary* approach prevails over the *regulated* mode of CSR policy implementation".

Various academic researchers (e.g. Jamali 2006; Jenkins 2006; Jamali 2007) in the field of SMEs assert that CSR activities carry many business

opportunities if social responsibility is integrated into business strategies and embedded in organisational norms. This is a provision that has been a key assumption in the launch of the European Commission's Green Paper 2002. Many SMEs engage in CSR activities, namely, environmental management, employee welfare and community social progression, as a central part of their activities that also reflects the nature of their businesses. All such activities have been undertaken on an ad hoc basis without any association with CSR and many "SMEs claim that such practices are simply a consequence of responsible entrepreneurship" (Observatory of European SMEs 2002). Spence and Rutherford (2001) suggest that small businesses have more complex characteristics (such as self-interest and social priorities) than purely the pursuit of profit and contend that recognition of this diversity of viewpoints can enhance policymakers' and support agencies' approaches to influencing the ethics of small firms and engaging them in CSR. Fassin (2008) also concludes that a CSR approach in SMEs should embrace the informal structure of their management and should also be compatible with their entrepreneurial character.

Foot (2001) examines ethical inconsistency in HRM in relation to responsibly managing employees in the charity sector of the UK and Ireland. Her work relies heavily on Vallance's (1999) thesis, which demonstrates that organisations with ethical values regarding external clients in their ethos and manifestos are reluctant to adopt organisational change (specifically aimed at people management). Foot (2001) has noticed that the ethical inconsistency and hypocrisy prevailing in charity organisations due to imbalances created by the "nature of this sector and its primary focus on

those external groups whom they seek to support has meant that issues of internal organisation and management of staff have tended to take second priority” (Foote 2001: 35). This ethical inconsistency emerges from the informal HR structure of small charities. It is also argued by Armstrong (1992) that many of the HR issues in the charity sector stem from the implications of managing complex relationships with external stakeholders. This was identified in the Third Sector Foresight Conference in May 1998 (cited in Foote 2001) as a constraint for the charity sector to focus less on the strategic issues that underlie the sustainability of this sector. This creates implications for charity organisations’ managers in terms of managing complex relationships within organisations, on the other hand, “where employees expect charitable treatment from the organisation for themselves” (Foote 2001: 33), which is embedded in organisational values. The implication here is that such pressures often impinge on managers’ behaviour of adopting compromising attitudes for adequately translating organisational values in their practices of people issues, rather than following strict HR policies. Thus, in this case, employees’ expectations of flexible treatment on the grounds of ethical organisational values are overlooked by the management. Within this context, volunteers are found to be hard-working in this sector, from the perspective that they tend to proactively adopt organisational values in their working practices; “despite this they still had to comply with certain laid down standards of hours and attendance” (Foote 2001: 34). This raises an important issue: an organisation seeking to establish itself on the grounds of ethical values to provide goods and services for community benefit must first promote ethical standards within the

organisation. Thus, the implications highlighted within charity organisations may strengthen the argument for exploring ethical inconsistency in the context of social enterprise, a branch of the third sector, which is bound to lead to some tensions. These tensions are seen to have arisen from the experience of managing complex external relationships to ensure sustainability, and less focus may have been placed on ethical HR practices including internal CSR practices.

2.7 Internal Mechanism of CSR

Many scholars have recognised the effort to make some sense of CSR through such concepts as an encompassing two-dimensional understanding: internal and external CSR (Moon 2004; Moon et al. 2009). The internal dimension of CSR delineates companies' in-house priorities regarding HRD, workplace ethics, workplace health and safety, human rights, equal opportunities, labour rights, etc. (Jones et al. 2005), whereas the external mechanism of CSR – which has undoubtedly attracted more attention in the literature (Deakin and Hobbs 2007) – refers to company engagement with respect to managing the triple bottom line: economic, social and environmental (Munilla and Miles 2005; Elkington 2006).

Takala and Pallab (2000: 109) list some important aspects of internal CSR practices a firm should undertake, stating that “positive and confirmatory action within a firm can be achieved only when individuals are socialised into the fact that along with the firm, they are equally responsible for morally right, pro-environmental actions”. MacLagan (1999) supporting the thinking of Takala and Pallab by echoes the idea of enhanced motivation and work

performance being achieved only by the better alignment of organisational policies and employees' values. Individuals should not be dictated to by the firm's moral agenda, but instead should be empowered to build sufficient flexibility and autonomy in the workplace to avoid a herd mentality (Takala and Pallab 2000) when deciding on ethical issues. Encouraging individuals' involvement is a way to maintain trust, support and legitimacy in enacting an organisational ethical culture and thus enabling a social enterprise to develop as a whole.

The challenge for many social enterprises is to similarly engender social responsibility practices internally, to reflect their external achievements (Cornelius et al. 2008), because it has been argued by various schools of thought that a social enterprise cannot function fully to benefit society and the business world without the full support of its employees at all levels (Takala and Pallab 2000). Within this context, the existence of social enterprises tends to contradict the 'libertarianism' theory of responsibility, which only delineates negative rights, such as businesses being obliged only to avoid causing harm and having no moral responsibility to fulfil positive duties. Social enterprises are obliged to carry out both positive and negative duties at the same time in broader society as part of their social responsibility practices. Thus, in relation to internal CSR, they have a moral obligation to provide an environment where employees can develop and enhance their capabilities.

Companies who are concerned with employee development only if it is in the company's self-interest reflect the moral egoist framework. Supporters of moral egoism tend to argue that a company ought to act in its own self-

interest (Crane and Matten 2007). Libertarian theory does not fit into this research context, which concerns social enterprises, which are obliged to do positive things internally and externally. From the internal CSR perspective, a social enterprise should act in a responsible manner, not because of its commercial interest but because doing so is part of how employees implicitly expect a social enterprise to operate. Hence, businesses also have to keep their activities attuned to society's ethical, legal and communal aspirations. This falls into the realm of CSR, which has attracted increasing attention in recent years in relation to "how companies approach their interactions with their various stakeholders – from providing quality products and services, to undertaking charitable activities" (Jamali et al. 2008: 444).

2.8 CSR and the Beneficence Theory Perspective

2.8.1 Third-sector Organisations and Government Interventions

Bowen (1953) considers that business people are obliged to pursue those activities that produce social goods along with economic goods, and that every business has an obligation to give back to the communities that have supported it. Many issues have been raised since then: poverty, urban decay, social issues such as racism and sexism, and pollution and environmental issues. Originally, the resolution of such issues was seen as the obligatory and moral duty of government, although it is reasonable to argue that a great deal of tension has occurred due to the irresponsible behaviour of businesses. Therefore, the commitment of government to handling such issues seems scant and this is where attention has turned to developing partnerships with third-sector organisations as an additional

support and a way forward in reforming civil society. In this regard, the UK government acknowledges the role of TSOs, and particularly social enterprises, in their policy agenda of reforming civil society (DTI 2002, 2006; Cabinet Office 2010a, 2010b; Conservative Party 2010a, 2010b).

The paternalistic image of the UK welfare state as promoting dependence has been criticised in policy for civil society reforms (Cabinet Office 2010a, 2010b; Conservative Party 2010a, 2010b), and any shift in the UK from welfare state to welfare mix embraces the importance of third-sector organisations. The efforts of the UK government to reform and strengthen civil society are reflected through the production of a variety of policy documents relating to social and economic development (e.g. ODPM 2005; 2006a; 2006b). Amin (2006) suggests that a contribution to revitalising deprived communities can be made by 're-enchantment', especially when the deprived areas are labelled as difficult and undesirable places to be. Many of these reform initiatives are set up within consortia comprising private-sector, public-sector and, increasingly, third-sector partners, with the underlying mission of improving social, economic and ethical performance (Zadek 2001). Developing and supporting the capacity of social enterprises is an important plank of the UK central government agenda. The formation of such consortia enables organisations to establish the means to get things done that an individual organisation, whether it is government, public, private or non-profit, is unable to achieve alone. Therefore, given the goal of attaining a sustainable strong civil society, UK government stresses the importance of third-sector organisations' (TSOs') collaboration with the public and private sectors. This will result in sustaining economic growth with more and better

jobs and greater social cohesion. The central focus of such assertions reflects the role of UK government policy in abdicating its responsibility for addressing community-based civic issues, rather than adequately funding public services, with the implicit assumption that social enterprises are better placed than the state to provide public services (Pollitt and Bouckaert 2004; Cabinet Office 2010a 2010b). This belief has been consistently demonstrated in strategic alliances and mergers within the third sector as an integral part of the agenda of accommodating the changing role of the state (e.g. HM Treasury 2004; HMSO 2006).

Much of this focus may be regarded as biased towards improving the tangible factors associated with regeneration policy and practices within the partnership consortia. These factors include cleaning and revitalising public spaces (environmental) and establishing new businesses to generate job opportunities (economic). However, it can reasonably be argued that regeneration policies and practices must take intangible factors (e.g. social aspects of economic and environmental goods) into consideration, along with tackling economic and environmental issues. This is an issue raised by many scholars; for example, Cornelius and Wallace (2010: 74) assert that “social capital lost from deprived communities is hard to re-inject”, and many scholars have argued that increased social capital among deprived communities will enable them to enhance their well-being and quality of life. This has driven the emergence of ‘social sustainability’ as a fundamental component of reforming civil society, which is beginning to receive political and institutional endorsement as an integral part of the sustainable community development agenda and the sustainable CSR discourse.

2.8.2 Marketisation and Modernisation Ideologies

Civil society reform is an issue that has gained importance within the policy agenda of UK governments for the last 40 years. Encouragement of partnerships with the private, public and third sectors has increasingly gained attention, with the underlying intention being that of developing a market-oriented approach to the delivery of social provisions. The Conservative government of 1979–1997 is often associated with the modernisation and marketisation of social provision, but the Labour government of 1997–2010 took a step further by speeding up and widening the role of public–private partnerships. The Labour government subsequently increased public spending, but modernisation has been rooted in a ‘new managerialism’ (Exworthy and Halford 1999; Newman 2001; Downe and Martin 2006, cited in Cornelius and Wallace 2010) – the ideology of marketisation of many public services, including health. Carley et al. (2000) contend that two underlying beliefs are frequently associated with this shift. The first relates to the complexity of socio-economic problems facing deprived communities, which are often beyond the remit of just one organisation working on its own. The second relates to the underlying belief that partnership working generates greater economic, social and environmental goods and opportunities for capacity building across organisational divides.

Many changes have been introduced in institutional arrangements such that privatisation, modernisation and marketisation are receiving more attention so as to create an effective shift towards the adoption by public administration of a more businesslike approach, and this is referred to as ‘new public management’ or NPM (Pollitt and Bouckaert 2004). The aim

underlying the introduction of NPM is a shift towards an entrepreneurial government that is moving away from administrative bureaucracies to the articulation of market mechanisms through the community voice (i.e. social organisations). The NPM has enabled the government to adopt the techniques and values of business by establishing partnerships with the private and third sectors. According to Van der Wal et al. (2006), NPM runs on five core principles, as a framework of management often seen as a casualty of socio-economic crisis, as are the markets and market mechanism which underpin it. These five core principles are 1) downsizing – reducing the size of government; 2) managerialism – using business protocols in government; 3) decentralisation – moving decision-making closer to the service recipients; 4) de-bureaucratisation – restructuring government to emphasise results rather than processes; and 5) privatisation – directing the allocation of government goods and services to outside firms.

Hodgkin (1993) argues that, unlike corporations, not-for-profit organisations have an obligation to represent the community interest; thus, they must consider not only what is legal but also what is ethically and morally the right thing to do. This will enable community organisations to enhance the community-based social goods that are prerequisites for the sustainability of economic and environmental goods and are also referred to as the foundations of social capital by many scholars (Portes 1998; Lin 2001; Putnam 2001). However, a shift from doing the ethically right thing to a businesslike mentality has been noticed due to the important plank of the UK central government's policy on third-sector organisations that encourages not-for-profit organisations to endorse the business like model by engaging in

collaboration with the for-profit sector to enhance capacity and financial solvency (Salamon 1993; Dees et al. 2001; Diamond and Southern 2006; Cornelius and Trueman 2007).

However, with today's complex regulatory and reimbursement pressures, social enterprises have been forced to function more like a business.

Therefore, the focus has shifted from being primarily the creation of social, economic and environmental goods to covertly emphasising making a profit to stay financially solvent. This raises a critical issue regarding the sustainability of goods created, which, within this context, should be regarded as prerequisite to social enterprises survival. The sustainability of goods, and particularly social goods, is the foundation stone for reforming deprived communities (Portes 1998; Lin 2001; Putnam 2001). The rationale behind the reluctance of sustainability of goods is notified by Diamond (2010) as distinctive profit motive and ethical stance exist between the regulatory board (i.e. government) and social organisations.

Hull (2000) indicates that civil society reforms through regeneration policy and practice lack an understanding of the social good created (i.e. they are intangible in nature) and tend to lean more towards economic regeneration. In her analysis of the previous 20 years with regard to activities undertaken by partnership programmes, she indicates, by drawing on important indices such as long-term unemployment, crime rates, health and well-being and educational qualifications (i.e. those that are tangible in nature), that such activities have failed to close the gap between the poorest deprived areas and the national average. These are the indicators that prevail in the formation of policy and practice for civil society reforms to eliminate poverty

in deprived areas, which can produce short-term results but has less to do with quality of life for those in deprived areas. For Cornelius and Wallace (2010: 75), building on the thinking of Hull (2000), there is a lack of focus placed on the generation of sustainable social goods where “lasting improvements in the everyday lives of disadvantaged groups of deprived areas are an important barometer of success of regeneration activity”. They further argue that impacts of such initiatives should be evaluated in terms of the extent to which individuals and communities utilise economic and social goods to obtain a high level of quality of life where social justice prevails. Their argument resonates with Hull’s (2000) view of significant importance that is required to be paid in the creation of social and economic goods specifically for the community served and the extent to which they are empowered and educated to utilise them.

2.8.3 Social Justice, Human Rights and Beneficence

One tension that emerges from civil society reform policy and practice and has been noted by Cornelius and Wallace (2010) is that of ‘social justice’, which lacks policies aimed at transforming deprived communities. Rawls’s (1971) study on social justice is grounded in the argument that social justice is the core element of sustaining improvement and development within communities. Rawls develops a conception of justice from the perspective that “a person is free and equal and where social justice enables him to do and live a rational life” (Rawls 1971: 92). Cornelius and Wallace (2010) strongly emphasise that ‘social justice’ should be considered as an important evaluative indicator for assessing the impact of CSR activities.

Cornelius and Wallace (2010) call for underpinning social justice and human rights in developing an understanding of evaluating CSR impact in particular, social impacts is also echoed by other scholars (e.g. Wettstein 2009).

Wettstein (2009) argues that social justice and human rights have been widely perceived as legal entities and in most cases associated with the duty of the state. He further argues from an ethical perspective that much of the CSR movement falls at the conventional end of the spectrum, where human rights is not considered to have a fundamental ethical status. The perception underlying such a belief is partly a result of the influence of political realists, who emphasise that society in general is governed by objective laws. Thus, the conventional interpretation of CSR perceives human rights and social justice as legal rather than moral obligations. From an ethical perspective, social justice and human rights have more relevance to the economic, environmental and social aspects of CSR activities. For example, the concept of fair wages is relevant to the economic aspect; company operations that pollute the environment violate human rights by preventing access to clean drinking water; and equal opportunities and non-discriminatory behaviour in the workplace fall under the social aspect of organisations' practices.

Wettstein (2009) quotes the example of multinational mining companies' CSR activities on the African continent; they pay royalty fees to the local government as part of their CSR, in particular their philanthropic responsibility. One of the issues that has emerged from their practices is that corporations do not contribute enough to make a significant difference to the economic, social and environmental goods on the African continent that lead to quality of life, in contrast to the violation of natural wealth by these

businesses. One can argue that this is not an issue of beneficence with regard to *gifts freely given*, but one of fairness and justice. Implicitly, these authors have demanded an in-depth reflection on ways of transforming processes and structures in order to enable fairer economic regeneration and distribution, which are important indicators of *social justice*.

Cornelius and Wallace (2010) further argue that social justice and human rights should not be thought of as merely the responsibility of the state: the focus must be placed on how organisations embed these in the formation of their CSR policies and practices. Considering that CSR consists mainly in focusing on beneficent practices in particular, gifts freely given may prevent recognition of the consequences that may emerge out of unjust practices. For example, as illustrated by Renouard (2011: 91), the way CSR emanates from philanthropy may lead to harmful consequences such as, “encouraging top-down support of the poor by the rich and avoiding serious reflection on the roots of poverty and on the responsibility of economics in defining the conditions of fair profit-making and value sharing”. The do no harm philosophy should be extended to the employees, clients and communities that a social enterprise serves but for whom it unwittingly creates difficulties also. Implicit to CSR, the aim of the do no harm philosophy should be to protect all stakeholders from any type of harm unwittingly created.

From the analysis of the third sector’s CSR practices, Cornelius and Wallace (2010) raise an important issue of the sustainability of goods created, which has been neglected as an important marker for evaluating CSR practices. In order to articulate the sustainability of economic, social and environmental goods in the provision of CSR policies and practices, they draw on the

principles of beneficence theory – *gifts freely given* and *doing no harm*, which “should be served as definitional within CSR policy and practice”. Within the context of social enterprises, the emphasis should be placed on sustainability of goods created rather than one-off gifts given. It has been stated by different academic scholars and practitioners that social and economic goods generated by third-sector organisations often benefit affluent people and newcomers at the expense of disadvantaged groups of people. (e.g. see Diamond 2010). In this regard, Cornelius and Wallace (2010) stress the need for in-depth reflection on ways of transforming structures in order to enable a fairer economic order (e.g. social justice). Furthermore, this is where the second principle of beneficence theory comes into play: it emphasises that, while making social provisions, organisations such as social enterprises must evaluate the chances of causing harm, whether deliberately or unwittingly.

CSR practices are often driven by the governing body of an organisation. Managers are the people who implement such decisions and have less control over decision-making. Corporate scandals and failures in recent times have raised questions about what type of governance system would enable the effective implementation of CSR policies and practices. This is also one of the gaps in the literature, where CSR and corporate governance have been discussed separately, and even in practice it has also been established that organisations report separately on both CSR and corporate governance, in particular in large organisations (Van den Berghe et al. 2002; Van den Berghe and Corchon 2003).

CHAPTER 3: CORPORATE GOVERNANCE AND SOCIAL ENTERPRISE

3.1 Corporate Governance

3.1.1 Introduction

There is a never-ending evolution of theories or models of corporate governance. It has seemed that several theoretical frameworks from various disciplines, including finance, economics, accounting, law, management, organisational behaviour and ethics, have attempted to develop understanding of corporate governance within all sectors – private, public and voluntary. Low (2006: 378) defines corporate governance as “the relationships among various participants in determining the direction and performance of organisations”. Shleifer and Vishny (1997: 737) illustrate corporate governance by drawing on agency theory, stating that it “deals with the ways in which capital providers to corporations assure themselves of getting a return on their investment”. Corporate governance has generated a growing interest among various academics, including Abzug and Galaskiewicz (2001); Cam and Ranjan (2005); Low (2006); and Mason (2009, 2010). Furthermore, there is a debate emerging among researchers in this area that governance dynamics vary considerably within and between sectors (profit and non-profit organisations) of the economy (e.g. Low 2006).

While issues of corporate governance have gained much attention, particularly in the corporate world (Van den Berghe et al. 2002; Van den Berghe and Corchon 2003; Luo 2006), the notion of governance is hard to

pin down from an alternative organisational perspective – that of the social enterprise. The social enterprise sector has embraced tremendous growth over the past decade and is still in a state of emergence. The nature of social enterprise is very complex and unique; this is the main reason for the lack of a coherent governance structure for social enterprise. In terms of providing conceptual understanding, the governance issue clearly identifies the gap in the literature when the complex and unique nature of social enterprise is taken into account (Morris et al. 2007; Spears et al. 2007).

At the core of the current debate on corporate governance is the quest for an optimal or superior theoretical model to underpin such a concept. A narrow conception of corporate governance based on the shareholder perspective has been criticised for not providing ethical guidelines to prevent corporate failure and crisis. This compliance model dominates analyses of corporate governance in the for-profit sector. In contrast to this view, the stakeholder perspective emerged as an intellectual response to the shareholder approach to corporate governance (O'Sullivan 2000). The basic argument of this perspective stems from the fact that the corporation is a nexus of explicit and implicit contracts. Additionally, Sullivan and Shkolnikov (2007) advocate strong links between ethics and corporate governance by insisting that boards cannot ensure the core values of transparency, responsibility, fairness and accountability without moral and ethical infusion.

3.1.2 The Shareholder Perspective on Corporate Governance

This is a hegemonic paradigm that stresses that shareholders have primacy over other stakeholders and therefore boards are ultimately responsible to pursue those actions which will maximise economic return for them (Elhauge

2005). Most of the academic literature on governance in the context of large public organisations has taken this perspective. This perspective is “an orthodox and dominant approach to the understanding of corporate governance that has its ideological and theoretical origin in fundamental mentality of individual private rights as the foundation of capitalism” (Letza et al. 2004: 247).

3.1.2.1 Agency Theory

Agency theory tends to be a starting point for discussion on corporate governance theory that falls mainly under the paradigm of the shareholder perspective. Corporate governance development mainly stems from the theoretical framework of agency theory. Agency theory addresses the conflicts of interest that arise in the relationship between two parties: an agent and a principal. Hence, agency theory refers to a set of propositions to control management and to ensure compliance with shareholders' interests (Eisenhardt 2004).

Agency theory has its roots in economic theory and was articulated in 1776 by Adam Smith; he predicted that a firm controlled and managed by the executives would show a tendency to prioritise its own objectives by diluting the interests of its owner(s) (Smith 1776). Executives' negligence has given impetus to corporate failure or systemic crises in large public corporations. Berle and Means (1932) further explore Smith's (1776) concern and specifically examine the dangerous new trend that emphasises the replacement of ownership-based capitalism with giant corporations controlled by a small group of managers. They argue that corporations have acquired the attributes of powerful social institutions due to this ownership being

increasingly held by a few individuals, and therefore checks to limit the use of power tend to disappear (McCraw 1990: 582). Much of the impetus for these changes has come from the inability of owners to control and manage their own organisations on their own in order to reap the maximum benefits for themselves (Berle and Means 1932). This issue of managers becoming powerful in large public organisations was later defined as agency theory, presented by Jensen and Meckling (1976) among others in the 1970s. From a simplistic viewpoint, agency theory is defined as “the relationship between the principals, such as shareholders and agents such as the company executives and managers” (Abdullah and Valentine 2009: 89).

Agency theory is hard to apply in the context of social enterprises, especially charitable or voluntary organisations, because of the ambiguity over identifying the principals on whose behalf agents would operate (Cornforth 2003); according to the theory and in legal terms, there are no shareholders involved as not-for-profit organisations are owned by the community. In contrast to this view, Labie (2005) emphasises that agency theory can be deployed in a community organisation such as a charity where the governance structure can be seen as a guardian of the organisational mission.

3.1.2.2 Stewardship Model

Stewardship theory has its roots in psychology and sociology and is defined by Davis et al. (1997: 24) as follows: “a steward protects and maximises shareholders’ wealth through firm performance, and by so doing, the steward’s utility functions are maximised”. The stewardship model has been perceived as a dominant paradigm in corporate governance theory, which

focuses on the “alignment between the capacity and willingness of managers and those of shareholders in pursuing company strategy” (Clarke 2005: 604; Low 2006: 378; Diochon 2010: 96). In most cases, company strategies reflect the decisions that are made to maximise financial return. In adopting the stewardship perspective on governance – one that draws largely on shareholder theory and is the most prevalent in corporate governance research (Wu 2008), especially in the for-profit sector – the prevailing prescription is to increase managerial ownership, as this is believed to increase value-adding risk-taking. According to stewardship theory, the governing board acts as an agent to the shareholders, whose primary obligations are to safeguard the economic objectives of the organisation, i.e. maximising value, growth and profitability, etc.

This model also posits that many executives aspire to higher purposes, and in pursuit of such purposes they often formulate business strategies in accordance with the triple bottom line (economic, social and environmental) for the benefit of the organisation and its stakeholders (Donaldson and Davis 1991; Davis et al. 1997). The belief underlying stewardship theory emphasises that managers tend to become satisfied and motivated by showing tenacious loyalty to act in the best interests of organisation through the achievement of higher-level goals.

Stewardship theory tends to argue that the governance structure of an organisation should embrace stewards exercising their power by offering maximum autonomy built on trust (Donaldson and Davis 1991). Executives and managers tend to claim such trust based on their tenacious loyalty to achieving organisational objectives, even if it means personal sacrifice.

Executives working under the stewardship mechanism are said to employ integrity and be conscientious in their dealings and always prioritise their shareholders' and other stakeholders' interests ahead of their own self-interest. Several authors have challenged the capability of boards to act in a stewardship capacity, due to successive corporate scandals. Clarke (2005: 604) reflects on the Enron scandal in the US from a stewardship perspective and contends that "it was in their fundamental failure to uphold their stewardship and fiduciary duties that the Enron executives were most irresponsible".

Financial crises in 1998 in Russia, Asia and Brazil and corporate scandals such as Enron or WorldCom in the United States have resulted in growing criticism of business managers and directors. These two events are responsible for the heightened interest in corporate governance that proceeds from the assumption that board members are believed to have an obligation to act in a way that maximises the wealth of shareholders. In order to prevent such frauds in large organisations, many authors suggest the significance of non-executives on corporate boards. Higgs (2003) stresses the importance of non-executives' prerogatives over those of executive members of the corporate governance board to avoid any economic harm to shareholders. In addition, he argues that non-executives should be recruited from a diversified pool of expertise so they can question executives' decisions and ensure their business practices are in line with the interests of shareholders and stakeholders. Despite the involvement of non-executives on the board, the continuing public outcry at executives' fraud raises the

question of whether boards act in accordance with the theoretical stewardship model.

Social enterprises that incorporate and promote community well-being through their business practices are more likely to support a stakeholder model of corporate governance. The traditional Anglo-American shareholder wealth maximisation model proceeds from a utilitarian conception of societies, where individual rights and personal autonomy are of paramount importance.

3.1.3 The Stakeholder Perspective on Corporate Governance

Too much focus on the shareholder approach to corporate governance, which draws heavily on agency theory, with its emphasis on the importance of regulatory, supervisory and enforcement agencies, has led corporate governance to embrace an alternative approach: the stakeholder perspective. The central argument of this perspective, that an organisation is also a social institution that has responsibilities to various stakeholders, forms the basis of stakeholder theory and CSR (Donaldson and Preston 1995; Mason et al. 2007). Establishing the significance of various stakeholders' interests within theoretical development is considered fairly new, and Freeman is generally cited as the originator of the attempt. However, neither this idea nor many of its philosophical assumptions are new. The stakeholder approach to corporate governance not only addresses the issues of monitoring and control, but also embraces the wider concept of social responsibility as a major attribute of good governance (Rose 2004; Davies 2006).

3.1.3.1 The Stakeholder Model

In today's world, most organisations regularly interact with multiple constituencies, whose needs and interests have to be considered as part of strategic decision-making at the board level to sustain economic and social success. Stakeholder theory is grounded in the discipline of management and was first developed in the 1970s by Freeman (1984), who incorporated organisational responsibilities to various stakeholders who can affect or are affected by the organisation's purpose. Two main types of stakeholder theory can be identified with reference to corporate governance: normative stakeholder theory and instrumental stakeholder theory. According to Letza et al. (2004: 250), the former emphasises that organisations perceive stakeholders' demands to have intrinsic value and treat them as 'ends', and the latter emphasises that stakeholders' values are to be used to improve organisations' profitability and regards them as 'means'. Thus, Cornforth (2003: 9) further emphasises the significance of the stakeholder perspective on corporate governance and contends that

“By incorporating different stakeholders on boards, it is expected that organisations will be more likely to respond to broader social interests than the narrow interests of one group. This leads to a political role for boards negotiating and resolving the potential conflicting interests of different stakeholder groups in order to determine the objectives of the organisation and set policy.”

Many academics maintain that the stakeholder perspective serves as a theoretical foundation of governance structures in the context of not-for-profit organisations (Mason 2009; Diochon 2010; Larner and Mason 2014). Since most social enterprises are non-profit organisations with the primary aim of serving diverse community needs and interests, they are viewed as

stakeholder organisations. Low (2006: 377) further demystifies non-profit organisations by stating that they are owned by communities rather than shareholders, in theory.

Corporate governance from the stakeholder perspective aims to establish a mechanism to balance social and economic interests rather than trading them off against each other (Kooskora 2008). In for-profit organisations the instrumental stakeholder perspective legitimises its governance mechanism proceeding from the assumption that stakeholders' values are the best means of improving efficiency, profitability, competition and economic objectivity. As Campbell (1997) explicitly maintains, "I support stakeholder theory not from some left wing reason of equity, but because I believe it to be fundamental to understanding how to make money in business" (Campbell 1997, cited in Letza et al. 2004: 251). Evidence of the instrumental stakeholder perspective on corporate governance in for-profit organisations can be further pinned down by various schools of thought when the culture of such organisations is considered: "greed has been raised to some sort of higher calling" (Mintzberg et al. 2002: 133) and the "essence of social consciences that is minimal" (Abdullah and Valentine 2009: 88) in modern corporations.

All the theoretical models discussed above are aimed at developing an understanding of effective corporate governance. Much of the literature on corporate governance reflects large organisations that operate in relatively stable environments. Traditionally, literature has focused on the issues related to the structure and composition of governance boards; very little has been discovered about board behaviour (Hill 1995; Kemp 2006). Lack of

accessibility at board level has been promulgated by various schools of thought in the literature (Pettigrew and McNulty 1995; Kemp 2006). Ideally, it is difficult to identify the significance of any particular theoretical model that provides the basis for the governance system in any organisation. Therefore, Pye and Pettigrew (2005) emphasise the importance of context as a framework to study real governance dynamics.

3.2 Challenges in Theorising Corporate Governance

The importance of governance systems to economic and social sustainability in any type of organisation has been widely acknowledged by academics and policymakers. Much of the corporate governance literature has drawn on shareholder and stakeholder theoretical models.

What is emerging from past abuses of power at the board level is lack of practice of the core attributes of a good governance system, such as trust, integrity, and fairness in dealing with shareholders and stakeholders (Ramly and Rashid 2010). There is little doubt that corporate governance purely proceeding from the aim of maximising shareholders' wealth has contributed to and is at the heart of social transgressions. For example, Vintiadis (2004) states that the unethical behaviour of executives and greed are the main causes of major corporate failures. These malpractices of corporate governance have increased interest in the field of governance, especially in issues such as "for what purpose the corporation exists and whose interest it serves and how" (Elkington 2006: 522). It can be argued that Elkington's thesis implicitly questions the ethicality of board behaviour in a governance system in regard to the double bottom line (i.e. economic and social).

The two distinct views of the shareholder and stakeholder perspectives have generated a fierce debate involving two extreme positions and a polarised approach to understanding corporate governance (Prabhaker 1998; Friedman and Miles 2002). These are two conflicting paradigms: the shareholder perspective tends to insist on its relevance by heavily drawing on “individualism” – private property and thus the justification of maximising shareholders’ value as the sole purpose of firms (Sundaram and Inkpen 2004); in contrast to this, the stakeholder perspective rejects conventional ideology and emphasises social institutional conceptions of the firm, where all the stakeholders’ interests are embraced (Letza et al. 2004).

Some fruitful insights have been generated through the debate on the shareholder and stakeholder perspectives on corporate governance, but some schools of thought have raised questions regarding the validity and credibility of this dualistic approach (Letza et al. 2004). This creates a dilemma where there is a lack of empirical evidence to support the shareholder or stakeholder approach to governance (Griffin and Mahon 1997), and, in particular, social enterprise governance. Who further argue that the underlying presuppositions and ideologies of both perspectives require empirical investigation in order to clarify the relevance of and limitations to theorising corporate governance. This is not an attempt to degrade the contribution that shareholder and stakeholder models have made to the understanding of corporate governance; however, it is to argue that both conceptions need to be deconstructed in order to align them within the ever-changing environment of the business world. In addition to this, Letza et al. (2004: 252) further contend that

“Both perspectives of shareholding and stakeholding presuppose a fixed notion of social reality as ideal or optimum, but reality itself does not have such a fixed nature and property. Nor does it hold some enduring and universal form and principles of governance. Rather, there has been a continuous shift of paradigms and mind-sets from shareholding to stakeholding in the Anglo-American setting.”

3.2.1 Social Enterprise Governance Systems

The literature on corporate governance has drawn heavily on the shareholder perspective with reference to for-profit organisations. Very little has been discovered about corporate governance in the context of social enterprises. This further suggests that social enterprise governance research remains in an embryonic state. The preceding discussion of corporate governance proceeding from shareholder or stakeholder assumptions demonstrates its significance in the for-profit sector. In this section, attention is given to what relevance these perspectives might have for social enterprise governance. The proponents of the stakeholder perspective on corporate governance (Carroll 1979, 1991, 1995; Freeman and Evan 1990, and others) contend that corporate governance is not a mechanism for dealing with problems of direction and control but emphasise its significance in terms of responding to the interests of various internal and external stakeholders. Additionally, Rose (2004) further emphasises the significance of the stakeholder approach to corporate governance by creating a strong link between stakeholder theory and CSR.

In the context of social enterprise, it can be argued that the stakeholder perspective on corporate governance rather evidently provides a theoretical underpinning that articulates the ethical dimension to its development. The moral environment of the shareholder perspective on corporate governance

is tightly constrained by the ethics of maximising shareholders' wealth, with the expectation that other stakeholders will indirectly benefit from the active pursuit of shareholders' interests. In contrast to this view, the stakeholder perspective emphasises that it is the organisation's moral obligation to benefit all stakeholders by incorporating their interests. This model prevails in the context of social enterprises, based on the assumption that a social organisation seeks to create something of value that is congruent with social causes and the needs of the community rather than profit or wealth creation (Tapsell and Woods 2010). Young and Jesse (2014) highlight how non-profit organisations can be classified into different forms based on their revenue portfolio relying on member contributions, philanthropy, market revenues, etc. Such forms of organisations have different understandings of how they are best managed, governed and financed and these play a significant role in delivering social mission (Young and Jesse 2014:1328). Board members behaviour in reconciling economic and social issues is critical to the success of social enterprises, and thus it is imperative to nurture the capabilities of these members over time to compete against the greater challenges associated with accountability and legitimacy.

3.2.1.1 Accountability and Legitimacy

Accountability is a key aspect of good governance; it is assumed that the stakeholder perspective on social enterprise governance makes it possible to sustain executive legitimacy by incorporating accountability and enhancing trust (Owen et al. 2000; Larner and Mason 2014). It has been recognised from the literature that the stakeholder approach is a prominent framework for governance in for-profit and not-for-profit organisations that is used to

enhance accountability and legitimise dealings with various stakeholders. Mason (2010: 17) suggests through his empirical work that “the role of the stakeholder is so intrinsic in the non-profit ideology that for such groups not to be involved would be literally unthinkable, and illegitimate”. Moreover, stakeholders’ involvement can lead to the demand for implementation of accountability measures as an effective means for a social organisation to demonstrate social value in return for financial investment whilst maintaining the legitimacy of its social aims. (Larner and Mason 2014).

Those from different schools of thought have argued the important challenge of formulating accountability indicators to assess social enterprise governance, given that no standard parameters currently operate (Richmond et al. 2003; Molyneaux 2004; Darby and Jenkins 2006). Accountability indicators help to legitimise governance systems. However, it has emerged that most small social enterprises do not practise such ‘accountability audits’ because of several constraints, i.e. lack of education or professional background of board members (Spears et al. 2007).

The unique nature of social enterprises itself provides complications in terms of theorising corporate governance. As was noted earlier, social enterprises require the capability to align their for-profit business activities with not-for-profit practices (Fowler 2000). Given the paucity of governance research in the social enterprise sector, the theoretical underpinning of social enterprise governance systems has begun to integrate a multidisciplinary approach, as social enterprise is a business sector that tends to align economic interests with social interests by incorporating ethical and economic dimensions in governance systems (Larner and Mason 2014). Given that social

responsibility is a core attribute of social enterprises, stewardship theory advocates that board executives often indulge their altruistic qualities in their business practices for the benefit of organisations and their stakeholders (Davis et al. 1997). This would suggest that social enterprises also exhibit the features of the stewardship model of governance.

The key factor in **stewardship theory** is the underlying assumption that managers are trustworthy. Therefore, trust is key to establishing social enterprise governance. Hence, social enterprises show a tendency to incorporate a culture of trust between the principal (the community as a stakeholder) and managers to support this approach. Advocates of stewardship theory, in underpinning social enterprise governance, assume that most managers from social enterprises support this model (Mason et al. 2007) as they too belong to the community that a social enterprise intends to serve. Due to the complex nature of social enterprise, managers guided by the stewardship model of governance have the ability to prioritise, safeguard and enhance the interests of recipients. Board members of social enterprises, having close associations with the community, should be empowered to accommodate such initiatives, so that overall productivity increases to enhance recipients' social benefits. Therefore, Low (2006) perceives this as an emergent model that can provide a theoretical underpinning for social enterprise governance if this sector achieves significant distinctiveness from traditional non-profit organisations. He further argues that social enterprises are more inclined towards the stewardship model because of the pressure on them to remain financially stable and self-sufficient.

In the literature, many schools of thought advocate a multi-paradigm approach to articulate an understanding of this emergent concept of social enterprise governance (Cornforth 2003; Huybrechts 2010; Mason 2010; Larner and Mason 2014). The contribution of the stakeholder and stewardship models in social enterprise governance systems has been regarded as plausible (Mason 2010). The combination of the multi-paradigm approach has been sought in the academic research but the significance of the ethical paradigm in developing a better understanding of corporate governance has hardly been acknowledged. Therefore, inclusion of the ethical paradigm, along with other paradigms, will further elucidate the understanding of corporate governance.

3.3 Corporate Governance – An Ethical Perspective

In this section, the ethical perspective on governance will be explored by arguing that shareholder and stakeholder perspectives should be required to conduct analyse through the ethical perspective because of their existing inability to restore confidence and build trust. Social enterprises are created by people who are closely linked with the community they intend to serve. If the ultimate goal is to deliver social benefit, the rationale underpinning these organisations' practices must be informed by ethical and moral values. Social enterprises exist to maximise positive social impact, and ethical practices enable this (Mason et al. 2007: 288). It has also emerged from the literature that much emphasis has been placed on identifying a theoretical model underpinning social enterprise governance systems, whereas the significance of an ethical underpinning in developing an appropriate model of

governance has hardly been discussed. This is not to say that such models, for example stakeholder or stewardship, have no grounds in the discipline of business ethics. But no ethical model has been explicitly linked with social enterprise governance systems in the literature. This is a gap that this exploratory research is intended to fill, through investigation of formal and informal governance systems of social enterprises. Much of the work in the field of social enterprise governance reflects the debate on conceptualising governance by referencing the similarities to SMEs' and family businesses' governance systems, although there is a strong need for empirical evidence to support such claims.

From an ethical perspective on governance systems in social enterprises, the focus must be placed on understanding the policies and practices of governance systems in order to enable socially responsible business practices. According to Berman (2006), the governance system of a not-for-profit organisation is grounded in the relationship between organisational mission and vision and operational practices. Within this context, practice must reflect the mission and vision in order to deliver effective social goods, and the validity of a governance system must be evaluated by the "contribution it makes to the community and stakeholders" (Berman 2006: 9). Many scholars (see Cornelius and Wallace 2010) have raised the concern of sustainability of contributions (economic and/or social) generated by the social responsibility practices of social enterprises and therefore emphasise that governance systems must be underpinned by fact, to evaluate the extent to which governance policy is interpreted in practice so as to create sustainable social impacts. This is where capabilities theory enters into the

attempt to develop a coherent sense of governance policy and practice in social enterprises.

3.4 Capabilities Theory

3.4.1 Introduction

Capabilities theory was developed by the foundational work of Amartya Sen (1992, 1999) and Martha Nussbaum (1999), deeply informed by Aristotelian philosophy, where the core characteristic of capabilities refers to an “individual’s freedom to achieve what they have reason to value” (Cornelius et al. 2008: 363) – namely, what individuals are effectively capable of doing and being (individuals’ effective states of doing and being are referred to by Sen as functioning). It is vital to refute the assertion that capabilities theory is either merely a reformulation of Aristotelian theories, or a simple Aristotelian approach; rather, it is an approach that recognises the most powerful conceptual connections to Aristotle’s perspective on ethics and economics (Van Staveren 2007), with special reference to human development and well-being (Nussbaum 1988, 1990). However, the roots of capabilities theory can be traced back to Aristotle’s reflection on virtue ethics, and that is why the capabilities approach could be defined as an ‘Aristotelian-informed’ approach, but this approach does entail its own peculiarities and links to other theories such as Rawls’s *Theory of justice* (1971), and his emphasis on ‘self-respect’, ‘social justice’ and access to primary goods has ‘deeply influenced’ the capabilities approach (Sen 1992: 8). Another connection can be seen to Karl Marx’s influence through the positive concepts of freedom and the understanding of human functioning (Sen 1999: 349).

One of the strengths of Sen's capabilities approach is rooted in a critical discussion of utilitarianism (which concentrates on happiness, pleasure and desire fulfilment) and that acknowledges the role of Rawls's *Theory of justice*. Sen's critique of utilitarianism echoes Rawls's criticism of the sacrificial dimension of utilitarianism – maximising global or relative utility does not take into account the social and economic inequalities that occur between individual and communities. This not only highlights the fact that social enterprises should take a balanced approach in their social provisions, but also echoes Foote's (2001) assertion that too much emphasis on external stakeholders may increase inequalities among internal stakeholders (such as employees).

Nussbaum raises a critical question: "what is it that makes human life human?" The significance of businesses' role (as an integral part of society) in human life has urged Nussbaum to explore the capabilities that a human being needs in order to lead a human life. To answer this question, she draws heavily on Aristotle's work in an effort to develop a definite list of central human capabilities including: 1) life, 2) bodily health, 3) bodily integrity, 4) senses, imagination and thought, 5) emotions, 6) practical reason, 7) affiliation, 8) other species, 9) play, and 10) political and material control over one's environment (Nussbaum 2000, 2003, 2005). She attempts to articulate the physical and psychological needs that constitute the important aspects of human life. In contrast to this, Sen (2005a: 158, cited in Giovanola 2009: 436) argues that the identification of central capabilities is context dependent and therefore he explicitly refrains from producing "a cemented list of capabilities that is seen as being absolutely complete ... and

totally fixed”, since “pure theory cannot freeze a list of capabilities for all societies for all time to come”. Sen argues that human beings are a complex entity whose nature is exhibited in their flourishing human capabilities, which vary from person to person. He also highlights that it is of paramount importance to involve ‘public reasoning’ and ‘democratic processes’ aimed at creating the space for shared evaluations (Sen 2005a). Nussbaum acknowledges Sen’s assertion and suggests that different ethical perspectives arising from different cultures and societies can always add a shared understanding of the core human capabilities (Nussbaum 1999). But she also defends her list of central capabilities as being the moral entitlements of every human being in living a human life. On the lines of Nussbaum, Giovanola (2009: 437) contends that shared experiences emerging from humanity in general may identify the fundamental capabilities, “but such capabilities are always developed in personal (and particular) ways”. This is a point particularly emphasised by the capabilities approach, which argues that “flourishing depends on the development of our capabilities, which are always personal” (Giovanola 2009: 497). From this perspective, human life may be considered as a set of interrelated types of functioning, and an overall evaluation of human life has to take the form of an assessment of these constitutive elements.

In this regard, the concept of functioning, Sen argues, constitutes the ‘beings’ and ‘doings’ an individual values in life. Sen further argues, from an ethical objectivity standpoint, that the “fulfilment of valuable functioning and the capability to create and enjoy this functioning has distinctly Aristotelian roots” (Sen 2006: 52). Functionings represent the multiple diverse aspects of life

that an individual values, and range from elementary ones, such as being nourished and being able to travel, to very complex ones, such as being able to take part in political decisions, being confident and having self-respect (Sen 1999: 75).

Nussbaum (1999) and Sen (1999) classify capabilities into three types. These are *basic capabilities* (reflecting the innate ability of individuals to function as human beings), which can be transformed into *internal capabilities* (with the support of the surrounding environment), and *combined capabilities*, defined as internal capabilities combined with suitable external institutional and material conditions for the exercise of the function. For example, an employee (paid or voluntary) may possess the knowledge (e.g. through education) and abilities to use his/her voice in the transformation of health and safety in the workplace but may be restricted in doing so because of the absence of an empowering culture (a consequence of the constraints placed on the workplace culture, or combined capabilities). Renouard (2011) takes the stance of relational anthropology and argues that combined capabilities are developed by individuals entering into relationships with others. This prevails in Sen's later works, where he focuses on identity of agents rather than economic agents, where human beings enhance their capabilities by performing actions in relationship with other human beings (Sen 1999, 2007). This also echoes Nussbaum's underpinning of human life such that individuals develop their combined capabilities by exercising their capacity to interact socially with other people. These considerations may be applied specifically to social enterprises, where concern arises as to what extent social enterprises practise HR (in a pragmatic as well as a moral way)

to encourage the enhancement of their employees' and clients' combined capabilities.

Sen's idea of individual freedom is also rooted in a critique of utilitarianism. Sen (1992) argues that in the capabilities approach freedom consists in the 'real opportunities' that individuals have to achieve what they value or have reason to value. He states that the utilitarian goal of maximising collective utility or well-being ignores the importance of individual freedom. His line of reasoning is compatible with CSR. Renouard (2011) further elucidates the capabilities approach by reflecting on the CSR practices of multinational companies (MNCs) in Nigeria. These MNCs have implemented programmes to improve the living conditions of people living around the site but have "developed paternalistic behaviour, without encouraging individuals' freedom to participate in such programs that are dependent on the goodwill of the company" (Renouard 2011: 87). The capabilities perspective on formulating CSR activities would emphasise that individuals living around the site should have been encouraged to participate in the development of such programmes to convert those resources into functionings that would enable them to develop their capabilities to lead a meaningful life. Therefore, according to Sen, freedom concerns 'real opportunities' and rejects situations where communities have imposed on them opportunities with minimal potential benefits that are mainly driven by organisations' obligatory and legal responsibilities. These considerations may be applied to social enterprises, where the emerging sector may ask to what extent social enterprises are concerned with growth and development in terms of 'real opportunities' or 'real functionings' of employees and clients as an important feature of their

formal and informal HR practices. Conversion of real opportunities into functionings is influenced by many factors, including personal, social and environmental factors. To achieve conversion, Cornelius et al. (2008: 364) argues, from the capabilities perspective CSR needs to be configured with the HR policies and practices of social enterprises. The underlying assumption of such assertions is that it should not be taken for granted that providing jobs, economic goods and services to employees and clients leads to enhancement of their capabilities.

3.4.2 The Capabilities Approach and Business Practice

Human capabilities theory has emerged as an important framework to measure internal CSR activities in order to analyse the various social systems that promote workforce ethics (Cornelius et al. 2008). Human capabilities theory can serve as a platform for organising the workplace environment at social enterprises so that workforce capabilities flourish, which in turn helps to communicate internal CSR practices. The key to developing the firm as a whole in terms of its CSR provision is to create a balance between internal CSR – promoting employees' well-being and development in the workplace (Vogt 2005) – and providing financial investment targeted towards the local community as part of external CSR (Cornelius et al. 2008).

Gardner et al. (2005) argue that one of the true marks of excellence among business leaders is not just building the company's future in terms of the corporation and profit but also focusing on its impacts on the society in which it operates. Through various academic studies, the EU has recognised the importance of human well-being as a fundamental requirement in economic

development. Csikszentmihalyi (2003) believes that “fundamentally, business exists to enhance human well-being” and one of the ways of doing this is to indulge in a moral approach to business practices by investing in programmes that maximise employee capabilities through their work.

A manager’s moral duty is to help his/her employees to learn, grow and develop. A manager should create a ‘flow’ environment in the workplace. In order to create this ‘flow’ environment, a manager needs to create a workplace that is highly exciting for his/her employees, where enjoyment becomes a fundamental part of getting tasks done. Vogt (2005: 114) defines ‘flow’ as an “experience to gain by engaging in a rich, complex task that stretches the limits of our abilities without overwhelming them”. In order to respond to internal CSR, an ideal social enterprise should develop organisational culture, policy and practice (Cornelius and Gagnon 2004) in a way that facilitates a shift from employees’ internal capabilities to combined capabilities. Once this is achieved, the ‘flow’ will be developed persuasively and employee capabilities will flourish. Bertland (2009) establishes a link between capabilities theory and virtue ethics in business organisations, where managers, as organisational agents, and having virtuous character, enable a flow environment in which aspirations are activated (innate capabilities). In this environment, employees’ psychological and physical needs alike are met to enhance their capabilities. Vogt (2005: 119) reflects on Csikszentmihalyi’s (2003) work and delineates remarkable positive congruence with Csikszentmihalyi’s recommendation regarding workplace conditions that optimise flow as well as enhancing employees’ abilities to exercise their different human capabilities; for example, “empowering

workers to accomplish tasks independently is not only conducive to flow; it is also key to the development of a number of human capabilities”.

One might argue whether or not an organisation should create a flow environment to develop the sorts of capabilities outlined by Nussbaum.

Bertland (2009) states that an organisation where employees’ suggestions for decision-making are discouraged, due to the pervading attitude of managers, is acting immorally according to the capabilities approach perspective. This act or policy of the organisation does not help to create a ‘flow’ environment and employees are not encouraged to develop their capabilities by participating in decision-making. On this point, Stack and Burlingham’s *The great game of business* (1992) shows some useful insights in regard to employees’ participation. It can be clearly recognised how Stack created a ‘flow’ environment in his organisation by encouraging all his employees to participate in decision-making and do whatever they could to win. Stack became really successful by adopting this business strategy; although the business was successful, the point is, however, that it is the environment that helps employees develop their capabilities. This is also in line with Nussbaum’s assertion that “developing capabilities is grounded in [the] free choice” (Bertland 2009: 29) that an individual enjoys while working in the ‘flow’ environment. Applied to social enterprises, this point allows us to ask if and how social enterprises enable an empowerment culture where a flow environment supports employees to develop their internal capabilities.

3.5 Conclusion

Economic and ethical perspectives seem hard to neglect or treat separately in developing an understanding of CSR, and this is why many philosophers and theologians have strongly emphasised the role of these two forces in society; they have referred to these forces as material (economic) and spiritual (ethical). This is in line with Mofid's (2005: 8) reasoning that "physical wealth must go hand in hand with spiritual, moral and ethical wealth".

Neoliberalism is an economic philosophy that tends to see the world in terms of market metaphors and, further, asserts that the world is fiercely competitive. This is an economic philosophy that tends to focus on individualism, selfishness, consumerism, profit maximisation and greed. This philosophy tends to incline more towards a utilitarian conception of maximising shareholders' value and seems incompatible with moral philosophies such as virtue ethics and the capabilities approach, which focus on the well-being of society. In contrast to the latter view, the emphasis of the utilitarian perspective on CSR in economic growth shows some relativist justification; as Renouard (2011: 86–87) puts it, private vices make public virtues:

"That is to say the economic growth is due to the expense of such wealthy shareholders who behave in morally contestable ways, but these same people are useful to society through their habits of consumption which provide employment to the poorer members of the working class."

Moral philosophies that have contributed to the understanding of CSR rely on the social-constructivist approach, giving rise to create the meaning of under researched social phenomena, and the use of qualitative research methodologies such as hermeneutics and case studies. In regard to the

ethical philosophical underpinning of CSR based on the interpretation and understanding of ancient literatures and religious thought, various ethicist philosophers such as Aristotle, Plato and Cicero have encouraged organisations to serve as institutions to provide the common good for all humans' well-being.

Much CSR research has been conducted in large organisations, whereas SMEs have only recently gained much attention as a key part of the economy. It can be argued that social enterprises have been discussed in the sparse literature through the lens of the SME perspective, based on the assumption that these sectors have some similarities. Therefore, policymakers have shown a strong interest in exporting SMEs' understanding and application of CSR to social enterprises; as Spence (1999) argues, policymakers have attempted to transfer large firms' CSR tools to SMEs by emphasising that such large firms' approaches to CSR are equally financially advantageous if applied in SMEs. However, it can be argued that the lack of empirical research evidence precludes this transfer to the social enterprise sector.

CSR is struggling to establish itself in the context of social enterprise because state which embeds the ethical perspective along with economic theories. Economic theory is scientific, it is claimed; it is a natural science because this theory studies human choice behaviour under resource constraints, whereas, in contrast to this view, ethical theories emphasise the justification of means to realise the given ends.

In order to create a balance, the theorists need to add virtue ethics, combined with capabilities theory, as a fully equal complement to other ethical and economic theories underpinning the concept of CSR. This is a field where philosophers need to debate with renewed vigour (Whetstone 2001). It is also acknowledged that virtue ethics has had a difficult time establishing its theoretical foundation because its philosophical nature has been perceived as inappropriate to the corporate world. This is in line with Greenwood's (2002: 265) argument that "if high ethics are too philosophic and unattainable, and mainstream 'how-to' are too scripted and theoretical, then what form of critique do we need?". The implication here is that the abstract nature of ethical theories raises the debate on CSR.

In general, the critical perspective sees HRM as rhetorical and manipulative, and thus as a tool for management to control the workers, rather than being a way for employees to fully develop and contribute in an organisation (Greenwood and Freeman 2011) or, put simply, rather than being a way for employees to enhance their capabilities by going through training and development programmes. This is the premise that this research asserts: that the ethical framework for HR practices can be evaluated by applying the capabilities approach in the context of social enterprises. This thesis adopts the principles of the capabilities approach to expose developments in management practice that threaten these rights. Ethical theories (deontological and consequentialist) underlying internal CSR in order to develop an evaluative framework for assessing the impact of ethical HRM practices tend to lack empirical research in the context of social enterprises. This premise also resonates with the assertions of scholars (see Henderson

1997; Legge 1998) that the abstract nature of ethical theories “does not provide solutions for improvement ... and only delineates limited focus on recommendations for change reflected through external observational framework” (cited in Cornelius and Gagnon 1999: 228). Bridging the gap between instrumental and ethical perspectives on internal CSR by applying capabilities approach theory can provide a framework that can be put into practice to evaluate the extent to which social enterprises actively engage in socially responsible HR practices towards their employees and clients.

This research strongly emphasises and links its prevalence with Elkington’s (2006: 521) assertion that “corporate governance is a paradigm that is obliged to answer the significant questions as what business is for and in whose interest companies should be run and how”, and that governance is inextricably linked with social responsibility. Much of the literature indicates that there is a lack of empirical work regarding the relationship between CSR and corporate governance. West (2009: 109) explores the work of various researchers (e.g. McDonnell 2002; Ryan 2005) on the convergence of corporate governance with CSR and suggests that “beneath the legal and economic structures of corporate governance lies a more basic set of values, attitudes, and/or beliefs”. This coincides with the statement of United States Supreme Court Justice Earl Warren that “the law floats on a sea of ethics” (quoted in Preston 2007: 21). This research intends to fill the void by examining the governance systems of social enterprises and their relationship with socially responsible practice, because unlike large organisations most small social enterprises are governed, controlled and run by the same people. Furthermore, the literature review highlights how CSR is

linked with corporate governance underpinned by ethical and economic theories. Indeed, it can be argued that in order to explore the social responsibility practices of SEs, it is prerequisite to understand their governance systems.

From the capabilities perspective, Vogt (2005) identifies the important markers of internal ethical practices, such as to what extent organisations actively invest in enhancing the capacity of the workforce (e.g. do they provide adequate health insurance to employees?). This includes questions in the context of social enterprises such as “Are their policies and practices in line with ethical and moral values to build the capacity of the workforce in order to enable their employees to enhance their capabilities?”. This is where the capabilities approach, according to Cornelius et al. (2008), should be deployed as a framework for governance systems to develop policies and practices that will enable social enterprises to build their employees’ and clients’ capabilities and embed instrumental freedoms.

The impact of different organisational forms on responsible business practice has not been systematically dealt with in existing research, although the research has still generated some valuable insights. The main thrust of the argument centres on the sustainability issue that most social enterprises encounter within the double bottom line. The caveat to this is that the generic description of ‘not-for-profit’ may appear negative in the context of social enterprises. The basis of social enterprises is that they aim to be managed in a business-like fashion by people who have a strong ideological commitment to delivering products or services that have social content and address community needs. Social enterprises may present a meeting point between

stewardship and the democratic model and Dart argues that this is because they “blur boundaries between not-for-profit and for-profit organisations” (2004: 415) because of their dual objectives of social action and financial sustainability. The argument is that social enterprises are required to generate a surplus that will assure their financial solvency and to effectively execute their social missions, and to do so in the long term they should become entrepreneurial. This entrepreneurial feature is certainly implicitly assumed, within the capabilities approach perspective, to involve finding ways to work on community development and well-being that go beyond just providing goods or services.

In the literature, economists and social scientists have formulated strict codes to restrict the unethical behaviour of managers (Vranceanu 2005). Vranceanu (2005: 101) further contends that “regulatory systems are important but may not suffice to bring out the desired outcome, as in Plato’s remark “Good people do not the need law to tell them to act responsibly, while bad people will find a way around the law””; this can be applied to recent corporate scandals that have caused social transgressions. This is where the capabilities approach helps to establish an understanding of CSR in the context of social enterprise based on the virtual ethics perspective, where much emphasis has been placed on character and human development. This is an argument that this research intends to explore.

From the capabilities perspective, social enterprises are as institutions whose primary objective is to provide goods or services to individuals to develop their functional capabilities at a level worthy of human dignity (Nussbaum 1999: 5). These are the practices that any social enterprise can enjoy if the

capabilities approach is used as a backbone to internal CSR. The capabilities approach has been considered a unique approach in the literature (Cornelius et al. 2008) to introduce into CSR in terms of questioning an organisation regarding fulfilment of their duties towards employees' development and well-being (Bertland 2008). For a social enterprise to act robustly internally it has to acknowledge that all its employees should have freedom to thrive, to develop their capabilities freely, and to live a life worthy of human dignity (Bertland 2008).

Indeed, it can be argued that a capabilities approach strongly based on virtue ethics can help managers to practise their activities to achieve employees' and clients' long-term objectives, in harmony with the core objectives of their own company. In the years to come, if social enterprises only focus on external issues and incline more towards the utilitarian perspective by focusing more on building relationships with financial resources, there may be more pressure on social enterprises regarding the justification for their existence because of a lack of balance between internal and external activities.

3.6 Research Gap

Sen maintains Rawls's stance regarding the social justice that must prevail in society, where individuals are free to do what they have reason to value. For Sen, the means to obtain a high quality of life are enhancement of capacity and action to enable the capabilities of individuals and communities to flourish. In the capabilities-oriented approach to CSR, the opportunities created to access goods must be accompanied by the aim of enhancing

recipients' capacity to utilise goods, which is an important measure of the effectiveness of CSR policies and action. Effective internal and external CSR policies and practices have the potential to make a positive contribution to all internal and external stakeholders. A central ethical concern here is the degree to which social enterprises respond to their ethical and moral obligations to in-house stakeholders compared to how tirelessly they work to generate economic benefits for external stakeholders (i.e. clients and community). This research echoes the work of Foote (2001), who identifies the ethical inconsistency that prevails in charity organisations where issues in regard to in-house stakeholders take second place and also bridges Cornelius et al.'s (2008) and Cornelius and Wallace's (2010) philosophical insights on developing CSR policies and practices, in particular regarding the sustainability of such policies and practices from a capabilities perspective. The review of literature indicates that development of CSR policies and action in third-sector organisations, and particularly in social enterprises, must focus on an increase in employees' and clients' capabilities as the major, normative concern. The emerging interest in CSR in social enterprises emanates from the government's assumption that the third sector, and particularly social enterprises, offers a way forward to reform civil society. From the review of literature, it has emerged that civil society reforms from the CSR perspective should consider three important factors: creation of economic and environmental goods, creation of social goods, and sustainability of economic, environmental and social goods.

A clearer governance agenda must appreciate the greater importance of community voice and agency as an important element of public democracy

(SEN 1992, 1999). This also implies that social enterprises must encourage the participation of employees and clients in governance systems to value their voice in the formation of effective CSR policies and practices. A strong link between corporate governance and CSR emerges within the context of social enterprises. This enables social enterprises to set up a clear vision regarding social requirements and in the process, therefore, be likely to ensure that the social agenda is achieved without compromising economic objectives.

CHAPTER 4: METHODOLOGY AND RESEARCH DESIGN

4.1 Introduction

In empirical research, the study of a phenomenon shapes choices concerning how that phenomenon should be explored. The evaluation and selection of choices range from the basic scientific position, i.e. the research philosophy, to methods to support the structuring and analysis of the data to be collected. In this chapter, the choice of approach is discussed in relation to the main objective of this thesis, which is to explore and develop a deeper understanding of CSR from the perspective of social enterprises. Furthermore, Robson (2002: 59) contends that exploratory research enables the researcher to explore “what is happening in the specific setting; to seek new insights; to ask questions and to assess the phenomena in a new light”. This research is based on the original work on the social construction of reality by Berger and Luckmann (1966) in order to better understand the views, processes and products of the social construction of CSR, specifically in the context of social enterprises. This study mainly focuses on how, in regard to social responsibility, ideologies are constructed by social actors within third-sector organisations, and social enterprises in particular. A point of departure is represented by the fact that reality cannot be known in itself and the existence of multiple realities constructed in the interactions between individual is asserted (Cojocaru and Cojocaru 2011).

Research on ethics in third-sector organisations, and particularly social enterprises, is an emerging field. As far as this research is concerned, the researcher attempted to enter the field without any preconceived ideas to prove or disprove. The aim was to explore how social enterprises perceive CSR and how they accommodate such policies and practices based on their social aims wherein creation of social impacts is seen as a driving force. This exploration was facilitated during the interaction between researcher and participants, where stories emerged from participants that showed the area of interest that they have in common with the researcher (Mills et al. 2006). This is also an area that requires the researcher to actively probe social enterprises in order to gain a better understanding of the nuances and complexity of participants' words (i.e. policies) and actions (i.e. practices). The focus of this research is to explore the extent to which social enterprises' social responsibility practices enable communities to develop their capabilities. It can be argued that when delving into the unknown area that became the research, constructivist grounded theory methodology provides the opportunity to explore the phenomenon within its natural setting.

It can also be argued that social enterprises are complex entities due to their nature and managerial processes, where the focus has to be placed on generating income by different means and also on being accountable for providing social/economic goods to their recipients. In a similar vein, Locke (2001: 75) argues that the constructivist approach to grounded theory is "particularly appropriate to researching managerial ... behaviour" as it captures the complexity of managerial processes. Furthermore, discussion on ethics in social enterprises is relatively limited and using constructivist

grounded theory can help generate theory appreciated by those involved in the study and thus minimise the risk of contamination by established theories.

4.2 Research Philosophy

In undertaking research, establishing the research philosophy's classification, such as ontological, and an epistemological framework is important to demonstrate the relevance to particular subject areas and disciplines. The interpretivist paradigm is focused on how knowledge is gained, or at least filtered, through social constructions such as language, consciousness and shared meaning within certain contexts (Klein and Myers 1999) and how meanings are constructed to constitute the understanding of social action (Burrell and Morgan 1979; Schwandt 1994). Interpretivists maintain that knowledge about reality can only be fully gained through subjective interpretation and interventions, where subjective interpretation is interested in "understanding of the way in which the individual creates, modifies, and interprets the world" (Burrell and Morgan 1979: 3). Thus, the researcher adopts an objective stance for identifying and understanding the subjective 'construction' of meanings of particular social actions and/or processes associated with participants through interaction and conversation (Schwandt 1994; Mason 2010). Objectivity in this sense refers to the researcher's ability and willingness to listen to and 'give voice' to participants' discourse (Strauss and Corbin 1998: 43).

4.3 Social-constructivism

The constructivism research paradigm states that reality cannot be known in itself, “asserting instead that realities are social constructions of mind, and that there exist as many such constructions as there are individuals” (Guba and Lincoln 1989: 43). It is the role of the inquirer to untie the strings in subjects’ social reality in order to understand, reconstruct, analyse and critique views in a way that leads to the construction of meaningful findings or outcomes (Guba and Lincoln 1989). This enables the researcher to construct knowledge about reality rather than constructing reality itself (Shadish 1995). Social-constructivism allows or admits multiple views of reality and basically argues that there is no way to determine which of these is privileged or true. Commenting on social-constructivism, Schwandt (1994: 125) says that the “constructivist approach to constructing reality has pluralistic and malleable characteristics – the former refers to multiple views of reality emerging from various symbols and language streams and the latter refers to the stretchable nature of reality often created by human agents to cater to their intentional needs”. It is to emphasises a claim about the nature of reality that does not exist independent of human mind and symbolic language.

4.3.1 The Role of Language in Social-constructivism

Social-constructivists refer to language as the core element that social actors use in the generation of social realities. Social-constructivism emanates from the assumption that the language social actors use to reflect on their experiences of understanding the world is a social artefact (Gergen 1985: 267). Language is seen as a set of social practices performed by social actors that can enable them to generate different social constructions of the

same intersubjective reality in the same circumstances. Language, therefore, becomes one's primary reference in constructing reality.

Given that social-constructivism assumes that reality is constructed based on given circumstances, it leads to an understanding that the generation of knowledge and the understanding of certain phenomena is highly contextual and situationally dependent. Unlike in other sectors, in the social enterprise sector the production of policies, reproduction of practices and crafting of discourses and management and accountability instruments are strongly tied to different views concerning the role of social enterprises in the community, State, community, and individuals are involved in generating and guaranteeing minimum levels of well-being at the individual and collective levels. The social-constructivist approach to studying this phenomenon can enable the researcher to focus on knowledge creation and upholds the role of individuals in constructing significant realities. Cojocaru and Sandu (2011) state that knowledge of reality is more of a human creation than a mirror of an independent reality. Thus, all knowledge claims, then, are a product of and contingent on a particular culture of shared artefacts with shared meanings.

The social-constructivist approach considers that the subject–object distinction is not productive and generative enough, maintaining a dualism that assumes that objects and subjects occupy physically and conceptually separable positions.

“Social constructivism abandons the illusion of the ontological fissure between subject and object and replaces it with an intersubjective reality. A social-constructivist believes in the idea that reality is constructed through an interactive process because people give

meaning to their own experiences through constant interaction with the environment.” (Van der Haar 2002: 26)

The constructivist approach can help in probing the intersubjective content of events and episodes in regard to social enterprises’ understanding of and behaviour in response to social issues.

Social-constructivists argue that the traditional approach to grounded theory emphasises that data leads to the understanding of reality – which is to say, this approach assumes the existence of an external reality. In contrast to this, Charmaz (2000: 55) contends that, unlike logical empiricists or positivists, those taking the social-constructivist approach to grounded theory do not privilege a particular view of external reality but have the tendency to generate deeper understanding on how external realities are constructed from the interactive process and its temporal cultural and structural context. Proponents seek to understand lived experiences from the perspective of those who live them. Schutz (1967: 59) contends that:

“ ... social actors understand realities by a series of common-sense constructs they have pre-selected and pre-interpreted from this world which they experience as the reality of their daily lives. It is these thought objects of theirs which determine their behaviour by motivating it. The thought objects constructed by the social scientist, in order to grasp this social reality, have to be founded on the thought objects constructed by the common-sense thinking of men [and women!], living their daily life within the social world.”

Actors construct their social realities based on categories that do not have built-in essences; instead, their meaning is constructed in and through interaction. The constructivist approach to inquiry suggests that the social world and its categories are not external to social actors but are built up and constituted in and through interaction (Charmaz 2006, 2008). Therefore, this research undertakes social-constructivism as an epistemological stance,

which allows engagement with the social world of social enterprise in trying to understand and construct the reality from the perspective of different stakeholders who experience or live with the phenomenon being studied.

4.3.2 Exploratory Research

Given the paucity of literature on CSR policies and practices in third-sector organisations in general, and in social enterprises in particular, an exploratory approach was taken to probe the current status of CSR and governance in social enterprises and provide 'actionable' results. It is a valuable approach intended to "generate nuances of an uncovered phenomenon; to seek new insights; to ask questions and to assess phenomena in a new light" (Robson 2002: 59). This, in combination with the overall epistemological approach, means the research focuses on understanding the sincere accounts of individuals presented in relation to the analysed phenomenon, by uncovering the patterns formed by their social actions and processes, where little is currently known. Therefore, the research focuses on how individuals view their social and ethical responsibilities to the clients they serve, and how their social actions and processes contribute to the development of their organisational social policies and ethical practices, including CSR, and are thus controlled and manifested by their governance systems. Hence, this research took the approach of engaging with these individuals in order to explore their experiences and opinions of being involved in social activities (Denzin and Lincoln 2003) and attempted to uncover the underlying patterns in the processes involved in the development and implementation of social policies and ethical practices, including CSR at the organisational level.

4.4 Interpretivism

Interpretive research views social reality as being constructed and the researcher becomes the explorer by which this reality is explored or revealed (Cavana et al. 2001). Hence, socially constructed knowledge requires an interpretive approach to inquiry; this renders its interpretation subjective and value-laden (Galal 2001). Interpretivism, by its nature, places the subject matter in its social context in order to develop understanding by “interpreting and reinterpreting the intentional and meaningful perspective behaviour of participants – including the researcher” (Smiths 1989: 85). Reality emerges neither from an objectivist external world nor the subjectivist mindset of a knower, but from the interactions between the former and the latter (Guba and Lincoln 1989), and therefore, in this constructive process, the researcher is highly dependent on the phenomenon being explored, which is highly situationally dependent (Smiths 1989). The researcher does not create a lens to see the independent existing reality, but, instead, contributes to the constructive process of developing an understanding of reality from the respondents’ perspective.

From an interpretivist perspective, the world is too complex to fully understand, and understanding the conditions shaping such complex reality within a particular context is deemed more important than generalising the understanding with the help of observable laws (Gray 2004). Hence, in interpreting the results the researcher places “emphasis on bringing such subjectivity to the fore, backed with qualitative arguments rather than statistical exactness” (Garcia and Quek 1997: 459). In order to understand the social phenomenon under study, it is essential to explore how individuals

view, experience and engage with this social reality. In line with social constructivism, interpretivist research assumes that “knowledge is gained, or at least filtered, through understanding motives, meanings, reasons, and other subjective experiences which are time and context bound” (Hudson and Ozanne 1988).

In essence, the researcher acts as an interpreter of the participants’ ‘constructions’ or interpretations of the social world, looking for patterns that help to describe and explain the social activities under consideration. Thus, the researcher and the participant are each at the centre of their own hermeneutic circle (Denzin and Lincoln 2003), where the researcher (and presumably also the participant) moves from a stage of pre-understanding to understanding, which then informs the next stage of pre-understanding/understanding, forming the hermeneutic spiral. Social-constructivism positions the researcher as an interpreter of a reconstruction of experience and meaning. The underlying value of the interpretivist approach to this research is that by placing people in their social context, there is a greater opportunity to understand the perceptions they have of their own practices (Hussey and Hussey 1997). By its nature, interpretivism promotes the value of qualitative data in pursuit of knowledge (Kaplan and Maxwell 1994).

Charmaz (2006) argues that constructivists acknowledge that their interpretation of the phenomenon studied is itself a construction. That is, the CSR in social enterprises is a phenomenon, and adopting a constructivist approach to grounded theory will enable researchers to construct a theory based on the ideas, interpretations and experiences of social enterprises. For

this reason, it is vital for the researcher to encounter the phenomenon in its natural setting, gain multi-layered and nuanced insider's views of it, and locate it in its web of new knowledge with pre-existing connections and constraints. The constructivist approach to grounded theories, as argued by Charmaz, is an approach that takes the interpretivist stance of constructing a theory from the fabric of interactions, both witnessed and lived (Charmaz 2006). As the respondents (social objects) attempt to generate meaning in social science, interpretation is influenced by the fact that social objects make decisions about their actions, which may be affected by personal experience as well as cultural and other situational contexts. To reach an understanding of how individuals perceive a certain reality, one must conduct in-depth interviews with those who actually live with or have directly experienced the phenomenon (Patton 2002).

4.4.1 Semi-structured Interview

Given the difficulty of understanding the meanings of participants, which are highly dependent on past events, interviews are useful opportunities to probe for clarification, deeper insights and the contextual influences on meanings people ascribe to their experience and how they perceive their setting in the world (Keats 2000; Patton 2002). This is a primary data-gathering instrument often used in qualitative studies to explore the complexities of large-scale social change (Gerson and Horowitz 2002) by allowing participants to think, speak and be heard, and it is well suited to in-depth and personal discussion. Thus, by talking to those involved in the development and implementation of social and ethical policies and practices, including CSR, in social enterprises, it is possible to arrive at a rich understanding of the dynamics of processes

occurring at the organisational level and the meanings ascribed at the individual level.

A semi-structured qualitative interviewing approach is also consistent with interpretative, exploratory research, as it allows one to enter into novel areas to seek rich, in-depth data in the form of stories, examples and accounts of how individuals perceive the particular situations they are facing, making sense of their personal and social worlds, which can be used to understand social phenomena (Rubin and Rubin 1995). The ways CSR policies and practices are developed and implemented throughout an organisation, and factors influencing these processes, attitudes and behaviours, are based on the beliefs and perceptions of those who are involved in the processes. The constructivist approach to qualitative semi-structured interviews will enable the researcher to gather detailed accounts of perceptions and understandings of the participants' social worlds, rather than prematurely making more general claims (Charmaz 2006). Therefore, data will be acquired in the form of composite social constructions by the researcher, along with the socially constructed views of those who are being studied (Walsham 1995).

The use of semi-structured interviews in the constructivist approach to grounded theory focuses on "how a sense of social order is created through talk and interaction" (Gubrium and Holstein 1997). The constructivist approach to interviews sees interviewer and interviewee as 'conversational partners' (Rubin and Rubin 1995) in a process of exploring the meanings ascribed to how social activities are locally organised and conducted (Gubrium and Holstein 1997). They argue that many factors, such as

relationship with the interviewee, the perceptions formed by the interviewee, and the context and nature of the phenomenon explored, play a vital role in developing the meanings of the socially developed subject. Thus, all the social dynamics exchanges within the interaction between interviewer and interviewee have a greater significance in the interpretive procedure, where the focus is placed on achieving meanings (Harris 2003). Thus, the interviewer and interviewee both collaborate to facilitate a meeting point of interactional characters in order to generate the narrative meanings that ostensibly reside within interaction (Manning 1967; Silverman 1993). This provides the first-order constructs of the composite, which are the artefacts presented by the subject of the research, from which the second-order constructs may be obtained – that is, the researcher's interpretation of first-order constructs in terms of generating theories regarding the phenomenon under study (Mills et al. 2006).

4.4.2 Use of Narratives in Interviews

Many researchers argue that as well as serving the purpose of gathering data, the narrative accounts of respondents' lives and experiences that are collected during interviews are also “a site of, and occasion for, producing reportable knowledge itself” (Holstein and Gubrium 1995: 68). They argue that such accounts would enable the researcher to uncover important insights into some of the power differentials inherent in the research enterprise and provide good evidence on the everyday lives of research subjects. The interview process is seen as an arena where meanings are actively and collaboratively constructed, instead of meanings being constructed based purely on selected questions and respondents' replies.

This statement follows the views of Holstein and Gubrium (1997: 114), according to whom “respondents are not so much repositories of knowledge – treasuries of information awaiting excavation, so to speak – as they are constructors of knowledge in collaboration with interviewers”. Both interviewer and respondent are required to actively participate and collaborate in creating the narrative discourse of the interview.

Since those managing social enterprises are assumed not to be familiar with the rhetorical terms used in the academic arena, their views on and experiences of social reality would be best explored by *taking a storytelling approach* during the interviews (Kvale 1996; Arksey and Knight 1999). Qualitative interviews must be framed using everyday language rather than sociological language. If the questions use simple language that clearly relates to respondents’ life experiences, this will enable the researcher to elicit detailed narratives from them (Chase 2003). The strategy of using a storytelling approach in interviews will cause the researcher to be exposed to some analogies that in turn will enable the researcher to keep as close as possible to the respondents’ level and language (Fontana and Frey 1994). By adjusting the level of conversation with respondents, the researcher can stimulate the respondents’ interest in exposing their view of the social phenomenon (i.e. social responsibility), develop an understanding of their practices on an organisational level as well as at individual level, and preserve their viewpoint of the phenomenon by using the respondents’ everyday language (Fontana and Frey 1994). The careful use of language in a storytelling approach to interview questions can enable interviewees to talk

about specific times and situations, rather than being asked about their lives over a long period of time (Hollway and Jefferson 2000).

The semi-structured interview technique, under the constructivist approach to grounded theory, allows the researcher to approach the problem situation with an open mind and allows the evidence accumulated to dictate the “emerging theoretical agenda”. Generic literature on CSR, governance and social enterprises was used to design many of the questions to acquire qualitative responses. The data gathered from each interaction with participants determined who to talk to next or where to go for information, and thus the data was allowed to determine the next set of questions to be asked. The end result was to generate a theory that could develop a better understanding of the discussion on ethics in the context of social enterprises. The aim is not theory building as a perfected product [but an] ever-developing entity (Glaser and Strauss 1967: 32).

4.4.3 Purposive Sampling

Semi-structured interviews were conducted with owner-managers of social enterprises based on their active involvement in governance systems to develop ethical and social policies and practices. This group of interview participants was targeted based on the requirement that potential participants have a solid understanding of the processes used in developing and implementing social policies and ethical practices. The phenomenon under exploration was itself a rare one and therefore defines the boundaries of the relevant sample. A precise definition of owner-manager may remain elusive given the context of social enterprises. Hence for the purpose of this thesis, ‘owner-manager’ is defined as the key, guiding individual within a social

enterprise; one that has some ownership within the organisation. This does not necessarily mean share ownership, but they could be one that runs the business, one that founded the business or one that is the owner of the business's idea(s) of delivering social mission. This is the individual who provides clear goals for the organisation and is in charge of the means of social and economic delivery.

Purposive sampling was deployed to identify the potential interview participants to whom the research question is significant, and therefore a database strategy was used to identify social enterprises in the Bradford area of England. The District Index of Voluntary Associations (hereafter, DIVA) database was used to create a list of social enterprises that were targeted to conduct semi-structured interviews (see Appendix 1 for the list of interview questions). The DIVA database is a web directory maintained by Bradford Libraries that provides information on voluntary and community sector groups operating across the Bradford District, including: Bingley, City of Bradford, Ilkley, Keighley, Baildon and Shipley. The sampling process required the identification of small social enterprises that are registered as CICs and operate within the most deprived areas of Bradford, based on the index of multiple deprivations² (IMD). The next step involved filtering and randomly selecting social enterprises from the most deprived areas of Bradford District such as BD2, BD4, BD5, BD8, and BD21 (Keighley). The website link and contact details of selected social enterprises based in these areas of known deprivation were then used to further identify the type of social provision provided by these organisations. The sample was also restricted to small

² Index of Multiple Deprivation provides information related to indices of deprivation and published by the Department of Communities and local Government.

social enterprises that employ fewer than 20 employees (paid or volunteers), and this information was gained by contacting organisations via phone call.

In order to get access to the organisations for interviews, a search was conducted for the contact details of the owner-managers responsible for managing the operations of the social enterprises and by default having greater involvement in developing social and ethical approaches, including organisations' CSR policies and practices. It is worth noting that the individuals were part of the local community and therefore had good exposure to local settings. The process involved contacting the organisation and asking the receptionist for the name and/or speaking to the relevant person if they are available. Once permission was granted over the phone, an email was forwarded explaining the purpose of the interview and requesting a time, date and place for the interview to be conducted.

The second strategy for identifying interview participants was talking to well-connected individuals to ask for recommendations or finding more closely defined social enterprises in the area and people with appropriate experience. A snowball sampling approach (Saunders et al. 2007) was then adopted, where interviewees were asked to recommend other possible interview candidates. Therefore, through such recommendations some individuals were approached in person to seek their approval and discuss the nature of the study. Such a procedure is not unusual with hard-to-access groups. Owner-managers of social enterprises, as the focus of semi-structured interviews, helped the researcher to obtain detailed information on how social constructions and shared meanings about governance and social responsibility emerge in, and make sense of, social enterprises. Within the

context of this research, other stakeholders of the firm are assumed not to have the same opinions as owner-managers due to the owner-managers continuous involvement in all aspects of the organisation.

4.4.4 Data Collection Strategy

To conduct semi-structured interviews (see Appendix 1 for list of interview questions), 40 potential participants were targeted and, through snowballing, at least 18 interviews were planned for this study to acquire extensive data. Due to time constraints and lack of availability of the core participants, 12 extensive face-to-face interviews were conducted with different social enterprises (see Table 2 below citing information about selected organisations). After concluding these interviews it was apparent that no new themes appeared to be emerging.

Organisations	Type of legal form	Year Founded	Type of social activity	Interview Numbering	Interviewee Name	Duration of Interview
SE1	Charity to CIC	2001	Community Development	Interview 1	Alex	25 mins
SE2	Charity to CIC	1994	Community Development and Mental Health	Interview 2	Sara	25 mins
SE3	Charity to CIC	2009	Mental and Physical Health Wellbeing	Interview 3	Colin	36 mins
SE4	CIC	2010	Community and Regeneration Projects	Interview 4	Mario	40 mins
SE5	Charity to CIC	2000	Neighbourhood Management	Interview 5	John	40 mins
SE6	CIC	2009	Environment and Community Development	Interview 6	Susan	40 mins
SE7	CIC	2008	Public Health and Wellbeing	Interview 7	Kim	45 mins
SE8	CIC	1990	Community Development Projects	Interview 8	Rasheed	45 mins
SE9	CIC	2009	Regeneration and Neighbourhood Management Projects	Interview 9	Razia	35 mins
SE10	Charity to CIC	1998	Community Medical Wellbeing	Interview 10	Linda	42 mins
SE11	Charity to CIC	1999	Youth and Community Development	Interview 11	Shabana	77 mins
SE12	Charity to CIC	1993	Youth Health and Wellbeing	Interview 12	Mike	35 mins

Table 2: Description of social organisations

Interviews were conducted from June to August 2015. All interviews were digitally-recorded and transcribed afterwards. Three follow-up telephone interviews were also conducted with some of the participants during the data analysis process. The questions asked during the follow-up interviews were based on emerging themes and required more clarification. Most social enterprises are small and employ low numbers of people, and also taking the time constraints into consideration, this number of semi-structured interviews was deemed to be feasible given the nature of the study. In addition to the interviews, some respondents offered some archival materials and documents in support of their arguments, purely in order to provide additional support to the researcher.

The interviews were conducted in a warm, friendly and supportive environment that enabled issues raised to be fully probed. Within the context of small social enterprises, many factors such as the benevolent nature of their enterprises, the role of social entrepreneurs' personal ethics, and first-hand experiences of managing activities appeared to play a significant role, and this led to detailed accounts of participants' responses being gathered through probing questions. It was considered that the responses were genuine due to the participants being the founders of their organisations and having major stakes in their organisational activities, in contrast to those who perform representative duties in their organisations.

4.4.5 Reliability/Validity

Reliability refers to the extent to which the results that emerge from data collection techniques or analysis processes yield consistency and can be generalised (Easterby-Smith et al. 2008: 109). Validity is concerned with the

results: whether they measure what they intended to measure or to what extent the research results are truthful (Kirk and Miller 1986). In qualitative research with diverse paradigms, the definition of reliability resonates with the efforts and ability of “the researcher as the instrument” to construct reliable interpretations of the data collected (Patton 2002: 14). Therefore, one way of improving reliability in qualitative research is by ensuring as systematic a recording of the events as possible, as soon as possible after the event. A detailed reflection on each interview was written up afterwards; it was also compared with interview transcriptions as well as data analysis. Embodied in this practice is Patton’s (2002) idea of the researcher’s ability and efforts to enhance the reliability of results.

In a relation to the various issues related to reliability, such as subject bias (Saunders et al. 2007), the social entrepreneurs who participated in this research were very friendly and open to all types of questions, giving genuine responses, which were recorded (using a digital recorder) and carefully transcribed using accepted transcription protocols. The long extracts are presented in the findings chapter to give readers improved access to raw data (Silverman 2001). This research has focused on studying a CSR phenomenon from the perspective of social enterprises operating in the area of West Yorkshire, UK, and hence generalisability of the findings is not an expected attribute of this particular research, given the paucity of literature on this topic derived from empirical research.

In order to qualify and measure the validity of this qualitative research, the quality and trustworthiness approach was used as a means of establishing validity and enabling the degree of confidence in the findings (Creswell 2009:

191) to be more defensible. In order to enhance the validity of this research by eliminating bias and enhancing trustworthiness, the participants were not only assured of confidentiality for both themselves and their enterprises, but also assured that the purpose of this research was to understand how social enterprises foresee and practise their roles and responsibilities, including CSR, in reforming civil society as part of their organisational ethos. It is certain that there were still some attributes of participant bias impacting the responses given in the interviews. Hence, all the interviews conducted were recorded with a digital recorder and transcribed by the researcher in order to provide further assurance to the participants and enhance the reliability and validity of the findings.

4.5 Data Analysis

CSR is a concept that is treated as a social entity and is constructed based on the ideas, beliefs and actions (i.e. policies and practices) of social actors (i.e. people managing social enterprises). Focusing on data production and interpretation in terms of seeking meaning, Charmaz (1995b) emphasises welcoming multiple versions of meanings of given data and therefore recommends adopting a constructivist approach to qualitative data analysis. Charmaz exhorts researchers to go beyond the surface in seeking meanings in the given data, searching for and questioning tacit meanings about respondents' values, beliefs, thoughts and ideologies (Charmaz 1995b). An underlying assumption is that the "data production is always contingent on interaction between researcher and participants, and therefore the meanings that the researcher observes and defines" (Charmaz 1995b: 35). Given the

position of researchers as co-producers of data, Charmaz (1995b) exhorts them “to add ... viewee’s words, nonverbal cues, description of situation, viewee’s perception of how interview went”, this can further enrich the data. This was practised by writing a detailed reflection on each interview covering the aspects highlighted by Charmaz (1995b). Harris (2003) contends that the constructivist approach requires a much greater sensitivity to the interpretive procedures through which meanings are achieved within the interaction between interviewer and interviewee, and later the intensive interaction between data and interpreter. This research adopts a constructivist approach to grounded theory to analyse the interview text because, according to Strauss and Corbin (1998), grounded theorising is well suited to capturing the interpretive experiences of social enterprises’ owner-managers and developing theoretical prepositions from them.

Treatment of data and its analytical outcomes is the main theme of Charmaz’s (2000) explanation of how researchers undertake studies using constructivist grounded theory. The constructivist approach to grounded theory requires that there is an element of engagement with the interviewees and their comments in an iterative and reflexive manner, in order to craft meaning as it ‘emerges’ from the interview process (Charmaz 2006). All interviews were digitally recorded and transcribed by the researcher for data analysis. Once the interview data was transcribed, the recording was listened to while reading the transcription in order to ensure accuracy during interpretation. The recording of interviews has a significant place in qualitative interpretative research because of its ability to capture all important nuances and avoid reliance on the gist of participants’ responses

(Hermanowicz 2002). It has significance for this research, where the interview is understood as a site for the production of meanings and the role of the interviewer is to be analysed alongside the accounts provided by the interviewee; it is therefore important to capture the details of the interaction. Given that the experiences that construct each individual's reality have patterns, grounded theory attempts to make sense of them. Data analysis is the process of bringing order, structure and meaning to the mass of collected data (Marshall and Rossman 1989: 112). The analysis process started with transcribing, coding and categorising the data into different sets and then comparing them in order to identify trails that led to answers to the research questions. Therefore, coding and thematic analysis were used to identify the constructs and concepts grounded in textual data to build theory (Strauss and Corbin 1998). Within interpretive research, the process of building on a good theory yielded from grounded theory is typically based on the iterative process of moving back and forth from data to the construction of themes (Rubin and Rubin 1995; Pettigrew 2000). This iterative process requires constant comparison across types of evidence to control the conceptual level and scope of the emerging theory (Rowlands 2005).

A traditional approach of colour-coding line by line the data, statements or small extracts from interview transcripts was adopted, as opposed to the use of any software such as NVivo (see Appendix 2 for a small sample). This approach was adopted based on the nature of phenomenon explored solely emerging from the discourse of participants, and hence manually reading scripts as well as listening to digital recordings enabled the researcher to become immersed in the data. The first step in the analysis process was

applying the open coding to the data. The aim was to identify the data that appeared consistently, placing emphasis on data that captured the experiences and views of social entrepreneurs and how certain actions were taken, informed by certain motivational drivers. Brief memos were written to describe the code and its association with particular sets of data from interview transcripts. Many codes, such as humanistic behaviour, caring treatment, need identification, perceptual view and many more related to each research objective, were identified, which enabled the generation of a first-order concept. A file was created to record all the relevant conceptual codes in reference to quotations, statements and also memos for the purpose of easy and manageable access due to the intensive manual data analysis process. The next step was actively seeking categories emerging from conceptual codes, and this was conducted by constantly going back and forth within the data and comparing the differences and similarities to see if the statements corresponded to emerging categories, and also relocating and eliminating some statements that had contradictory representations while also naming and renaming categories and conducting advanced memo writing (Charmaz 2006). This inductive, interactive, comparative and iterative method of data analysis enabled the identification of emergent themes while avoiding premature analysis biases and thereby enhanced the interpretations and led the confident analysis process (Suddaby 2006; Golden-Biddle and Locke 2007). The next step was ordering the memos and grouping the categories in order to develop meaningful theme abstraction.

CHAPTER 5: FINDINGS

5.1 Introduction

The different types of social enterprises serving the diverse needs of deprived communities tend to view their role as part of their social responsibility, which encapsulates both their organisational ethos and the needs they serve. A shift from relying on politicians championing social causes in communities towards social entrepreneurship has peaked due to the availability of more close connections, sharing and working together to provide solutions that can lead to the reform of civic society.

It is hard to find a unified definition of civil society; it is a concept that crops up more and more among those concerned with the changing needs and demands of civilised society. There are many aspects associated with civil society and these aspects can arguably be very broad and new in nature due to changes taking place around the globe and most importantly the dramatic impacts of such changes on people's lives. The core values of a civil society revolve around the *people*, whereby people can flourish and develop and are able to function fully and become an active part of the dynamics of civil society. According to the BBC, "A civil society is a public space between the state, the market and the ordinary household, in which people can debate and tackle action" (BBC 2001). By this definition, civil society is based on three pillars: state, market and public, and the role of social enterprises is seen as being an enabler by upholding these pillars.

One of the most important debates on reforming civil society concerns the nature of the role and responsibilities of third-sector organisations, and particularly social enterprises, in reforming civic society. This debate revolves around the shift from providing development aid, or providing relief during difficulties, to enabling communities to become cohesive, to function, develop and flourish and become self-sustained. A debate that is currently intense among the state, academics and practitioners concerns the suggestion that the main part of their collaborative work is to reform civil society and enable it to become fully functional. In view of civil society reforms and the roles and responsibilities played by third-sector organisations, and particularly social enterprises, as part of their CSR agenda, and how governance systems work to enact social policies and ethical practices, this research presents the findings purely from the perspective of social enterprises' owner-managers.

The advantage of this research is that the respondents do not belong to large social enterprises where people in senior positions tend to present their activities, and particularly their CSR activities, in the best light possible. This could possibly have led to difficulty in distinguishing between presentational and real operational data. In contrast to this, respondents from small social organisations were found to be much more friendly and eager to discuss how they practise CSR. Moreover, it was observed that these participants found the experience of being interviewed to be a process of representing their views in a much more relaxed setting and in a context related to their passion.

The purpose of this chapter is to present the findings from the analysis of the interviews with social entrepreneurs who were the owner-managers of their

social enterprises. Each participant had a major role in developing and implementing social policies and ethical practices, including CSR, and participated in the governance system to set the direction of and control organisational social performance. As mentioned in the previous chapter regarding data analysis, a lot of narratives and excerpts are taken from interview transcripts to give readers the refined versions of the overview of the themes discussed in this chapter.

5.2 Social Enterprises' View of Social Responsibility

Organisations' broader views of their social responsibility often derive from their virtue obligations to fulfil the social and economic needs of society (Devinney 2009). Devinney (2009) further argues that organisations attach different meanings to 'social' and 'responsibility' and tend to operationalise these meanings through their organisational CSR practices. It was observed that respondents lacked any set definition of social responsibility in the pursuit of their social policies and practices. All the actions, community-based projects, training and development programmes and many other initiatives had been delivered with the aim of creating social benefits for communities. Razia illustrated how her organisational CSR activities were reflects in the sort of community-based projects that were delivered for community development. Her organisation primarily focused on delivering community-based projects in the areas of health, enterprise support and employment. Hence, these were the main areas identified by the respondent and thus the support provided by them is a representation of their social responsibility.

In contrast, Mario indicated that he “*wouldn’t particularly work to any set definition of social benefits*” because he strongly and passionately believes in “*putting back into the communities*”. What he indicated from an organisational perspective is that, for a business to uphold its legitimacy, it is apparently more important to undertake actions that create value in the communities rather than sticking to set criteria. He stated that:

“I believe in what we do and I am trying to make sure I help a lot of people along the way, that’s very strongly embedded in what I do, so it’s about action rather than trying to work to a set of criteria”.
(Interview 4)

Moreover, the above quote was also echoed by other respondents based on the argument that, being small in nature, social enterprises must be capable of adopting many but similar activities to create social benefits for communities. The justification provided was that working to narrow guidelines about social benefits restricts organisations’ flexibility to adapt unwritten moral and ethical guidelines, especially when implementing a CSR agenda, and that in fact it slows down organisational progress. But it was also emphasised that whatever the business is planning to do, it must keep the people in mind, in terms of benefiting them. As Mario stated, “*running a business for genuine reasons of helping people is far more important than reporting on something that the business has to do*”.

Another respondent claimed that how users’ needs were identified, coupled with their inputs to develop a project, demonstrates her organisational approach of exhibiting social responsibility. The focus was very much on identifying the needs of particular groups within the deprived community and then aligning them with the organisational aim, which was referred to as the

driving force behind an organisation's socially responsible engagement.

Shabana responded on the question of referring to any guidelines that embed their view of social responsibility by saying that:

"...it is against the articles or main aim within the articles and we follow that and it marries into what the young people are saying they want – maybe that, really, in a nutshell". (Interview 11)

Razia demonstrated how improving clients' quality of life had been regarded as a driving motivation in her organisation's social responsibility. She argued that all the project work was planned to achieve better outcomes under the umbrella of quality of life. Some of the projects manifesting social responsibility include work conducted to eliminate isolation and loneliness in disadvantaged groups in the community. Establishing a platform and reaching out to these people to encourage the active use of such services can make a direct contribution to their social well-being. She implied that working towards the broader spectrum of well-being was part of exhibiting social responsibility:

"... what do I understand by well-being, is basically improving somebody's quality of life via a certain, um, certain aspect – when I say well-being, for example, isolation, loneliness, that's one thing, if somebody is not connected to any service, is living very lonely and isolated and does not understand that in their locality there are places they can approach to eliminate that loneliness to meet like-minded people – but obviously they are not aware – my job is to find these people via door knocking, leaflet dropping, word of mouth, radio – everything, every sort of media I can explore to reach out to these types of people – so that's just one angle of well-being". (Interview 9)

Interestingly, all the respondents emphasised how being situated within the heart of the community best enabled them to establish organisational ethos that are aligned with communities' values. The main defining

approach that comes through in all the responses was the intention of benefiting the community.

5.2.1 Need-driven Perceptions of Social Practices

The majority³ of social enterprises have emerged out of the communities they serve, and particularly in response to a need. Many of the social entrepreneurs interviewed identified various community needs as the basis for their businesses' social responsibility agendas. Identification of this needs gap was also often referred to throughout their expressions of business existence and social responsibility.

The respondents based their perception of social responsibility on a generic term used in the literature, '*giving something back*', and all the actions are performed with the view of benefiting the community to some extent. The most common expression respondents used when referring to their view of social responsibility was '*need identification*' – this was the basis of their understanding of social responsibility. Identifying needs should be the starting point of articulating organisational policies and practices. In this regard, how organisations screen beneficiaries and their real needs should be a stepping stone for them to develop projects. This is a connection that emphasises that what people actually need and what a business can do for them must be aligned. Rather than creating a need, based on the view through the organisational lens, one must target existing needs and plan accordingly. Respondents argued that most of the time what really guides organisational practices is their personal interpretation of need identification.

³ A table in Appendix 3 explains the use of terms such as 'majority', 'most', 'a few', and 'some' in this thesis.

Such personal interpretations emerge from the personal values that an organisation inherits from its founder or those leading the organisation towards its goals. Respondents indicated the personal values guiding their organisations to identify what is needed in communities and the ways whatever is required can best be delivered. What seemed to determine respondents' decisions is the intuitive feelings and experiences that help them to see the issues and formulate the solutions. In response to the question about whether he used any soft guidelines for his organisational actions, one respondent mentioned *listening to his heart*.

The respondents noted that most activities intended to create social benefits do not follow any guidelines. Many “needs” exist in deprived societies and a true social enterprise must address the needs of a specific group or community and create innovative solutions to such needs. For example, Mario identified the need to provide support to offenders in open prisons. He found that these people experience “*extreme difficulty in getting a job due to having a criminal record*”. His idea of providing social benefits to these offenders is to provide help and support in order to mentor them to begin self-employment. His project of working with offenders developed based on the criticism he made of the current development support system provided by the educational bodies as “*nowhere near good enough*”. Therefore, his notion of social benefits is very much dictated by what is truly needed by the beneficiaries and how an organisation can best fit its capabilities to benefiting those beneficiaries. The respondent referred to using his personal experiences and intuitive feelings to plan projects to create social benefits for beneficiaries.

5.2.1.1 Evaluating Need Identification

Screening the beneficiaries to assess their needs was referred to as critical to developing a sound project that benefits the business as well as the beneficiaries. For example, Mario argued that a project aiming to create social benefits tends to fail if it does not carry out extensive screening of customers' needs. Providing support to develop individual volunteers is one of the many projects he has undertaken where the focus was placed on identifying individual needs first and then matching them with the support available. Mike described his way of working as follows:

“ ... so what I do is, I offer work placements for volunteers all year around rather than say I've got set tasks that need to be taken and advertise those tasks – I don't do it that way, which is highly unusual, I advertise an opportunity to volunteer, I meet with people, I work, talk through what they have done in the past, what they want to do in the future, where they want to go to, and based on that I am gonna match them on two things, that is, beneficial for us as a business to take them on, but make sure it is beneficial for them in their future, and then we work in partnerships”. (Interview 12)

He claimed that beneficiaries tend to enjoy working with his organisation based on this style of work, where their capabilities are challenged and developed further. Implicitly, he also said that people were capable of and passionate about changing their lives and doing something viable to sustain themselves. The aim of screening people was to find out their current level of capabilities and then plan to transform these capabilities to the next level.

5.2.2 Lack of Social Cohesiveness

Another expression commonly used by respondents when referring to their view of social responsibility was “*community disengagement*”; this leads to a lack of social cohesiveness. To build a just, humane and flourishing society – as envisaged by many social entrepreneurs – social cohesiveness needs to

be injected into the roots of society. It has emerged through the responses of many social entrepreneurs that most of their activities are planned and implemented with the aim of bringing communities closer. For example, Susan highlighted the existence of strong connections between nature and the physical and mental health of human beings:

*“Because I think we are getting to a place where as a society we are disconnected from nature, you think about history, ancient history, for millions of years we have lived in close connection with nature, the time in which we have become industrialised is quite short, and we had to cope with that disconnection in a short space of time and there is quite a lot of evidence to suggest that there is a link between this disassociation with nature and decline in physical and mental health ... people who spend some time each day in nature, whether it’s a park or woodland, have improved mental health and they are able to cope with negative cycles of thoughts – so it’s all about connecting people back with nature on a regular basis to feel good”.
(Interview 6)*

Getting communities to engage with nature is a major part of Susan’s business practices, but her notion of disconnection encapsulates many problems that exist in society. Cracks in society’s cohesiveness have been appearing due to social and economic turmoil. Respondents argue that people are suffering from difficult situations due to a lack of support systems from family, social groups or local government. Developing connections among the community creates a support system on a small scale, where people engage to find solutions to their problems, enabling them to cope with stressful situations and motivating them to carry on with their efforts to reach end results. Susan said that:

*“I think we’re trying to develop their motivation, so they are motivated themselves to be active outdoors, not just with us but beyond the programme, we are trying to develop connections between people”.
(Interview 6)*

Society is experiencing growing pains, where people are so isolated that the *basics* of civilised society have been diminishing. Due to so much stress and anxiety circulating around in society, people are not even aware of what is going on in their neighbourhoods. Most of the respondents highlighted the perception of a socially and emotionally detached society and felt morally obliged to do something about it in order to bring people close to each other; as Kim mentioned:

*“In older people it’s about meeting their neighbours, finding a connection with people who live around you and being social”.
(Interview 7)*

The above thought illustrates the importance of providing social and emotional support to enable people to come out of emotional distress. She demonstrates how empathy is needed in any business practices in order to make people feel loved and cared for. She implies in her view of social responsibility that *“you cannot protect what you don’t love”*. Although she referred to this as protection of the environment in her description, throughout the interview she repeated the same thoughts about the development of deprived communities and social bonding.

5.2.3 Impact versus Outcomes View of Social Responsibility

Most social enterprises work consciously or subconsciously on creating some sort of impact by providing services such as skills development, training programmes, youth activities, working with local police to minimise crimes, and so on. The question of which issue requires the most attention in the journey of creating sustainable and meaningful social impact was perceived as hard to answer. In response to the question of measuring impact, one respondent clearly stated that *“I think we are quite early on able to measure*

the long-term impact that we are making". Her definition of impact is more inclined towards the 'help and support' given to the community with a view to making their lives better than they currently are. It has been observed that creation of social impact is the primary focus of their activities by default, yet respondents appeared unclear about how to measure and then improve their impacts. Respondents used the word *outcomes* more often when illustrating their understanding of the impact generated through their social provisions. Those who discussed achieving defined outcomes in creating a positive impact said the following:

"... well, when we get the feedback forms, feedback forms clearly have indicators which show – or indicate to us that this has been successful – you know, this project has reached out to its target group, has achieved its outcomes, has been positive". (Interview 9)

"So that it's not just us getting the feedback from the school, "how well we did", or from the young people, I mean for us the outcomes for the young people are more than anything else". (Interview 11)

"... again, we have a contract and we need to measure outcomes and report outcomes, not just outputs, outputs as well, but outcomes mainly". (Interview 5)

"I suppose, it's those kind of outcomes that we, you know, is this impacting on people's health, is this making a difference to the communities in which we work, does it connect people with the environment, is it increasing employability, because that is a kind of unexpected outcome we found". (Interview 6)

"You know, training tens of thousands of people in education and arranging seminars can be indicators of tangible outputs which can be easily measured. We always say that there are other outcomes as the result of those tangible outputs; people were able to do things which are not measurable". (Interview 8)

"... well, there is a range of measures; there are national indicators that we have to report to the NDTNS and those measures seem like maintained treatment, there is evidence to say if somebody is in for 12 weeks or more they are more likely to succeed and be drug free on exit, so we measure things like that, people who have achieved their goals but there is reduction or absence, and then we have outcome tools such as the recovery store, which incrementally maps

improvements in different categories such as relationships, use, skills, and those show outcomes over the period of time". (Interview 10)

It was observed by respondents working within stringent guidelines proposed by the public sector, organisational governance or client groups that they play a significant role in developing projects based on sizeable outcomes. On the question of how respondents view the difference between outcomes and impacts, Razia said:

"There is a difference, um, outcomes is obviously – impact is more wide and, you know, there is more, you know, sustaining long term – outcome usually is just the measure on a scale – this is the outcome that has been achieved". (Interview 9)

When it comes to reviewing how and to what extent such organisations have really created an impact, not to mention a sustainable impact, organisations do show an understanding of what impact means in relation to social responsibility, but, at the same time, organisations are finding it difficult to evidence how such impact has been central to whatever they do. One of the respondents illustrates the importance of creation of impact and argues that most of the projects are planned in a way that will lead them to create impacts.

Alex also indicates that organisations working within deprived communities know the real problems but often tend to focus on the surface issues and generate a solution that serves them well in securing funds. Hence, recipients of social provisions tend to be filtered by social organisations based on criteria informed by tackling of the surface issues, which are easy to identify and solve in a quantitative manner. This also leads to the impact debate: without knowing what really needs to be done for the community, how can you think of possible impacts? Planned activities must be focused

on identifying and eradicating the causes rather than merely focusing on tackling the symptoms. In this regard, the respondent uses his experience and intuitive feelings to design projects that are not just helping people to come out of issues but also giving them something that can help them to keep away from such problems. Some businesses operate in such a way that their social initiatives are not making real-life differences in deprived communities or at least prompting them towards that change. Benefits emerging from their initiatives do make an impact but such impacts are not long-lasting and on further scrutiny such impacts create very minimal benefits to the recipients. The respondent referred to this as a waste of organisational resources and of the time of all the key stakeholders, whereas more effort and energy must be invested in order to reform such initiatives.

Another argument that echoes the same line of thinking is that organisations use beneficiaries in their own favour rather than being useful to beneficiaries. A project where an identifiable number of deprived beneficiaries is easy to access and mould into an organisational way of thinking is morally questionable. Therefore, a viable project must benefit both organisations and beneficiaries, as the respondent argues:

“ ... so there are very clear reasons behind that, obviously at the end of it if they produce something that is commercially viable that is a benefit for us for a business, we profit share on that so we are not actually taking any advantage and it also gives them access to innovations, technology they probably wouldn't have come across without us so the benefits are there”. (Interview 3)

5.2.4 Intervention and Feedback

In contrast, Mario emphasised the importance of *intervention* in assessing and measuring impact. This respondent highlighted the subjective nature of measuring impact due to the nature of projects and targeted outcomes, and it is crucial for business to actively stay in touch with the recipients. The objectives of such interventions were referred to as seeing the progress made in development and identifying people's further developmental needs. Once again, the respondent uses his lens of experience to observe the changes made in people, as he indicated *"I know I made a substantial difference"*. Mike and Mario also seemed to imply that recognising the change and providing feedback can only take place if intervention occurs fruitfully:

"One of the other ways I do it, as I says to them, just a pure offer from ourselves, within three years if you're released, if you need help again – come back to us – because I want them to go out, become self-employed and stay self-employed". (Interview 12)

"I want them to have a successful business, so our measure is working with them and within the conversation with them – do they feel what they've come up with is viable and do I feel it's viable? So if they've come up with one business idea I will give them an honest, true evaluation – as I say, quite often – yeah that's a viable idea but on its own – it's not enough, it's not going to be viable enough, you need something else, so I work with them on what they can do to top it up to make it enough, to make it – so that they can cover the hidden costs and be successful". (Interview 4)

In this way, Mario seemed to imply that providing support throughout is part of assessing the impacts created by the organisation. Unconsciously, he referred to this as an important organisational tool for comparing and contrasting the social benefits planned at the beginning of the project with the outcomes once the project is reaching its end.

Furthermore, this respondent indicated that few of the projects were developed based on developing and measuring specific capabilities in recipients, and instead relied more on what is required by the recipients. The situation where a social enterprise promotes a set of capabilities to be developed can put the recruitment of beneficiaries in question. Therefore, he specifically deploys coaching principles in a lively interactive format with individuals and groups to enable learning and development. He appeared to consider capabilities as ranging from incredibly simple to complex. John and Mario stated:

“ ... it’s very far-ranging [smile], um, some people can be, something as incredibly simple – the simplest barrier to overcome – I had somebody who said to me that I am gypsy traveller and I know, I know how to get work, I know how to make money, what I don’t know is, I don’t know how to pay my taxes, that’s what got me into trouble – that was unbelievably simple and nobody sorted it out for him, so you know that was so simple – some of them are a lot more complicated, so it’s really the case of – talk to them, find out what their problems are?”
(Interview 5)

“ ... some of them have got reading, writing difficulties so it’s just a case of – it’s mentoring, it’s talking to them and I base it on coaching principles – I’ve spent a lot of years in coaching, so the principles of coaching help the individuals and groups to get the best out of themselves, to help them to help themselves”. (Interview 4)

Coaching principles and mentoring of development were used to make the recipients aware of their potential and the possibilities that could match it, in order to enhance their capabilities.

5.3 Social Enterprises' Business Model and Social Responsibility

It is very important to understand and explore how social enterprises function operationally and strategically in order to discover the link between organisational practices and delivery of the social responsibility agenda. Most of the social enterprises selected in the sample were relatively small in size. Therefore, the interviewees' responses to the social responsibility agenda were based on many factors such as organisational size, growth, direction and personal values.

5.3.1 Personal Value and Strategic Direction

One respondent had been very critical of the *failing model* of social businesses running in the area. He argued that these businesses are struggling to draw a line between profit generation and social benefits and that they are in constant confusion over drawing a line that delineates the hybrid nature of a business that generates money as well as social benefits. On one hand, putting too much focus on benefiting the community tends to put the business's solvency at risk, but on the other hand, prioritising business solvency over the creation of social benefits brings the business's legitimacy into question. His views are shaped by charities that have the status of CIC but lack real *business acumen*. He argued that people in the third sector tend to be very passionate but that being passionate is not the only ingredient for the success of a project. As he mentioned:

"... it really worries me when I see people are very much passionate for doing something really good to benefit the community, but at the same time lack business know-how to achieve this". (Interview 1)

Issues in the community need to be handled professionally rather than emotionally; here the respondent emphasised how addressing social issues must be embedded in innovative market-based solutions.

Social enterprises' lack of real business acumen is hindering their approach to transforming their fundraising capabilities or commissioning work from other partner bodies. This is also supported by La Piana (2001, cited in Austin 2003), who states that due to lack of knowledge transfer in terms of learning from best practices and becoming equipped with relevant capabilities, these organisations will remain operational in their isolated zone, which is only going to harm their business survival.

5.3.2 Partnership Agendas

Many views were expressed on the partnership agenda in relation to practising social responsibility; the most prevalent of these views was based on how the lead partner views and identifies the social responsibility agenda and how it is scaled down to the least influential partners within the chain.

This research addressed respondents' experiences of working within partnerships and how this shapes their practices to become truly aligned with their organisational ethos, and particularly their social and ethical policies, including CSR. Susan seemed to imply that the public sector, being a lead partner, works on its set agenda and procures partner organisations to deliver such deliverables. Prioritising and working towards the lead partner's agenda has become the norm in establishing partnerships. But she argued that, in particular, selecting an organisation based on 'best social credentials' to deliver social provisions is highly questionable. In addition to that, to an

extent, she argued, embedding real social and ethical values in delivering services to create social outcomes is still lacking in the ethos of real partnerships:

“ ... I don't feel like they particularly ask to see our social credentials, so I don't know in what way they are kind of even aware that we are a social enterprise and ..., just trying to see if any one of them commented on it [pause]. I just don't feel our partnerships – it matters to them at the moment, I think that might change”. (Interview 6)

The above quote echoes the thoughts in the literature that the “local authority is criticized for being too conservative-dominated and too private sector without enough understanding of the triple bottom line of social enterprises” (Pinch and Sunley 2015: 315). It was observed that the participant is very enthusiastic about creating real impact and doing something for the community that she strongly believes in, and she is making the argument that other stakeholders such as the local authority are not supporting what the organisation is really capable of; rather, they are dictating what is required or deciding at the central level what to deliver. These findings also support Austin (2003), who argues that government is taking an aggressive role in creating “more directives, [becoming] more insistent on specifying accounting, management, personnel, and service delivery evaluation as they become more reliant on voluntary (organisations) to meet statutory objectives”. The above thought from Susan illustrates how the public sector's social modernisation reforms are still restricted by a bureaucratic administrative approach of dealing with issues that are difficult to evaluate quantitatively. This supports the view of the public sector as experiencing a lot of scrutiny of their knowledge and skills, especially as they are moving

away from principal–agent dimensions of collaboration to community-building and networking dynamics of collaboration (Austin 2003).

5.3.3 Organisational Size versus Partnerships

The challenges of limited resources and increasing demands on social services have driven the public sector to actively engage in partnerships with third-sector organisations, and particularly social enterprises, with the aim of getting better outcomes from more efficient use of the same resources.

Almost all the social enterprises studied in this research are actively engaged in the partnerships for a number of reasons such as financial support, contracting with government and seeking collaborations.

It was echoed by the respondents that the public sector is still unclear on engaging social enterprises to deliver social and economic objectives. To an extent, it is partially due to the nature of initiatives inclining more towards the delivery framework than anything else. The latest thinking on how and with whom to work in order to create social impact through selected initiatives has not been sought enough by public-sector commissioners. It has appeared to be more of a numbers game, where certain activities must be delivered to certain groups of people, and organisations already in the delivery loop are preferred for selection as potential partners. Susan implied that:

“They want a certain activity delivered, whether it’s some work doing with young people to prevent antisocial behaviour, and they want an organisation to deliver that – they may ... just as easily ask a private business as a social enterprise or indeed a charity – they just want that delivered – I don’t feel that they are looking to see what would be the most socially responsible organisation to deliver this – I’d like it to us but I haven’t felt from my discussions with potential partners that they’ve asked us about it”. (Interview 6)

The above thought also highlights some of the frustration experienced by the respondents in working within partnerships. This frustration is also caused by the novice nature of their social enterprise, where securing contract work and seeking funds is an important part of their business solvency. It also appeared that charitable organisations, by default, are perceived as doing good for the community and in practice are preferred over social enterprises by commissioners allocating established partnerships. This is also echoed by Austin (2003), who states that many small community-based social organisations are driven to deploy a model that relies heavily on service contracts to help support their under-resourced organisations. It further illustrates how the purpose of social enterprises is not fully understood by local authorities.

Organisations that are ‘subcontractors’ have appeared to be the weakest link in the chain of delivering social provisions, specifically in terms of gaining recognition for the amount of work put in. The term ‘subcontractors’ is used as a polite euphemism for the difference between a real partnership and working in partnership. A desire to create direct links with the public sector – in order to be recognised, which is seen as pivotal to organisational growth – has been expressed:

“A bigger part of our work is partnership programmes with either a school or local authority or voluntary sector organisation, whether they are contracting us to do some work, and in the future we want to grow the commissioning side of what we do, rather than just straightforward contracts”. (Interview 6)

5.3.4 Conflicts and Partnerships

In some partnerships, it was observed how the leading organisations (i.e. fairly established social enterprises with sufficient resources) were faced with a significant challenge in establishing sustainable ways of working within the partner organisations. This challenge emerged when an agent organisation lacked the ability to use support, i.e. financial as well as non-financial, to become self-sustaining. Lack of confidence in their own abilities to adapt to and work within the new partnership arrangements was highlighted as a main concern. This respondent argued that receiving organisations must be appreciative of support, given the hostile funding environment, and demonstrate a proactive approach to converting the benefits to their favour. Shabana and Colin implied that:

“ ... we get the feedback of that partner afterwards, because either there is some from the beginning or from partway they know what we are doing and what our aim is, and this partnership is sound of what we do, and they would help to sustain whatever we started off, I mean some might say “you are building up the hopes of the people and asking us to bear the brunt of it afterwards”, “well, you are there, we are helping you to raise your numbers”, for the short time you are getting additional staffing, additional funding that’s been pumped in”. (Interview 11)

“ ... because there has been an issue that’s been raised by a counsellor or the ward plan, or, you know, that kind of thing, and we have managed to get funding so see that as a positive not a negative, we are helping you, you know, and in some cases we might even have some funds: ‘here you are for the short term to give you some time to get another funding in’ ”. (Interview 3)

The above thoughts also demonstrate how a conflict of interest arises when a social enterprise partners with a charity organisations to deliver particular social provision. Interestingly, these respondents suggested that a solution to this problem is to have characterised function of governance that forms and facilitates organisational arrangements between the social enterprise and

charity in terms of delivering the core CSR agenda. Talking about how a different approach is required to practise the set CSR agenda of the core organisation and, within that, help the partner organisations, Shabana stated that:

“I would say, in the past we haven’t really thought about ‘why would it [the partnership] be beneficial to [our organisation]?’ We have started to do it more, ‘is it beneficial to [our organisation]?’, looking at how sustainability, it’s been the toughest thing for us where in the past we have been busy-busy trying to help others to sustain themselves, we’ve not looked at what is going on here as much, and where that comes in for us, I would say, a small part of it now is helping working in partnerships with others, but I felt under my management that it should work both ways, we should develop others and then others should be helping to develop us – looking at our gaps”. (Interview 11)

5.4 Social Enterprises and Employees’ Well-being

The majority of the social enterprises participating in this research were found to work with freelancers and have very few employees, mainly due to their small size. This approach was driven by a cost-control business strategy along with the nature of the third sector, which is highly dependent on funds and commissioning work. In the light of social enterprises’ understanding of CSR and, in particular, practices undertaken related to internal CSR and how internal CSR plays a role in delivering holistic organisational CSR agendas, this section will present findings based on the interviews conducted with the social entrepreneurs managing social enterprises.

5.4.1 Restricted Resources and Managing Employees

Respondents indicated that social enterprises are always seeking new ways of improving their operational activities and seeking to work with freelancers as a way of making their limited resources more productive. Organisations are already struggling with a lot of administrative work and managing

employees has been perceived as an added pressure on scarce resources (Crane and Matten 2007). Moreover, Mike argued that, for a social organisation, sticking to its social path is strategically very important, whereas managing employees will use up time that needs to be invested in the organisation's main purpose:

"If I've got employees – I think it's about managing employees, it's about managing payrolls and everything else – that draws time away from the main purpose of the business. Another core reason why I don't have employees is because I want to concentrate on business, and businesses, the direction they are going in and I want to concentrate on what we are doing and benefits". (Interview 12)

Consideration of employees' well-being was very much restricted to treating them in a humanistic way, and having social bonds due to the social value organisations carry appeared to be a key theme in respondents' interpretations of employees' well-being. As one respondent stated, *"I know them personally, we meet socially, and I listen to their ideas and encourage them to develop"*. It was observed that most of the social entrepreneurs had used their organisational core practices and impacts to demonstrate their behavioural approach to employees. Susan's organisational focus on enhancing social cohesiveness was very much observed in her interpretation of employees' well-being. In contrast to this, Mike's highly business-driven approach to the creation of social benefits, and particularly helping beneficiaries to become self-sustained through self-employment, played a role in his interpretation of employees' well-being. He stated that:

"We treat people as individuals, as individual personalities, and we don't work to any particular formula. We just treat people with respect and I suppose we are kind of trying to pay fairly and well for the job they do". (Interview 1)

The above comment further illustrates that due to many sole traders working in collaboration with social enterprises, and their tenure being very much based on length of project life, they tend to be treated very informally.

Participants didn't demonstrate any strong bonding with this particular set of employees and this further shows that to an extent social enterprises do not perceive any special social responsibility towards their employees as long as they treat them fairly in terms of paying fair wages and treating employees with respect. Their attitude to managing employees reflects an intention to reduce internal CSR to a compliance activity that requires minimum action (Carby-Hall 2005; Fuentes-Garcia et al. 2008). Respondents rationalised their claim based on the reasoning that doing more than compliance activity for employees' well-being is a waste of limited organisational resources.

Some respondents expressed the view that employees are an integral part of delivering a social responsibility agenda. At times of difficulty, especially due to government cuts in funding and commissioning work, employees' contributions to the operational aspects of organisations have been valued and they have become an integral part of decision-making. As Kim stated:

"We do away days, where we do review, we look as a team where we are going – we've just come back, we had an away day last Thursday and in the evening and Friday morning, we as a group we did SWOT [strengths, weakness, opportunities, threats] analysis on our organisation, what's going wrong, what's working well, and then did plans along where we're going". (Interview 7)

As illustrated by Kim, one of the elements of employees' well-being is incorporating their views and thoughts and making them an integral part of decision-making, which is an uncontested concept that small social businesses are engaged in wholeheartedly. Moreover, being in a health and

training field she appeared to believe in equipping and training staff well in order to deliver external social provisions more efficiently and effectively.

On a different note, Shabana perceived that her internal organisational responsibility is not just to train, develop and inform employees but also to give them the freedom to make informed choices in their professional lives. Interestingly, her approach was very much driven by her leadership ethos. Clearly, for her, a leader's responsibilities to employees stipulate that employees are to be motivated to embark on further personal and professional development plans before their emotional intensity begins to fade. She said that:

"Because you never know when you do need people to move on and you cannot hold people. If you train them to a certain level they get experience to that level and they are knowledgeable, then they are not going to stay, especially if you cap their salaries and there is no further development within the organisation in terms of coming up the ladder, they reach the point they were going to reach then they are bound to move across to something else. Which is fine but then that gives the opportunity to somebody else to come up and get trained, so everybody understands that". (Interview 11)

Interestingly, she argued that the personal values embedding internal CSR and the support structure emanating from the governance system drive her approach of treating employees with an emphasis on developing and nourishing talent. An attitude that literally drives employees to move out of the organisation in the pursuit of better options was exhibited when she was asked a question on the extent to which the governance system is supportive of her management style. This echoes Bertland's (2009: 25) thoughts on "how a manager should not just give their employees what is just but give them the environment and encouragement to grow and to find fulfilment in their job".

5.4.2 Internal Social Drift and Employees' Well-being

While it is recognised that employees are an integral part of what and how social enterprises deliver, some scholars believe that social organisations must do more than use rhetoric to ensure that their ethical obligations are met and evaluated through ethical auditing (e.g. Buckley et al. 2001).

Interviewees illustrated how organisations are further drifting away from their internal CSR responsibilities and claimed that shortages of funds and time are the significant causes of this deficiency. For instance, when a respondent was asked how organisations measure or view the effectiveness of their formal and informal activities in relation to employees' well-being, she responded:

“ ... we do but not as far as we could do and that is down to time, we are firefighting – yeah we represent, we report back to our directors and we look at – we could do more [scratching forehead], I know we could do more on that, because we are firefighting at the moment and that's down to cost – that's down to our financial – [sigh] ..., we are trying to keep going”. (Interview 7)

Thus, the participant made it very clear that the organisation is not committed to pushing forward the employee well-being side of internal CSR and would only comply with the minimum requirements for ethical treatment, which has been a norm in this sector.

5.4.2.1 Governance and Internal CSR

Prioritising external CSR over internal CSR reflects the weakest element of governance in this sector. Many schools of thought argue that it is the board of governance's responsibility to ensure the effects of good governance are seen throughout the organisational structure (Fassin 2005; Fassin and Rossem 2009). One respondent clearly admits that his business demands a

lot of attention to external CSR at the cost of internal social responsibilities. This sacrifice creates negative impacts on the well-being of employees due to the demanding and stressful nature of their work, which coercively obliges employees to commit to more than they are capable of. As Kim maintains:

“Our staff all work – bless them, it’s a passion, it’s not like a normal job, it’s a passion to support people so they all work, instead of being paid for 30 hours a week, they are working 60 hours a week, and the same for the directors, who work all weekend, often [pause]. It’s not – but sadly we are getting worn out by it”. (Interview 7)

The respondent appeared to appreciate the extra work put in by her employees purely for the sake of community benefit, but concurrently she also admitted that the lack of attention being paid by managers in implementing social agenda and the absence of clear direction from governance have raised many concerns over the ethos of social enterprises that must encapsulate the markers of internal and external CSR. This gives another perspective on the risk of mission drift and identifies a different form, where external CSR overtakes internal CSR, undermining the valuable efforts made by employees to generate external CSR. To further support the assertion, another respondent stressed the importance of community as a main focus of her business existence but simultaneously vehemently opposed this malpractice, which has become apparent in this sector. Again, her ostensible reason for this mission drift is lack of funds and the immense pressure of meeting the demands of external beneficiaries. This attitude is reflected in the following quote discussing the effectiveness of employees’ well-being programmes:

“... because the community matter more than [employees] – but then it’s a spiral thing, isn’t, if you don’t look after yourselves ... , so you

cannot move forward then ... , the whole thing collapses and I know that's an area we need to address". (Interview 2)

The above finding supports the literature, in which social enterprises, being hybrid organisations, manifest very complex layers of outlook, where social enterprises exhibit lack of enthusiasm to invest in employees' well-being, and often this is linked to stress caused from over-commitment towards external recipients (Doherty et al. 2014). Moreover, the above thought does not reflect the philosophy of "giving something back to employees" as part of an organisational ethos; instead, it reflects how looking after employees would secure the continuity of delivering external social provisions. It is claimed that the valuable contributions made to communities are a motivating force (Bacchiega and Borzaga 2001) that provides a non-financial reward in the form of the intrinsic rewards of job satisfaction. The core of these problems remains a weak governance system in social enterprises that neglects internal social responsibility issues, and our findings also show that a lack of clear social policies aligned with the organisational ethos has exacerbated the imbalance.

Thus, the findings on social enterprises' approach to managing employees illustrate how their internal CSR practices are underpinned only by basic compliance duties, where little action is taken to foster the development and well-being of employees. This was mainly due to the fact that many social enterprises work with freelancers and interactions are driven by the lifespans of particular social projects. Therefore, while the prevailing attitude to employees' well-being clearly has an impact on the form of internal CSR, it is unclear exactly how social enterprises evidence such impact of internal CSR. One of the challenges for social enterprises is the lack of internal best

practices available in the sector to benchmark against. This clearly shows how much focus has been placed on external practices, and often respondents appeared to compare their external practices with those of other social organisations operating in the area. The accounts of giving external practices more priority than internal social practices echo the claims of many schools of thought (e.g. Foote 2001).

5.5 Governance System and Social Enterprises

Governance systems have been discussed as a process or a mechanism mainly concerned with ensuring overall direction, effectiveness and supervision (Cornforth 2003), but discussion on how governance can legitimise the accountability of social enterprises is still evolving. Many schools of thought have pointed out that the hybrid nature of social enterprises requires an effective board mechanism ensuring the balance between social and financial activities (Ebrahim et al. 2014), and everything else (i.e. direction, supervision) should work to achieve this sole purpose. This research is exploring how governance is significant in developing social and ethical policies and practices, including CSR, and most importantly the implementation of such. Managing a hybrid organisation involves tirelessly seeking a balance between pursuit of commercial and social objectives, and one respondent stated that the perceived role of governance is to be more *supportive* and *facilitative*.

This is where the importance of the relationship between practitioners and governance boards in terms of achieving social enterprises' overall CSR agenda was highlighted.

5.5.1 Governance–Practitioner Relationships

Respondents asserted that having the right people on the board can significantly impact on the setting and controlling of the direction of social organisations. The right people for the board are said to be the people with the right traits such as *capabilities* and *attitudes*, who must portray aspects of these traits in setting up guidelines related to organisational CSR agenda. The latter trait refer to the possibility of board members with prestige using coercive attitude to impose their views and rationales, whereas the former refers to the abilities of board members not just to understand but also to adapt to the peculiarities of third-sector organisations and particularly social enterprises. These two elements are seen as very important in terms of avoiding insidious barriers to organisational operational activities aimed at financial and social returns. As some respondents claimed:

“You do need the right people on the boards in the governance of organisations and you need them to understand what their role is – very clearly, they need to be very clear in terms of reference”.
(Interview 12)

“I tend to work on informal relationships and I prefer people on the boards to be more hands-off than hands-on, and building that level of trust to be able to get on with it – hands-off more ..., not because I need them to back off, it’s because when people have position in terms of governance on a board it tends to put it plants into their heads and they tend to forget they are not there for themselves, they are not there to purely scrutinise and to be negative, that they have the best interest to the organisation and to the beneficiaries”.
(Interview 4)

In support of Mike’s claims (interview 12), Shabana and Razia demonstrated how their board, who serve at different organisations, tend to empower managers to deal with the implementation side of social projects. They demonstrated this by saying that:

“They [the board] are a part of our decision-making, and any funding bits, they will get to see it, they will support it, they will help write it, they will give their input towards it, make recommendations, suggestions, so they would understand the project idea around it and after that they do take a back seat, this is where I come in, in terms of reporting regularly, and my assistant manager”. (Interview 11)

“ ... um, I mean they do govern a lot of the things that we do – the board will only direct us strategically and we will always be working on the ground level – the core team and the higher management will be able to support their decisions – and the decisions will be very much coming from ourselves because we work on that ground level, um, I mean – yes, operationally we can deliver and plan and propose it to the strategic board and say that this is viable, this is not viable, this is where we can support – so it is a two-way relationship at the minute, you know, we’ve never been in a situation where, you know, the board or anybody that’s governing us turned around and said – right, you cannot do this, or you cannot function here or you cannot function there”. (Interview 9)

The above thoughts emphasise the need for pragmatic accommodation of the views and practices of both practitioners and board members to establish the smooth running of social enterprises in the most precarious and unstable markets. Other respondents echoed the same thoughts and argued that boards do organisations no favours with their excessive involvement in the operational side of business and, rather, create great antipathy from practitioners managing under-resourced organisations. Practitioners highlighted how this sector’s governance system has been affected by the vicissitudes of different mindsets. But these practitioners also felt that they could draw on a huge volume of ideas, support and input about strategic directions and urged the need for a *sounding board* that provides an independent look at “what and where the business is going”. The need for a sounding board was also echoed by Kim:

“ ... um, representation of a lot of different organisations, that’s what we have on our board of trustees, so they can feed in from particular ..., their perspectives and support us, this is happening, so it’s two-way, one is that they can give feedback on what’s happening –

they are representing their sector, and also give advice and ideas ..., from that particular perspective as well". (Interview 7)

5.5.1.1 The Facilitative Role of Governance

It is not wise, either, to focus exclusively on governance as a core problem when considering the possible social and financial ramifications arising from other factors. The majority of respondents in this study expressed concerns over the governance role regarding appreciation of the nature of a business that combines enterprise with a social purpose embedded in its core. This is where respondents argued for boards to adopt a more hands-off approach, to allow the organisation to work within its setting to reconcile social ends with commercial means, and to support dual performance objectives that are complementary rather than contradictory. Lack of support provided by governance caused antipathy among managers, who felt that providing detail on every aspect of commercial activities put them in a difficult situation and could result in losing focus on attaining final outcomes. Yet these feelings have been supported by the claim made by Luke et al. (2013) that all the members on the board have salient viewpoints yet view organisational performance from different perspectives, which in turn increases the complexity of appropriate governance structures and accountability processes. Young and Kim (2015) have referred to this governance approach as 'compensating governance'.

Another view of the supportive element of governance systems was expressed as the relevance of the skills and expertise that board members bring to the organisation specifically to support organisational direction and thus facilitate operational activities. Many social enterprises seemed to recruit board members from different walks of life. One social enterprise with a main

focus on enhancing youth employability in the area also tried tackling issues such as education, community work, youth work, health and crime-related issues, based on the rationale that curing such issues is pivotal to youth employability. Therefore, in order to facilitate the continuation of organisational social provisions with support from collaborations with influential external stakeholders who can provide support by any means, this social enterprise attempted to form a board with members from all the areas mentioned:

*“We very much value corporate social responsibility and our board was set up looking at who is sat around the table, who is invited to sit on the board, some organisations would just accept anybody, some haven’t got time. But we have gone down the route of what does our organisation need to be able to do our job. So we have looked at health, housing has been an issue, finance, education, community work, youth work, and crime, so we have looked at all these sorts of areas of multiple representation on the board from those areas”.
(Interview 11)*

“I mean, we’re community-based – all the people, the working people, the people on the board, they always have a link with the community – everybody – for example we, um, have a local councillor on the board who is very active – she has got some community-based active work that she is doing – you know that she is supporting people with dementia – myself and my additional community-based worker and local governor – I contact the local community and work with the local community and I am a representative so we all have our own community-based engagements other than work. So we can all bring more experience to the table”. (Interview 9)

Shabana and Razia emphasised how such a board composition can contribute immensely to formulating strategies that exhibit clear guidelines for practitioners to implement. Shabana said *“it is because of these different perspectives and angles that help to input and support me as a manager here in guiding the work, making sure that we follow what should be happening”*. She clearly justified how such a governance board was crucial in setting up policies because it drew on different perspectives based on

diverse but interlinked fields of inquiry. Concerns over weak governance with unclear guidance, along with inappropriate attitudes, can lead to organisational failure, respondents stated.

Some argued that the facilitative role of governance should be restricted to reduce scrutiny and provide additional support for the operational decisions of practitioners. Rasheed stated that:

“... people who are our trustees, we expect them to ask us questions, we expect them to read our reports, look at our financial reporting system quarterly and give us advice and support, that’s what we expect them to do”. (Interview 8)

5.5.1.2 Governance and Organisational Failure

Governance systems are of paramount importance to assure the legitimacy of social enterprises’ practices aimed at benefiting the core recipients of social provisions. Respondents argued that organisations, and particularly social enterprises, fail when governance systems fail to fulfil their duties, which are fraught with many socio-economic challenges. One of the main challenges was identified as the importance of aligning organisational values with organisations’ social and ethical policies and practices, including CSR. In this regard, Shabana argued that to prevent organisations from failing, the board, particularly in small social enterprises, needs to be proactive instead of reactive by engaging with practitioners on the delivery mode of social provisions. The rationale behind such a proactive board is to promote understanding of the peculiarities of decisions made at board level and in the implementation phase, coupled with identifying the support needed specifically in the implementation phase. She stated:

“But fail in terms of, like, you know, misrepresentation and not doing what we have said what we are going to do and things like that, they wouldn’t want to see it that way, so in that sense they are proactive and very supportive, not only to me as a manager, but they speak to all the staff, they understand their projects and they regularly just pop by and offer their support to all the projects as well”. (Interview 11)

She stated that her board members have been very proactive, mainly due to their engagement with the organisation in terms of sustaining the organisation’s social image within the community. Instead of inclining towards practising oppressive behaviour due to the board’s close and deeper bonding with the main purpose of organisational existence, her board members were appreciative of how everyone sincerely contributed efforts to make the projects successful. Another respondent described her views on her board as follows:

“My board here is very proactive, they always have been because they have a stake in the organisation, half of them helped to set up the organisation so they see it as their baby. So they don’t want to see it fail and they will go out of their way and use their voluntary time, not just to come and attend meetings and the talks but they walk the walk as well”. (Interview 9)

5.5.1.3 Governance–Practitioner Relationships and Mission Drift

Much of the literature has emphasised how too much focus on securing funds and on a commercial mindset leads to mission drift in the context of social enterprises (Ebrahim and Rangan 2010; Ebrahim et al. 2014). Our findings support this, as well as arguing that mission drift is caused by sour relationships between governance and practitioners. These relationships reflect their views developed through their approaches to commercial and social activities, which are argued to be fundamentally antithetical to organisations’ ethos. The findings of this research also argue that mission

drift occurs when the governance systems of social enterprises lack understanding of the evaluation of organisational commercial and social practices and outcomes in terms of creating sustainable improvements in the lives of deprived communities.

Given the demanding and complex nature of organisational structures, respondents expressed profound concern over their relationships with boards of governance in relation to the practice of instrumental activities and delivery of the CSR agenda. Some of these concerns were heightened by the “gaps” and “disconnection” that exist between board members and practitioners. This was illustrated by one respondent who commented, *“In truth, the gap is a lot worse than you think”* (Mario). This respondent was firm in his claim of associating social enterprises’ approach to CSR with poor governance systems that are stubbornly entrenched at the core. These findings, to an extent, are supported by the literature, which emphasises how problems in social enterprises have been subject to “the absence of explicit organisational processes and mechanisms that ensure the overall direction, control, accountability and legitimacy of the organisation” (Ebrahim et al. 2014: 84). It was expressed how this type of unhealthy relationship can cause ramifications for organisational legitimacy and accountability concerns. As Mike maintained:

*“If they [people on the board] have got drive, they’re absolutely crucial in the way they operate, it is absolute crucial. If that is all set up effectively you could then genuinely say that they are driving it”.
(Interview 12)*

In the support of Mike’s claim Linda stated:

"I think it's crucial, absolutely crucial. I think good governance provides the backbone of the organisation and that diversity that the board can bring in, and that critical friend that the board of trustees can be, and that additional, you know, that keeping an eye on things, making sure of probity, ensuring that we don't have strategic drift, ensuring the safety of the organisation as well, they keep us on track, so I think the board is critical in our organisation". (Interview 10)

Another indication of failure in governance practices was highlighted: boards' resistance to change and the need to revisit organisational mission in the light of current trends and complicated/endless permutations. All the respondents acknowledged the importance of preventing such critical situations through having a good mix of people, particularly those who are aware of recent trends and needs and are also able to accept and encourage change in their way of thinking. As Alex mentioned:

"We are trying to get new people in, a new line of thinking because sometimes it's old thinking and they will carry on in a certain way, so we need new streams of light coming in. so we have started this year, to try and encourage some of our users to come in and sit as an affiliate". (Interview 1)

He illustrated the importance of keeping in close contact with service users and how giving them an opportunity to participate at board level is very critical for an organisation to avoid mission drift. Users' active and influential participation at board level was indicative of Shabana's adherence to the value of self-determination as she perceived her users to have control and be responsible in formulating projects. She said:

"If we are about working with young people it's no point adults making decisions where it's supposed to be young people making decisions, designing the delivery, and helping to evaluate what is working and what isn't. We could put a programme on the table and say this is what we think you need, but young people are saying actually no, this is what we think we need, and the two might be totally separate". (Interview 11)

The above findings support Cornelius et al.'s (2008) argument that the “ethical obligation of social enterprise is not restricted to giving service users access at board level but goes beyond that and concerns to what extent such users are given the authority to influence decision-making at board level”. This approach was supported by practitioners due to their intense integration with recipients and often views recipients’ voices as a supporting evidence to justify the development of community focused projects.

5.5.1.4 Transition Arrangements

The short tenure of governance board members has caused the emergence of strong transition arrangements for new people to take on their roles and responsibilities. People on governance boards were found to experience difficulties in adapting to the demanding responsibilities that require decision-making on strategic issues, and their many other responsibilities. To recruit and sustain board members was found to be a perennial challenge for this sector, due to insufficient clarity about their expected roles. As one respondent argued:

“...with cutbacks people have not got time to give up their free time to be trustees, so now people attending our trustees meeting are reduced. We just had our AGM last week and we are trying to recruit more people to our board of trustees, our AGM, we sent out over 50 invitations – 17 people including our own staff attended. [Sad look with pause]. Gives you an indication, doesn’t it”. (Interview 7)

The above thought indicates how social enterprises are experiencing difficulties with high turnover of board members as well as with recruiting new people to fill their places. These people are incredibly crucial for organisational consistency and in pursuing the strategic aims and objectives that have been put in place. On the question of whether social responsibility

agendas emanate from governance systems and how critical it is for a board of governance's legitimacy to develop and implement such an agenda, Mario and many other respondents emphatically highlighted the important issue of inadequate transition arrangements, given the issues of finding and keeping board members, as a prerequisite for the continuous implementation of social responsibility agendas. He stated that:

"It will start from the governance system, provided you have the right people there to start with, but wrapped up into that you have then got questions of how long those people are on the board for ..., what's your transition arrangements – those are crucial, if you look at the governance side those people are absolutely". (Interview 4)

The lack of transition arrangements was highlighted as a main concern for the long-term stability of governance systems in social enterprises. All the informants echoed this issue because they find it difficult to institutionalise their governance arrangements so that new people do not feel a little disoriented when taking over board responsibilities. Institutionalising such transition arrangements was highlighted as imperative in light of how boards in particular focus on transition of relationship between board and management, and also within management, all aimed at achieving social outcomes. This is where respondents restated the value of transition arrangements with reference to development activities that are crucial for existing as well as new staff. Mike and other stated that:

"You must have transition arrangements in place otherwise it's only short term, and to get true social value in an organisation you must have that load spread and those transition arrangements, and you must have everybody working for the same agenda and be able to transit that. Where it works right is when the individuals as a team who have got it right, and equally there have to be transitions". (Interview 12)

“The companies I have worked in, in the private sector or voluntary sector, I have always talked about transition arrangements, so you – whatever system you set up, whatever training you set up, whatever people you recruit – you must not be dependent on any individual”. (Interview 5)

“... there must be sufficient arrangements in place to make sure there is a good transition for new people coming in, pick up where they left off, they [people] don't leave with crucial information. If all those things are in place then it's successful”. (Interview 1)

In addition to this, transition arrangements in terms of board development to enable effective functioning were found to be non-existent in small social enterprises. For organisations to work towards achieving their social missions, it is crucial for them to have systems, enabled by boards in particular, that encompasses both boards' and practitioners' development.

5.6 CSR and Capabilities

Social enterprises are by definition ethos-driven and mission-driven organisations that work tirelessly within constraints to make a difference in deprived communities. These organisations are viewed as valued and trusted institutions based on the valuable contributions they make and are therefore obliged to deliver outcomes that match the expectations of their beneficiaries. In this section, it was explored to what extent social organisations were committed to enabling users to become self-sustaining through their CSR policies and practices that focus on enhancing users' capabilities. So far, the findings of this research have illustrated the strong convergence between CSR and governance (Jamali 2008) in terms of developing policies, implementing practices and evaluating the outcomes of social and economic provisions. Respondents highlighted the importance of CSR, and therefore their beliefs and views were captured to understand the ways of determining

important characteristics of deprived community groups that are important to be developed so that they can become active members of developing communities.

5.6.1 Self-confidence and Awareness

Most of the activities delivered by social enterprises sought to enable users to develop intangible capabilities such as confidence, awareness, skills and so on. It was observed how social enterprises uncover various layers of ‘needs’ among the community once active interaction takes place. This interaction was regarded as very important to understanding users and leading the way in identifying their needs. One of the projects run by Shabana’s organisation concerned sexual health and creating awareness of repercussions and guiding people to seek help and support. She argued how vulnerability of such members of the community required proactive support that gives them the confidence to access support systems. According to her, this is the kind of approach that social enterprises need to undertake to avoid clients retreating more into their shells as a result of low self-confidence. She stated that:

“... some people have been identified as burying their head in the sand about it [sexual issues], and the majority wouldn’t know where to go, including their own GP, they wouldn’t know, and they know there is a clinic down the road but it wasn’t for them, this is where we might step in and provide all the project work around it and not just the sexual health, we will tap into, like, smoking, alcohol, and awareness, anything else that comes into it, and say did you know ‘there is this place’, ‘there is this place’, ‘there is this place’, ‘I will hold your hand and take you down there and let’s take a visit’, and then we will step back, and then it gives the confidence to those people to access those services”. (Interview 11)

Likewise, another respondent, Razia, highlighted how people are becoming very isolated due to lack of self-confidence and lack of awareness of the support systems available within the communities:

“... sometimes people are just disconnected, you know, disengaged – so just giving them that platform of support mechanism to access a service – for example, diabetes support – with our Asian community diabetes is a rising issue – but they will be unaware what’s available in the area – maybe there is a barrier, because there is a language issue – so I will tailor – I will ensure, speak to diabetes patients and have something very tailor-made for them for somebody who doesn’t speak English as their first language, and then deliver it appropriately to the communities”. (Interview 9)

The above thoughts illustrate how spatial concentration of an isolated community as a result of a lack of qualities such as self-confidence and awareness becomes a barrier to clients using their rights to better their well-being. Helping communities to build confidence can make a positive impact on economic and social issues. This was regarded as an important factor that empowers clients to realise their potential and make informed choices that contribute to social change.

Identifying certain capabilities of recipients and developing practices to target only these was not found to be an effective way of operationalising social and ethical policies; instead, the set CSR agenda provided improvements in some types of intangible capabilities as a by-product. As John stated:

“... any of the capabilities needed to represent their community, that might be about communication, advocacy, it might be about assertiveness, because these are housewives sitting in a room with an inspector from the police, director of education, senior person from CCG, it can be daunting, so these people need a bit of, you know, building up, a bit of tutoring, mentoring, and we provide that sort of training, oh we don’t provide it all, we will get it from them from external sources”. (Interview 5)

5.6.2 Dependency Culture and Raising Expectations

It was demonstrated throughout the interviews how dependency culture is damaging organisations financially and causing beneficiaries to take things for granted. To an extent, some respondents acknowledged being partly responsible for perpetuating a ‘dependency culture’ by engaging in CSR practices that are not aligned with organisational ethos or focused on enhancing recipients’ core capabilities. One informant accused charity organisations, which represent one form of third-sector organisation, and which are primarily dependent on funding, of causing a growing dependency culture. As John stated:

“A lot of them tend to follow funding, a lot of them are driven by the, they need funding, either to keep bringing it in to cover the cost of the charity or they chase funding because it is available and then they think of something they can do to match that funding, the downside of having funding is it’s time-limited – so they will choose a bank of beneficiaries, they will deliver it like funding”. (Interview 5)

“... when that funding comes to an end they’ve built up a level of expectations, they’ve build up a need, because they have established that as a need and they have met that need but they’ve also built up a dependence on that, that service or whatever it is that they are delivering”. (Interview 4)

John and Mario illustrated how an approach of seeking funds had prevailed in small social enterprises’ business models. Beneficiaries with raised expectations were often found to be left on their own, with less hope of changing their lives. The reality, as pointed out by Mario, John and others, was that social enterprises acquire funds with misguided reasoning that completely ignores the fundamental importance of raising beneficiaries’ expectations or inspiration to an extent that matches with a *reality check*. These respondents expressed an absolute negative stance towards such malpractices undertaken by third-sector organisations. They implied that

such malpractices push people further into their comfort zones, which are built around free support and benefits.

Moreover, the obligation of social enterprises is to engage in those practices that can transform incapable clients living in a dependency culture into capable members of society. This is where Mario emphasised how he embeds coaching and mentoring principles in delivery of social provisions that are actually a support mechanism for people to sustain themselves and to avoid becoming dependent on social provisions. He supported this claim by highlighting how his organisational practices contributed to the reform of civil society by enabling clients to shift away from a dependency culture and by reacquainting them with the culture of work and self-sufficiency.

Therefore, it is not just a lack of finances or resources that is harming organisations; it is also the case that the legitimacy of their existence has come into question.

Another perspective was given on how dependency culture results in increased demand for social provisions when users start to take things for granted. This respondent criticised how the dependency culture had afflicted the community with many social and economic issues. She responded to the question of the importance of enabling deprived people and moving them away from continuous dependence on social provisions from third-sector organisations by saying that:

“... well, we don’t want to have that dependency culture; I would say that is what the government is about, they don’t want anybody dependent on a particular service because you cannot sustain that financially in the long term, people have to develop ... I would say this country started off in terms of, you know, with World War I and II and the support structure was set up with benefits and the NHS system

and all that kind of stuff, that is somehow along the path of time it is twisted around where people have become dependent rather than seeing it as a stopgap and moving on, and this is where I think the Conservative government are, like, pulling a big chopper on that, you know, but now you don't see it as something to depend on because it might not be there". (Interview 7)

On the question of organisational perspectives on potential factors contributing to the perpetuation of dependency culture, decisions made at governance level were identified as the main cause of this problem. In reference to community development, the *mind-set* at the board level was recognised as needing to be *changed*, to identify and evaluate practices in terms of outcomes that do not cause harm to the client group. One of the respondents stepped down from the board of his community centre, which was reluctant to change the culture of dependency that was trapping people in a life of subsidies, poverty and misery. Instead of curing the main causes of a problem, such practices incline people more towards a welfare dependency culture. He commented that:

"I've just stepped down from the board of a community centre based in _____, part of _____. A conversation we often had was, um, we provide subsidised sessions, support services and services, and often sessions on how to cook meals [Inaudible- 34. 03] – broadly speaking, in the community centre they will come to a session, they'll eat and as soon they've eaten they're off [smiles] but this conversation we had was, the community, generally speaking, didn't want to pay for things, they said they couldn't afford to pay for things – but if you continue to subsidise or provide things free you're building bigger and bigger dependence on subsidised or free – so how do we overcome that?" (Interview 4)

The above thought illustrates how governance systems can fail to steer organisations towards creating legitimate opportunities for client groups. Hence, as Razia implied, organisations with lack of clarity or direction in planning projects are not directed appropriately at the governance level.

One respondent used the metaphor of how a child requires support to a certain point in his/her development to illustrate the type of relationships organisations build up with their users. She argued that clients' persistent mindset of seeking help from and being dependent on state support had been a prominent challenge. She described cases where they set clear objectives while working with clients or organisations in a partnership agenda to avoid the dependency culture contaminating the business's socio-economic model. She said:

"I would say that is our capability in terms of helping and supporting people and to sustain themselves long term and this is where we are different from [another organisation]. Where they run the youth provision and have a centre where young people will have to attend, come off the streets and all that kind of stuff, but we physically go out with the intentions of working for a short period of time, we have an aim, objective and the time frame to turn things around and then we walk away with the view that we partnered up with somebody who will take it on". (Interview 11)

She also appeared to suggest that enabling clients to build their capacity and accumulate benefits can actually turn them into responsible citizens.

Therefore, these transformed citizens will become active participants in identifying issues affecting communities and providing support to tackle these issues. This supports the work of those (Knife et al. 2014) who argue that such mindsets require a significant paradigm shift in how social enterprises operate. The weaker governance systems in social enterprises result in the formation of weaker social and ethical policies and practices, including CSR agendas, and exploring them leads to greater understanding of how *harm* is viewed by these organisations – an important marker of capabilities theory.

5.6.3 Capacity Building versus Causing Harm

Many social enterprises are highly involved in contracts, awarded primarily by local government. Therefore, social enterprises are more prone to follow the changes driven by government social policy and other market driven cost-cutting pressures to secure a greater chance of successfully contracting with local authorities. One of the criticisms made of social initiatives was how social enterprises create significantly lower outcomes from the investments made, either from donations given in good faith or contracts to deliver a specific service given by local government. The underlying cause of this issue was observed as a misalignment between investments intended to solve social problems and organisational mission. This is where most of the respondents demonstrated how pursuit of restricted funding leads to projects that generate minimal social outcomes and solve few problems in society. One respondent highlighted how projects that were driven by restricted funds incline more towards funders' broad agendas and do not allow much flexibility to social enterprises in terms of time frames to ensure valuable outcomes are generated. As she mentioned:

*“A lot of them [social organisations] tend to follow funding, a lot of them are driven by the, they need funding, either to keep bringing it in to cover the cost of the charity or they chase funding because it is available and then they think of something they can do to match that funding, the downside of having funding is it's time limited – so they will choose a bank of beneficiaries, they will deliver it like funding, but when that funding comes to an end they've built up a level of expectation, they've build up a need, because they have established that as a need and they have met that need but they've also built up a dependence on that service or whatever it is that they are delivering”.
(Interview 10)*

Another respondent also highlighted time as an issue linked to restricted funds:

“... the only thing that I can think of is if you work with them on short-term funding, if you worked and they have not managed ..., to actually move on and develop, because obviously some people’s life has been so traumatic that it takes a hell of a long time to recover”. (Interview 7)

The above thoughts demonstrate how longevity of programmes is dependent on the public and private sectors’ funds and financial status of business. This is where the majority of social entrepreneurs believed that the short tenure of social provisions, which leaves beneficiaries not fully benefited, given their current financial difficulties, meant it was almost impossible for them to carry on when the funds ran out. It was also acknowledged by the informants that this puts beneficiaries in situations where the chances of moving on further in their development and accumulating benefits become very much restricted, ultimately causing frustration. Individuals appeared to blame the government as the driving force for such malpractices emanating from the lack of support. As one informant said:

“I think this is not harm in itself. I don’t think exposure to a new way of working or new activity and then not carrying it on could leave you worse off than you were at the beginning. I think there is a danger that we are not working with people long enough to change their attitudes or lifestyles”. (Interview 3)

Another social entrepreneur, who believed that a client not having their expectations met was not a failure of his organisation, had the following to say about his perception of harm:

“I don’t think that is harm, really, it is that their expectations are not met. I think, certainly, I don’t know about other organisations but certainly our [organisation], we are very pragmatic, we try to give them what the real situation is ..., So I personally don’t think that any training, any kind of training, is harmful to individuals in the long run, maybe in the short term they feel frustrated and it’s not meeting their expectations”. (Interview 8)

Thus, Rasheed made it clear that organisations were already having a good impact on people and thinking about how these people will be able to sustain

the benefits once the interaction with the organisations ends, which is not what has been sought after in this sector. This finding echoes how social enterprises align their practices with the simplest principle of beneficence, which requires agents to promote good to the best of their ability (Murphy 1999).

Similarly, Shabana experienced how organisations working in partnerships tend to feel pressurised to build their capacity in a short space of time so as to be able to carry on independently once the partnership ends. Interestingly, the issue of scarcity of supportive primary organisations was intertwined in her argument. She argued that, since most of the organisations involved in the delivery end of partnership were small, the support structure in terms of financial incentives, HR and knowledge transfer was very much dependent on organisational capacity. She highlighted how short-term interaction between partner organisations triggered tensions of not living up to the expectations instilled in clients' mindset. She said:

"... like I mentioned earlier, from some services where they [partner organisations] could not sustain something, and they fed back to us that 'you are building hopes and then we might not be able to sustain what you leave', like, for example, we received funding some years back and it was a lot of funding to deliver something over a four-week period, got straight into the community where some issues were highlighted and we needed police presence and things like that. We went in there with a lot of funding, a lot of staff and we did, you know, some intensive work and expected the youth service within that area to pick it up after we moved out. And they were like, 'well, the problems are still there, you cannot fix it in four weeks' ". (Interview 11)

As alluded to above, many of the respondents believed that organisations in the third sector are far from hitting the ultimate target of enabling client groups to sustain themselves in the long term and that the pursuit of this unwittingly caused harm to recipients. As Susan said:

“I think ..., we are quite early on able to measure the long-term impact that we are making, all I know is that we are now making a profit so we are now able to give back”. (Interview 6)

She expressed concerns that what constitutes impacts is debatable, and that, with the way things are operating, tackling social problems and achieving real impact is notoriously difficult to achieve. One respondent openly admitted how some of the practices of social organisations are actually questionable in terms of creating harm rather than achieving the betterment of society. He frustratedly admitted that the way social organisations are operating, particularly to enhance the capacity of deprived communities, means that most of their practices are highly questionable. He firmly accepted this:

“That’s been a challenge for many, many years. It’s – genuinely in my heart – I don’t think it’s going to be solved”. (Interview 4)

5.7 Summary

Perceptions of harm, and particularly the assumptions held around the harm element of social provision, have an impact on how an organisation views social responsibility and thus how it evolves its social strategy. A critical question that participants partly failed to answer is to what extent clients were made aware of possible potential outcomes of a project so that they could make informed choices with regard to participation. Social provisions, and particularly the promise to generate outcomes in the short term and quickly turn around the situations of deprived people, were advertised and delivered in such a way that client groups’ expectations were automatically raised by their default practices, in particular because outcomes generated with a short-term focus were advertised so attractively that clients often fell into the trap of having high expectations. Dealing with such expectations was

indirectly highlighted as a concern about the legitimacy of social projects. Organisations' scrutiny of project outcomes from the viewpoint of benefiting clients should serve as an integral part of their commitments towards the welfare of society. Thus, the organisational governance mechanism works to avoid all the possible unintentional harm that could possibly emerge from practising social objectives. The examination of the harm element supports an argument summarised by Batty and Cole (2010), regarding a shift from just enabling clients to manage and mitigate social and economic constraints to building their capacity to fully defeat such challenges.

CHAPTER 6: DISCUSSION

6.1 Introduction

The purpose of this research was to obtain a deeper understanding of how social enterprises perceive and pursue ethical practices, including CSR, with the aim of enhancing the lives of their client groups. This research was driven by the aggregate potential of third-sector organisations, and particularly social enterprises, the primary organisational form, to provide effective solutions for social and economic challenges. Focusing specifically on practices in social enterprises in different areas of Bradford City, in-depth interviews were conducted with social entrepreneurs (i.e. owner-managers) to obtain insights into the complexities of how these organisations work within their given capacity and also support different agendas to provide solutions for societal issues, in particular those encountered by deprived communities. As governance is extremely important for social organisations in terms of directing and controlling organisational actions, an investigation of governance mechanisms (i.e. practices) is germane to understanding the development of ethical practices, including CSR policies and practices.

Importantly, this chapter will discuss the importance of empirical findings on how social entrepreneurs understand and drive social enterprises to exhibit CSR. Furthermore, the qualitative orientation of this research permitted a first-time opportunity for a group of social entrepreneurs to share in their own words the realities of their ethical policies and practices aimed at improving the social and economic lives of their client groups. Furthermore, the

specification of contextual factors in relation to the *needs of deprived communities* and the *role of social enterprises* can enhance the potential for the development of aligning the former with organisational CSR practices. The discussion of the qualitative findings is organised around the research questions. It also includes the relationship of the findings to previous research.

6.2 Social Enterprises and Perspectives on Social Responsibility

Due to the relentless rise of economic and social inequalities, many schools of thought and practitioners have recognised the importance of social enterprises as a solution to market failures (Austin et al. 2006; Austin and Reficco 2009; Sud et al. 2009). In a time when corporate greed and the questionable underlying values of traditional profit-seeking practices have contributed extensively to reducing the well-being of civil society, social enterprises have emerged as a new organisational form capable of involving businesses in social engagement and social services. The social entrepreneurs interviewed in this research discussed the importance of overcoming their small scale by incorporating more collaborations and establishing synergistic partnerships with government and private-sector organisations. The basis of such activity, as argued by many ethicists, is that business and society are interconnected (Dentchey 2009). Not surprisingly, the third sector has witnessed a huge increase in the number of social enterprises in the last two or three decades, which reflects their active involvement in a wide spectrum of social and economic activities (Hayllar and

Wettenhall 2013). This new category, social enterprise, emerged to fill the vacuum created by the closing of a number of public-sector organisations based on cuts and lack of ability to reach communities. That is why this phenomenon has attracted greater attention from policymakers and practitioners around the world (Wilson and Post 2013).

6.2.1 Gap Identification

It has been witnessed how social enterprises are outperforming for-profit and public-sector organisations on growth and impact. The key to the boom in this sector is the business approach of restoring social elements while not altogether abandoning the business element in enterprises' operations (Hayllar and Wettenhall 2013). It is the mix of these elements that integrates and empowers communities and enables them to achieve change and to meet social and economic needs. All the social entrepreneurs interviewed in this research mentioned social and economic activities aimed at enhancing the prospects of neglected groups in deprived communities who are at risk of permanent exclusion from mainstream socio-economic regeneration activities. Respondents made the point that a lot of disadvantaged members of society live in the depths of despair, and to provide help and support by any means gives them hope of coming out of deprivation. For example, one social entrepreneur stressed the need to identify these disadvantaged people and develop tailor-made social or economic provision aimed solely at benefiting them. One of the social provisions his organisation made was to reintegrate disadvantaged people, particularly those with criminal records, through helping and supporting them to become entrepreneurs. An underlying assumption of this CSR-related social provision from the

perspective of social entrepreneurs entails how third-sector organisations, to demonstrate their social attitude, must make contributions 'beyond their compliance duties'. In the context of third-sector organisations, a compliance attitude was noted regarding their strict adherence to the broad public agenda often dictated and influenced by other stakeholders in the chain.

Social entrepreneurs demonstrated different sources of motivation in driving their social enterprises towards reforming civil society. Such motivations are grounded in many philosophical underpinnings. It was noted that all the reasoning offered to support their social endeavours is linked to the simple obligation of "giving something back to society". These findings corroborate the results found in prior research demonstrating small businesses owners' obligation to engage in social responsibility practices to benefit communities. The discussion on this particular strand of this research was aimed at understanding what drives social entrepreneurs to envisage community needs and development and then how that drive plays a role in the pursuit of social and ethical policies and practices underpinned by their CSR agendas.

6.2.2 Partnership Agendas and CSR Perceptions

Many social enterprises in this research were identified as being heavily involved in subcontracting to deliver social services that might otherwise be provided by the public sector (Thompson 2008). These organisations had difficulty in demonstrating their own defined core social responsibility agendas, and instead used the contributions they made to the government-defined social agenda as a rationale for their existence. Such organisations are emerging as a response to funding opportunities and seek ways to become an arm of government social agendas, as the UK government

believes that organisations in this sector are best placed to efficiently deliver services that meet important social needs (Thompson 2008). These organisations often appeared to calculate their social responsibility outcomes by determining the number of projects delivered, rather than the value (i.e. qualitative and quantitative) those projects deliver to client groups. In contrast to this view, some proactive organisations were identified, which were set up based on a '*need*' identified in the community. Their aim was to create innovative solutions to social and economic issues that are grounded in recognised values. These types of organisations exhibited more empathy with client groups in regard to value created for them, when demonstrating their social responsibility. These entrepreneurs instilled community values in their entrepreneurial endeavours and therefore prioritised their organisations' core social missions (Thompson 2008).

6.2.3 Capacity Building and Impact Creation

As discussed throughout the literature on developing a deeper understanding of what CSR entails, the main driving force has been referred to re-examining the deep-rooted reappraisal of fundamental assumptions as to what real CSR might be. Taking this concept further and applying it in the context of social enterprises, there is hardly any concrete theoretical basis for understanding what CSR means for social enterprises. From the findings of this research, it has emerged that social enterprises lack clear guidelines to reflect their CSR agenda and many practices are undertaken on an ad hoc basis with the aim of generating outcomes that echo both organisational ethos and client groups' needs. Moreover, governance systems of social enterprises are

regarded as core for setting up and controlling the social direction of social enterprises via the development of CSR policies and practices.

The findings suggested that all the social entrepreneurs had ambitious social missions and were committed to transforming their organisations through well-developed practices and by developing the ability to scale up their impacts (Sherman 2006). However, it also came as a surprise that most of the social entrepreneurs lacked an understanding of scaling up impacts and, rather, suggested extending their enterprises by establishing partnerships that could lead to scaling up their impacts. The typical reasoning for this was the fact of operating in a capital-constrained environment and the fact that scaling up required financial and funding constraints to be overcome.

The social entrepreneurs appeared to appreciate the relationship between the sustainability and success of enterprises, but to what extent can investing in organisations and strengthening their organisational capacity guarantee the scaling up of their impacts. Although this research does not deny the importance of capacity building in third-sector organisations, it equally emphasises its strong interconnectivity with impact creation. The prerequisite to this is to have a deeper understanding of what is entailed in impact creation, in particular with disadvantaged social groups. Therefore, this research emphasises that having a clear understanding of impact creation should prevent financial constraints from contaminating the potential to create social benefits embedded in social enterprises' CSR agendas. Furthermore, this research does not deny the implications of many social practices aimed at developing intangible social benefits, which can be difficult

to evaluate and measure as they tend to take longer to achieve than many other countable social benefits.

6.3 CSR Practices and Evaluating Performance

In this section, approaches to measuring the performance of social enterprises' social provisions will be discussed as part of gaining understanding of the investment made in the formal and informal practices intended to enhance their clients' capabilities. The findings highlighted how, in regard to addressing CSR practices, social enterprises were noticed to putting their concern in issues related to external CSR to demonstrate their social performance, and the internal CSR-related practices in relation to internal employees will be discussed in section 5.4. The following section presents the discussion on formal and informal evaluation of practices undertaken by social enterprises in relation to exploring their understanding of formal and informal CSR practices.

6.3.1 Challenges in Measuring Performance

Based on social enterprises' approaches to tackling many needs identified in this research for the social and economic development of client groups, evaluative practices were undertaken informally, and to an extent which formal practices were undertaken was primarily driven by reporting compulsions. Evaluating the outcomes of social provisions has been identified as a challenge for social enterprises. This could be attributed to the fact that social value cannot be calculated in units and hence no clear measurement system exists in practice to measure social value creation (Nicholls 2009). Due to the hybrid nature of social enterprises, which

embrace multidimensional goals, measuring performance is not straightforward where financial return on investments is regarded as prerequisite to continuity of social provisions. The impact of the amalgamation of many intangible benefits associated with social provisions is arguably more significant than the actual delivery of tangible benefits. For many, such intangible benefits are highly desirable for successfully embarking on the sustainable transformational social change that social enterprises aspire to achieve, but they can be difficult to measure and realise, especially compared with more concrete, but perhaps short-term, outcomes such as community development sessions (Murray and Blowfield 2014). Hence, Nicholls (2009) states that it is important for social enterprises to clearly define what is to be measured, and how to measure it, as the information generated through such performance measurement can support organisations to plan adequately and implement their operations more effectively.

6.3.1.1 Hybrid Nature and Implications

In the literature, information generated through effective measurement of performance on both financial and social objectives serves to help key external and internal stakeholders make informed decisions. While external stakeholders expect reporting of outcomes, internal stakeholders demand reporting on financial outcomes on which to base future rational and strategic decisions (Luke et al. 2013) and establish terms of collaboration. This echoes the findings that governance in social enterprises was only perceived to be restricted to overseas and manages monetary outcomes as part of the strategic direction of organisations in terms of sustaining financial solvency.

However, reporting on social values was also sought as a way to ease pressure from external stakeholders. Ironically, most of the social entrepreneurs described the pathway to measuring social and financial performance as steep and beset with pitfalls; some stumbled on occasion and in consequence struggled to progress more than others; some complained loudly about the difficult patches and argued that a lack of guidance and support made this journey more difficult. As competitive pressure is mounting due to an increase in outcomes-based commissioning, social enterprises are left with no choice but to adopt some formal way of reporting their social outcomes.

Undoubtedly, social enterprises are making a difference in deprived communities, but the problem for them is to articulate such performance information systematically in a way that appears more convincing to stakeholders. At the other end of the continuum of measurement of social value, this research identifies that many social enterprises were not even involved in measuring their social outcomes in detail and had the luxury of only having to quote their stated social objectives to gain trust from stakeholders (Nicholls 2009). To some degree, the willingness of external stakeholders to work with social organisations was based on the legitimacy that appears by default as a result of their organisational social aims, which means they do not have to comply with such demanding regulations.

6.3.1.2 Social Value Parameters

Previous research has also demonstrated the weak approach of social enterprises towards measuring performance based on financial and social outcomes (Nicholls 2009; Luke et al. 2013). This research equally echoes the

claims of the importance of measuring social outcomes as being core to social enterprise performance, but this research also highlighted the real mystery surrounding the issue of defining the *parameters* that are arguably important to deprived community groups in relation to their sustainable transformational social change. This is where in some but not all cases the social entrepreneurs struggled to define the parameters which can arguably be significant in measuring the impacts on beneficiaries. Their experience of evaluating the formal and informal social performance of enterprises suggested that some of their practices involve elements of virtue ethics, in which behaving in the expected way enables them to achieve legitimacy. Furthermore, this research highlighted how this mindset can ultimately hinder their ability to seek, and then develop, clear strategic plans to use their potential for greater generation of social and economic outcomes. Such neglect carries consequences, as a balanced approach to weigh both financial and non-financial (e.g. social) outcomes are important elements that can enhance enterprises' accountability to both internal and external stakeholders.

This research demonstrates that social enterprises have relied heavily on short-term CSR-oriented activities that are arguably easy to measure, whereas, in regard to long-term CSR-oriented activities, social enterprises must engage in social impact creation practices, despite a lack of evidence and tools to measure the significant impact on client groups. This could be attributed to the fact that long-term CSR activities intended to create social impact often take longer to implement, and sometimes the impacts are not easily observed by stakeholders in the short term. Social impact activities, for

example, that enable people to fully function (such as gaining training and then finding work) often involve multiple phases of development, and successful connectivity between these phases is crucial for outcomes. Therefore, it was perceived as a challenge to embark on activities leading to long-term outcomes, and hence small social enterprises may avoid this due to lack of impact generation in the short term. This is a challenge highlighted by many authors (e.g. Nicholls 2009; Luke et al. 2013) who have argued that patience is key to the success of these practices. Moreover, due to the silent agenda incorporated by different stakeholders and the lack of parameters available to social enterprises, extensive work on long-term impact generation may not easily be observed by key stakeholders and reflected in the gaining of more contracts and funds. Nonetheless, the key driver for such long-term practices by social enterprises could be keeping engagements the client group to assess progress they have made independently and identifying whether any cumulative benefits have been achieved.

6.3.1.3 Restricted Resources

Furthermore, the findings of this research demonstrated cases where social entrepreneurs are constrained by lack of time, lack of skilled labour and lack of the skills and knowledge necessary to understand the peculiarities of social performance measurement tools. Closely related to the issue of time available, overwhelming work commitments were seen as a huge barrier to investment of resources in performance measures. As Barraket and Yousefpour (2013) argue, due to individuals being responsible for ensuring the efficient running of small businesses by undertaking multiple tasks, this undoubtedly leaves no time for social performance measurement. For some

social entrepreneurs, projects based on strict measurement regulations were regarded as too complex for an implementation plan to be devised and therefore this restricts the ability of social entrepreneurs to perform in a way that creates real benefits. Hence, this puts them into a similar position to that of many small for-profit businesses where curiosity prevailed to seek the answer of an important question “Does the benefit of measuring social performance outweigh the cost?” (Luke et al. 2013: 241). All the entrepreneurs equally appreciated the benefits that resulted from engaging in social performance measurement, such as building trust and showing accountability and continuous loyalty and commitment in the eyes of stakeholders; however, it was anticipated that having a stated social purpose and objectives already served to achieve such benefits, and therefore adopting tools related to performance measurement created an extra burden on under-resourced organisations.

6.3.1.4 Personal-value-driven Approach

Some of the informal social performance evaluation methods were undertaken by social entrepreneurs solely because of their own personal interest in evaluating the impact of social provision. One particular social entrepreneur provides employment opportunities for those who otherwise suffer exclusion from the labour market because of having a criminal record. He stated that his reason for continuously staying in touch with beneficiaries was to monitor their progress in terms of implementing the business idea developed with his support, as well as to find out what further enhancement was required. The respondent was registering his concern about undertaking such an informal way of monitoring social performance without any pressure

from external stakeholders; in fact, he implied that the personal ethical values of social entrepreneurs drive such behaviour. In addition to this, the social purpose of this particular project and the means to pursue it were backed up by transparency on the point that implementing any measurement tools would not bring any added value. This supports Solomon's (1992) argument that an emphasis on embedding virtue ethics in business practices can generate collective benefits. Similarly, this research indicated how social entrepreneurs tend to deploy virtue ethics in their entrepreneurial operations, rather than complying with the measurement rules often dictated by external stakeholders, with the intention of bringing out the good (i.e. outcomes) for all (i.e. both enterprises and beneficiaries). This further supports the argument for having ethically minded social entrepreneurs who look beyond their compliance duties and strive to make significant change in the world (Ridley-Duff et al. 2008). The implications of this perspective rest on the lack of empirical data to prove that social entrepreneurs' activity is morally and ethically stronger than any other philanthropic activity engaged in by for-profit businesses. However, this research indicates how such practices serve as a subset of organisational social policies that reflect social enterprises' view of CSR.

In contrast to the above practices, some social entrepreneurs, particularly those providing health-related services, had different perspectives on measuring their social performance. They argued that the clarity and transparency of their business operations in terms of number of services (i.e. utility) and number of people they provide them to is itself a reporting element. Therefore, the social goods provided by organisations are

quantifiable in nature and thus do not need to be verified or comply with extensive requirements for reporting to various stakeholders. However, in regard to mental health social provisions, this research argued that the processes behind such services and the targeted outcomes (i.e. benefits or pleasure) need deeper investigation in order to achieve organisational performance closely linked with social responsibility. The balance is extremely vital as the trade-off between them is ethically questionable due to organisations being equally accountable for maximising the social value of both types of social provision. The rationale of such practices is embedded in the utilitarian perspective, which states that an action should be considered right under circumstances where the collective benefits exceed the damage it may cause to stakeholders involved (Hausman and McPherson 2006).

This was observed as a norm due to many social enterprises being engaged in many intangible social provisions. As echoed in this research, the issue with many social entrepreneurs who ground their social responsibility in the utilitarian perspective was the difficulty of quantifying the *utility* generated for beneficiaries. In reaction to this difficulty, many social entrepreneurs indicated that, in practice, they make educated guesses by relying on their experience and limiting their attention to a few aspects of a situation (Hausman and McPherson 2006). Thus, decision-making based on the utilitarian perspective results in the selection of a course of action based on the intention of creating the greatest overall good for beneficiaries. It was observed from the findings and previous research that choosing a method of measuring social performance is incredibly difficult for social enterprises.

6.4 Social Enterprises and Internal CSR

In the context of the paucity of literature on ethics in social enterprises and particularly on internal CSR, this research has found some similarities to how ethical HRM is practised in small businesses. The reduced inclination to invest in employees' well-being and development was driven by a lack of substantive benefits, which are difficult to be gained by incorporating ethically responsible behaviour towards employees. This prevailed in most of the small social enterprises whose representatives were interviewed, where uncertainty in regard to contractual work, financial solvency and commitments to external stakeholders were given in justification of their irresponsible behaviour towards employees. This is a challenge for social enterprises that has been highlighted by Cornelius et al. (2008): to demonstrate socially responsible behaviour internally that matches their external social responsibility achievements. However, it was observed that the motivation to do well for internal employees prevails, rather than actions that really demonstrate socially responsible intent.

6.4.1 Ethics and Internal HR Practices

As argued by Takala and Pallab (2000), for a social organisation to flourish fully it must engage employees and seek their support in order to benefit the business and society. A key consideration within the context of social enterprises is the core values that organisations ought to deliver, not just to society but, equally, in exhibiting more than compliance behaviour towards employees' well-being. Due to the small business nature of many of the social enterprises whose representatives were interviewed in this research, most of their formal HR practices are based on complying with the basic

treatment of employees, such as fair treatment, fair remuneration, health and safety procedures in the workplace, and training and staff development (Al-bdour et al. 2010). Social enterprises were found to deploy a market-driven approach in treating employees; for example, a lot of contractual work was commissioned from freelancers, thus reflecting a minimum obligatory responsibility towards them. This echoes the thoughts of scholars (e.g. Wright and McMahan 1992; Jackson and Schuler 1995) who argue that the underlying assumption of using macro-level organisational theory in managing HR practices stresses the instrumental approach to managing employees in order to achieve strategic goals (i.e. managing restricted operational resources for social enterprises). The 'libertarianism' theory of responsibility only delineates negative rights, such as businesses only being obliged to avoid causing harm and having no moral responsibility to fulfil positive duties. Social enterprises are obliged to carry out both positive and negative duties at the same time in broader society as part of their holistic CSR agenda. Therefore, in relation to internal CSR, they have a moral obligation to provide an environment where employees can develop and enhance their capabilities.

Furthermore, social enterprises' HR practices reflect the moral egoist framework, which is concerned with undertaking these initiatives only if they are in an organisation's self-interest. Supporters of moral egoism tend to argue that a company ought to act in its own self-interest (Crane and Matten 2007) and in the context of social enterprises this behaviour was observed due to resource constraints. Libertarian theory does not fit into this research

context, where social enterprises are obliged to do positive things internally and externally.

6.4.2 Employees' Development

From the internal CSR perspective, a social enterprise should act in a responsible manner, not because of its commercial interest but because this is part of how employees implicitly expect a social enterprise to operate. For example, one social entrepreneur argued that it is an organisation's ethical responsibility to enable employees to keep their knowledge and skills up to date by identifying development opportunities and accessing the resources available. This will result in developing employees so that they become capable of moving to better jobs to enhance their further development. She also stated that such practices may not be beneficial to the organisation in terms of recruiting and training employees and will increase the burden on scarce resources. Such behaviour emanates from the approach of removing organisational barriers and ensuring employees are treated equally to create opportunities for their development. This echoes Bertland's (2009) thought that practice of virtue ethics becomes more evident if the capabilities approach is applied within the organisational setting. This is a particularly useful link where individuals are viewed as agents of their own actions in aligning with or deviating from shared expectations. As Bertland (2009: 25) argues, "a manager should not just give their employees what is just but give them the environment and encouragement to grow and to find fulfilment in their job". In the context of social enterprises, it appears even more imperative due to their need to balance their actions between external and internal CSR.

6.4.3 Informal HR Practices and Social Entrepreneurs' Motivation

Furthermore, the findings of this research demonstrated that some informal practices, such as staff social gatherings, were the norm, particularly in small social enterprises. This approach was taken to gather feedback on operational aspects of organisations and the possibility of future interventions intended to scale up activities. It was demonstrated that, through this, employees were given the opportunity to identify their needs and develop a plan to achieve defined goals. Social entrepreneurs, on an individual level, staying within their capacity, often offer help and support to drive employees along their development journey. These are the informal internal markers of socially responsible behaviour by organisations that emphasise carrying out the employment contract in an effective and respectable manner (Carby-Hall 2005; Fuentes-Garcia et al. 2008). However, measuring the effectiveness of such informal practices was identified as a challenge as no set guidelines were issued on which to base such a support structure.

What was missing was clear, enacted internal social responsibility policies embedded in numerous accountability mechanisms designed to result in adherence to organisational ethos (Buckley et al. 2001). This is where governance systems should be responsible for enacting some measurable parameters for employees' well-being and development, given that the objective of governance is to oversee social enterprises' internal and external CSR practices alike. The above example of ethical practices intricately reflects the virtues of social entrepreneurs who have the responsibility of exhibiting social justice and ethical treatment. Moreover, it reflects a sense of mutual obligation between social entrepreneurs and employees as well as

being indicative of wider organisational objectives with more than a hint of altruism on the part of practitioners. As Buckley et al. (2001) argue, accountabilities are built on ethics and it is imperative to operationalise such ethics in exhibiting responsible behaviour. In this sense, although many social entrepreneurs engage in socially responsible behaviour on an ad hoc basis, they still need a clear and articulate policy woven into the social fabric of the organisational ethos. Furthermore, evaluative measures to monitor progress in employees' well-being and development can enhance the accountability of social enterprises.

6.4.4 Challenges in Balancing Internal and External CSR

This research also suggests that manifestations of social enterprises' external practices and outcomes are often scrutinised aggressively by key stakeholders due to their major stakes, and hence internal HR practices and outcomes are overlooked. This further suggests that when social enterprises exhibit good external practices and outcomes at the cost of compromising internal ethical responsibilities, this serves the purpose of enhancing their organisational identity associated with ethical climate (Papasolomou-Doukakis and Krambia-Kapardis 2005) and thus securing contractual work and achieving financial solvency. However, as discussed in the literature, both internal and external ethical behaviour of organisations comprise the ethical climate where internal markers have the same weight, or, it is sometimes argued, are a prerequisite to support the implementation of external practices (Bartels et al. 1998). There is less pressure on social enterprises from policymakers relating to soft and hard HR policies, along with governance systems that lack ethical codes and conduct, particularly in

relation to employees' well-being and development. Most of the codes and conducts are in place to control employees rather than guiding the organisation to fulfil its social responsibilities towards them. This is a tremendous pitfall in social enterprises, where the integration of internal and external CSR policies and practices has fallen short.

6.4.5 Implications

Whether social enterprises' strategic intention in regard to internal CSR practices is more or less effective in relation to employees' well-being is outside the scope of this research. However, what became imperative that being a holistic social organisation heavily dependent on volunteers and employees, it must consider materialising CSR in the form of life-long training and development of capabilities of its employees. Employees' well-being and development was explored under the umbrella of the wider parameters of the internal ethical and CSR responsibilities of social enterprises. The extent to which social enterprises perceive the importance of internal CSR from a social enterprise perspective and what initiatives were undertaken to enhance the capabilities of their employees were explored. The mixed responses demonstrated that most of the initiatives were targeted at enabling the basic capabilities of employees to flourish. To think beyond this, social enterprises are required to have governance mechanisms that espouse the web of capabilities in developing internal CSR practices as well as evaluative frameworks to produce qualitative and quantitative enhancement.

6.5 Governance Systems and Social Enterprises

6.5.1 Collaborative Frameworks of Governance

Given the complexity of many social, economic and environmental issues facing communities, third-sector organisations are pursuing more collaboration with public-sector authorities than ever. At the core of any organisation, a governance system is made up of processes and structures that are shaped by legal and regulatory requirements (Cornforth et al. 2015). In the literature, “the governance of collaborations is more elusive, as they are often established without any clear legal form or body in charge, and the relationships between partners are subject to change” (Stone et al. 2010, cited in Cornforth et al. 2015: 776). It was observed how social entrepreneurs often become responsible for delivering social provisions that are promoted by the public sector in lieu of direct public regulations. Such an agenda may be an explicit, obligatory enforceable contract, or an implicit contract, given the social and economic nature of social enterprises. This raises further challenges for social enterprises’ governance systems in determining and implementing the captured interests of various stakeholders, which are often driven by internal and external drivers, and thus such collaborative relationship are more fluid (Stone et al. 2010). Therefore, understanding the changing nature of collaborative governance systems is nevertheless of paramount importance to social enterprises due to their involvement in delivering and being accountable for outcomes.

It has emerged through this research that governance in social enterprises is more about collaborating within partnership settings in terms of setting

policies and procedures to direct the original *CSR intentions* of organisations. Often, a lack of clear organisational social policies in their memoranda of association has created difficulties for governance to influence the way such partnerships are formed. Therefore, strong and influential stakeholders have taken the driving seat to act as the ultimate enforcers/developers of cumulative CSR policies and practices.

The findings of this research share some similarities with the work of many scholars (e.g. Takahashi and Smutny 2002) on the nature of non-profit organisations' governance structure, which is constantly evolving around collaboration. The pressure confronting social enterprises in regard to governance systems is to decide the extent to which a trade-off between organisational interests and partner interests seems viable to internal stakeholders (i.e. practitioners) and external stakeholders (i.e. beneficiaries). However, Takahashi and Smutny (2002) argue that instead of setting conditions, social enterprises must focus on exploiting collaboration interests once they are established. It is imperative to appreciate the length of commitment of such collaborations aimed at supporting people from deprived communities.

Despite many social policies developed by government, and extensive collaborations with many actors including for-profits and not-for-profits, in deprived areas very minimal improvements have been achieved. For example, in 2010 the government implemented a National Strategy on Regeneration Renewal with the vision of improving the lives of people living with multiple layers of deprivation within 10 to 20 years. Two of the main goals of this strategy were to address the various layers of deprivation and

reduce the gap between the most deprived areas in the country and other areas. The failure to achieve such minimal outcomes was raised by respondents in this research and mixed thoughts were expressed. Some criticised the dependency on government funds and contracts that leaves social enterprises vulnerable to engaging in arrangements that arguably create least value for clients.

This collaborative nature of governance systems carries many *internal* challenges for both entrepreneurs and board members in terms of developing and implementing CSR policies and practices, coupled with the lack of an adequate framework in place in the context of small social enterprises. It has become evident that governance in third-sector organisations needs to look beyond their roles and responsibilities and articulate new ways of working together with many external stakeholders to address societal problems (Renz 2006; Cornforth et al. 2015).

6.5.2 Social Entrepreneurs and Board Relationships

As argued in the literature, small business owner-managers usually have central command (Kotey and Slade 2005) and therefore are in the position of making a more direct impact on the operations and activities of the business than in a relatively well-established large business (Jenkins 2004). Due to the heterogeneous nature of small businesses, it can be argued that managers tend to base most of their decisions on their experiences. It is this idiosyncratic way of doing things, which is inherent in small business, that may appear opaque to concerned stakeholders, i.e. the governing board in the case of social enterprises. In particular, social entrepreneurs, from the operational perspective of running their businesses, are explicitly regarded as

having a '*free hand*' as part of the facilitative role of governance. This notion of a '*free hand*' entails the freedom required by social entrepreneurs to manoeuvre their actions for the best interests of both business and clients. Additionally, the origin of the contention originates from the sustenance of how social entrepreneurs are interconnected with the community and their tactical futuristic alignment to discern the goals of the organisation. This behaviour represents the informal approach taken by social entrepreneurs, which was noted in previous research on how a lack of written management procedures and practices is characteristic of their informality (Kotey and Slade 2005). Indeed, it is a challenge that exists in both commercial and not-for-profit business (Bornstein 2004).

6.5.2.1 Flexible Approach

This research, however, identified that the rationale for '*free hand*' preferences was grounded in the ethical motivation that underpins such practices. This suggested that the complex culture of social enterprises, in contrast to that of for-profit small business, is based on 'trust' and 'good intentions'. It is based on the 'trust' and 'good intentions' in question that social entrepreneurs tend to make choices between various CSR activities. This shows the participative and democratic elements of the management style, as social entrepreneurs often take the lead and stay engaged by providing hands-on management of social enterprises (Low 2006). Social entrepreneurs argued that they should be given flexibility in making choices between various CSR activities so they can select those that are strategically beneficial for both organisations and their clients.

6.5.2.2 Power and Trust Issues

However, a lack of clear separation of powers between the board and social entrepreneurs can create weaker boards in decision making and negatively affect their efficiency (McNulty and Pettigrew 1999; Spears et al. 2007) and hence lead to issues of trust. Due to a lack of trust between practitioners and governing boards, the free hand approach to operational aspects of CSR-related activities was seen as difficult to achieve. The fact is that the roles for managers and governing members in social enterprise governance models lack clear guiding principles and create further dysfunction (Mswaka and Aluko 2015: 64). This argument was made given that social entrepreneurs hold more ownership of CSR-related provisions due to their operational involvement in the implementation phase than do the board of governance. The major difficulty with such relationships is establishing what constitutes trust (Ramly and Rashid 2010). This could be attributed to the fact that social entrepreneurs are often constrained by the difficulty of showing the legitimacy and accountability of such practices due to weak measuring systems.

6.5.3 Retaining Board Members

Due to challenges in scaling social enterprises' operations, given the commitment of sustaining enterprise for the long term, small social enterprises often find it difficult to retain people, in contrast to larger social organisations in the third sector. It is critical for small social enterprises to recruit people onto the board who are well connected with the external environment. This is referred to governance model grounded in resource-based view of firm that focus on the role of governance is to ensure the flow of resources and expertise from external constituencies (Callen et al. 2010;

Cornforth 2014). This is also relevant to small social enterprises, as they depend on the expertise and links of governing boards to identify and secure contractual work. It was observed how social enterprises that are well connected with private- and public-sector organisations have the advantage of boards with diverse backgrounds and skills compared with the relatively new and small social enterprises. Astonishingly, this research revealed that the lack of 1) strategic direction, 2) a legitimate action plan to align operational activities with organisational ethos, or 3) accountability measures were the main concerns for retaining valuable board members for the long term. Such absences, as well as ambiguous implementation plans, increase the tension between practitioners and governing boards of small social enterprises. A lack of defined roles and responsibilities of governing boards, particularly in small social enterprises (Mswaka and Aluko 2015), can raise two critical issues. First, who has the right and the responsibility to determine the strategic direction to meet organisational goals? Is this the job for the governing board or the social entrepreneur? Second, does the core interest of operational activities lie with quick, short-term gain or with the viability of the organisation in the long run? The responses showed that most concerns related to variants of governance systems and practitioners, with the familiar shortcomings associated with each. In addition to this, voluntary participation at board level tends to be based on philanthropic principles (Mswaka and Aluko 2015) and hence this is used as an incentive to emphasise the achievement of social rather than economic goals (Chell 2007; Cornelius and Wallace 2010), which leads to conflict in practice between board members and practitioners.

The governance role's shift between the democratic and stewardship model has raised protests that are becoming ever louder. Social entrepreneurs affirm the hard work invested in order to perform their stewardship duties by staying within their given capacity. Hence, a stewardship-driven governance model was perceived by some as the way forward to enhance relationships between boards and practitioners by working on mutual interests. As argued, boards based on the stewardship model tend to empower social entrepreneurs and provide them with the autonomy to operate in the best interests of organisations (Mswaka and Aluko 2015). In contrast to this, democratic governance boards tend to apply their power and influence, given the pressure of complying with the accountability requirements of organisational practices. The rationale for such deviation was to seek a set of capabilities to manage profitable activity in a not-for-profit organisation with the primary goal of achieving a social agenda. Furthermore, the ability to relate to entrepreneurial drive may be a struggle for boards of trustees who come from a voluntary sector or a commercial business background.

6.5.4 Public-sector Intervention

Problems that result from a chaotic society marked by business malpractices or from features of the socio-economic system cannot effectively be addressed by one sector, much less a single organisation. Making an impactful difference to enable struggling communities to achieve social cohesion, for example, is difficult for a limited number of social enterprises to achieve single-handedly because the organisations are constrained by a lack of resources. Building capacity was regarded as a prerequisite not only to rectify the problems but also to ensure that such issues are completely

buried. In this regard, the government's active interventions in terms of partnering with third-sector organisations, and particularly social enterprises, have become the norm in the public policy agenda on tackling social and economic issues. Such partnerships develop based on the rationale that they all share a similar mandate of improving the well-being of deprived communities. Moreover, social enterprises have close interactions with the communities in which they operate; they have better opportunities to work collaboratively with the community than do their larger counterparts.

A lot of resources have been invested in business endeavours aimed at helping people suffering from many layers of deprivation. But it is hard to pin down evidence of the real impacts created. Many explanations were given in this research that ultimately referred to how intervention strategies lacked clear understanding and methods of measuring evaluating the effectiveness of social value provisions. The social enterprises in question were locked in outcome mode, failing to focus on impact (Knife et al. 2014). Moreover, the moral significance of such interventions appeared to be diminishing and described as political goals of many stakeholders rather than pure contribution on ethical and social grounds. This supports our finding that social entrepreneurs who work strictly within their own social agenda of helping communities tend to justify morality as a driving force and often criticise the outcomes generated by engaging with someone else's agenda. But this raises important questions on the accountability aspect of social enterprises' primary aim.

Interventions were regarded as important for social enterprises to operate effectively and efficiently. However, such interventions were illustrated to

support third-sector organisations to deliver in the best interests of public welfare. Intervention at all levels is prerequisite for organisations to perform their obligatory duties, such as governance intervention to oversee the operational aspects of CSR agenda as well as to monitor and evaluate the outcomes, and government intervention to build capacity and strengthen the third sector organisations. The basis of such interventions must be driven by *support intentions* rather than by scrutinising the efforts of practitioners in a negative way. It is possible that any business activity can generate many externalities – that is, social harms – such as barriers to continuation of social provisions for beneficiaries that may result from lack of skills, knowledge and, importantly, lack of funds. In order to prevent these harms or adequately rectify a situation once it has occurred, it is the obligation of all the relevant and influential stakeholders to intervene by providing support structures and enhancing collaboration. This also echoes some of the implications highlighted in an evaluation report on national strategy on regeneration renewal that proposed a critical examination of the individual characteristics of each area of issues and of delivery organisations, and then tailoring the interventions' intensity (Aimon Consulting 2010).

6.5.5 Governance and Evaluation Practices

Due to the complex nature of social enterprises in comparison to conventional business ventures, evaluation is often acknowledged as a cornerstone of social provision (Clifford et al. 2013). In fact, the majority of social entrepreneurs who participated in this research believed in their hearts that they are creating positive impacts, and describing the evidence that reinforces this belief was, at least, partially fermented by the absence of

evaluative procedures in place. However, some social entrepreneurs argued that measuring the social and economic impact created for clients from the clients' point of view, rather than measuring their organisational contribution to that impact creation, reflected the indifference of the relationship between governance and practitioners. For example, one of the well-being-related initiatives was intended to increase awareness of sexual health problems, and it was considered difficult to determine how much any change was attributable to that particular initiative or social enterprise. In fact, added pressure was perceived to be exerted on managers by the board to evidence the reasoning behind their decision-making. Thus, personal values, and particularly social entrepreneurs' feelings of having a clear conscience (Hockerts 2015), were reinforced given the absence of set evaluative indicators of social practices. Hence, the respondents used anecdotes rather than evidence to illustrate the outcomes of their social practices. However, there is a possibility that such rituals may lead organisations in the wrong direction based on judgemental actions taken due to lack of evaluative measures.

From the governance perspective, applying measuring techniques had become imperative to analyse the impact created on clients' well-being in order to seek clarity on the financial feasibility of such investments. A clear conscience was actively pursued by practitioners in performing organisational duties but they failed to exhibit concrete justifications to board members. In the absence of some kind of measurement, it would be difficult for organisations to make informed decisions about their financial and social sustainability. Board members regarded such evaluative information as key

to determining and identifying practices that require more investment in order to scale up the impact and avoid those practices which are arguably creating least impact. The idea was to embed the judgemental evaluation in the defined metrics that can uncover the underlying reality to deal with contextual and complex social phenomenon. Plaskoff (2012) contends that social entrepreneurs need to possess a high level of moral intelligence, which is also echoed by this research's findings that social impact can be further strengthened if social impact evaluative procedures are applied actively to assess the outcomes. On this point, most of the respondents described all actors involved in delivering organisational mission must be directed by clear guidelines. When social provision was delivered, the practitioners felt they were acting in line with organisational mission. However, generally, the lack of indicators assessing how clients' views of well-being enhancement were ignored to run a comparison with social provisions outcomes in order to answer the key question of whether formal or informal outcomes are aligned with organisational social mission. Such comparison was regarded as important, due to the dual nature of social enterprises, for creating major strategic developments for both organisations and clients.

6.5.6 Limitations in Determining the Causes and Likelihood of Harm

One of the important discussion points relating to improvement of the well-being of clients from an ethical perspective is assessment of the outcomes. Because many short-term CSR provisions are undertaken by social enterprises, with the aim of generating results more quickly, many decisions are made on an ad hoc basis, which, arguably, deliberately or unwittingly,

does little or no good to clients. It emerged throughout the engagement with social entrepreneurs that much focus and effort was placed on which activities to deliver, whom they need to be delivered to and what quantifiable benefits these activities would generate. It is quite alarming that almost all the participants were unaware of whether any social provision could create some sort of disadvantage (i.e. harm) to their client group. The response was very much along the lines of “how could good social provision conducted with good intentions cause any harm to beneficiaries?” Whereas the intention behind any CSR-related social provisions would highly desire to consider any harm that may be a by-product. Indeed, many researchers – for example, Cornelius and Wallace (2010) – argue that any CSR-related activity must anticipate outcomes that are below par. Their definition of harm emanates from the principles of beneficence theory: *gifts freely given* and *causing no harm*. However, the latter refers to the limitations of CSR-related provisions that generate minimum ad hoc advantages for the most affected client groups. Identifying and evaluating the magnitude and probability of harm must be embedded in development, as well as the outcomes of any CSR-related policies and practices.

Participants appeared not to understand the liability that underpins the responsibility they hold in making a difference to deprived communities. It is the responsibility of social enterprises to consider harm that might result from ineffective social provision programmes before embarking on the implementation phase. Engaging with deprived groups represents a contractual relation between an organisation and its beneficiaries, which is subject to the terms of a contract. In the context of the social enterprises–

community relationship, the contract is usually implicit and is established by the ethical obligations of the parties. The ethical obligations in this contract entail, among other duties, that organisations must understand and then clearly communicate the desired outcomes to the beneficiaries. This would enable the organisation to make suitable adjustments for the sake of the betterment of clients. Even when the social enterprise is unaware of any harm, the responsibility for such harm still ought to be borne by the social enterprise, because the social provision was delivered with the understanding that it posed no disadvantages to clients. This echoes Hodgkin's (1993) assertion of holding non-profit organisations responsible for doing what is not only legal but also ethically and morally right. Thus, this requires a thorough analysis of case circumstances and the case interests must not be trivialised.

Due to the absence of a systematic approach emanating from governance systems to evaluate the outcomes, it has become a challenge for social enterprise governance systems to demonstrate their accountability and the legitimacy of their CSR agenda to their stakeholders. Considering that social enterprises demonstrate CSR performance mainly by focusing on the first principle of beneficence theory, this research emphasises the need to actively recognise the consequences that may result from such practices. This is where the *harm* element of social provisions comes into play. Therefore, the argument for proactively identifying such consequences must become part of their performance measures as well (as discussed in section 5.3.1). Thus, the rationale criteria for CSR provisions must take into account both the *gifts freely given* and the obligation of *causing no harm*. However,

the findings support how social enterprises have experienced immense difficulty in identifying not just indicators but also how, and to what extent, such indicators need to be measured in order to demonstrate social performance (Arena et al. 2015). As discussed throughout the thesis, how the changing nature of welfare system continue posing a number of complex questions to social enterprises to consider when tackling multiple issues in the society.

6.6 Anticipation and Sustainability: An Emerging Perspective on Governance Practices

Current themes in the literature have focused on the role of an adequate governance model to enable the effective implementation of social enterprises' social practices (Cornforth 2003; Spears et al. 2007; Mason et al. 2007). Third-sector organisations' institutional arrangements, particularly those of social enterprises, have made it increasingly complex to deliver on various interests of stakeholders, meaning that the relevance of governance experienced has had a rather abrupt elevation in policymakers', practitioners' and academics' consciousness. Nonetheless, despite current growing interest in the literature, social enterprises struggle to determine the role of governance in the realm of enterprise sustainability. This can be attributed to the fact that current governance practices have experienced a shift towards profit maximisation in order to achieve their economic aims without undermining their social ethos (Cornforth 2003; Mason et al. 2007). Board members are regarded as very important for the success of social enterprises as they ensure accountability, legitimacy and transparency in the

operation of such organisations (Spears et al. 2007), whereas the topic of social sustainability, along with financial sustainability, of social enterprises has breathed new life into the debate over the obligations of governance.

This research identified and emphasised the importance of governance practices, which need to shift from the current *supportive* or *facilitative* approach to a *proactive* approach in order to uphold and protect social enterprises' social ethos. Anticipation of financial as well as social difficulties is in organisations' interest and, indeed, enterprises have an obligation to ensure their sustainability. In regard to the social difficulties, one approach is to anticipate social harm by scrutinising the evaluation of outcomes. This anticipation of social harm should involve the interplay of three factors: 1) the probability of harm, 2) the severity of the harm, and 3) the social burden of protecting against the harm. Thus, a governance system has a greater obligation to protect its clients when harm is more likely to occur, when the harm is apt to be greater, and when the consequences of harm have greater implications for social enterprises. These are relevant factors that should be embedded in governance practices to uphold the social mission of social enterprises, but they are not sufficient by themselves as they need to be complemented by evaluation of social outcomes. This suggests that boards of governance are not to be excused from such obligations because of their weaker control mechanisms, focused too much on the operations side, which could render their practices harmful unwittingly. This practice of anticipation can be a hallmark of governance practices, leading to social and financial sustainability of social enterprises.

It was observed that the responsibility for anticipation of such elements of harm rested on social entrepreneurs, although this research emphasises that well-scrutinised policies and practices must be devised at the governance level to serve as a guide to evaluate performance of social provisions. Slow or minimal progression in enhancement of clients' capabilities, and weak evaluative measures, both qualitative and quantitative, are the results of weaker governance practices. However, these social entrepreneurs work very hard and often present anecdotal evidence to demonstrate the social outcomes; for example, one social entrepreneur published some case studies in the organisation's promotional brochures and they also served as evidence in an attempt to seek contractual work. It is the governance practices that represent the power to investigate, regulate and mandate any malpractices as a result of weak social outcomes. This represents the developments that centre on the critical nature of the board's behaviour in holding management (i.e. social entrepreneurs) to account and being accountable itself to various stakeholders. This may require a new proactive approach for governance, going even further into the daily operations of social enterprises, and the concern of social entrepreneurs that too much board involvement will reduce management effectiveness will be a defensive cry.

The findings of this research indicated mixed thoughts: some social entrepreneurs perceived board interference as a misuse of their power that reduced the effectiveness of the operational side (as presented in section 5.5.2); in contrast to this view, some perceived such interference as a means to engage the board with the operational peculiarities of social enterprises.

However, this research indicated and illustrated that such interference is pivotal for governance to establish a degree of anticipating potential harms that may be caused as a by-product, given the fact, which has emerged from this research, that neither social entrepreneurs nor governance board members exhibit accountability to beneficiaries as required. Thus, establishing accountability measures regarding CSR outcomes requires active governance interference as the governance board is the responsiveness of an organisation to its stakeholders, if in fact the purpose is to achieve both financial and social sustainability. Such interference is not necessarily antithetical to organisational interests, as the intention is to achieve the 'goodwill' created by social responsibility activities that keep the organisation in touch with its organisational stated mission. However, much of the emphasis is placed on controlling the activities of social enterprises in relation to protecting social enterprises' limited assets and controlling unjustified allocation of organisational resources by managers (Lecovich 2005; Callen et al. 2010).

Up to this point, the research findings have emphasised the importance of governance in keeping organisational practices closely in line with stated aim and goals. Based on the theoretical model emerging from this research, governance plays the role of the axle of a bike, connecting the rear and front wheels in order to move smoothly in an organised way in the planned direction. So far, the governance at the heart of social enterprises has played a significant role to bring together all the spokes of the rear wheel and then enable the front wheel's movement, which is solely focused on generating outcomes for client groups. The following part of this chapter will discuss the

importance of the front wheel, labelled as 'progress towards social mission', which encapsulates many strands of outcomes and impacts including social justice, capabilities and freedom to function, which arguably serve as an evaluative system to assess the performance of social enterprises.

Due to the increasing attention of policymakers and academics in the field of developing framework for evaluating outcomes of CSR practices, particularly in third-sector organisations, social enterprises are enforced through regulations to justify their legitimacy by documenting tangible and intangible outcomes. The issues identified in this research were the reluctance of social enterprises to embark on identifying, measuring and, most importantly, enabling the continuous growth of outcomes generated. This leads to the confusion prevailing in social enterprises about what outcomes are, not only from their perspective but most importantly from the perspective of stakeholders (i.e. clients). The following part of this chapter will discuss the importance of such parameters based on the findings on social enterprises' formal and informal CSR-related practices and their methods of evaluating social and economic outcomes.

6.7 An Emergent Model for Social Enterprise Governance and the CSR Agenda

As discussed previously, governance systems are of paramount importance to accountability and legitimacy, and thus close monitoring of evaluative outcomes of CSR policies and practices is required to encourage responsible behaviour and discourage irresponsibility. This research identified the mismatch between the organisational goals achieved by social enterprises

and their missions, in which certain goals lack support or the strategic intention to keep organisations on track towards their missions. The quest to achieve organisational social missions addresses not only social investment in external stakeholders (i.e. client groups) but also responsible behaviour towards internal stakeholders (i.e. employees) with the aim of improving their capabilities (Cornelius et al. 2008) and thus requires a shift from a mindset of traditional measurement of outcomes to a mindset of generation of sustainable value outcomes.

The present research provides an in-depth understanding of what defines ethical and social responsibility agendas of social enterprises and the pivotal role of governance processes in ensuring that organisational practices are in line with their stated social missions. Drawing from the previous literature, on both social entrepreneurship and the capabilities approach, and the findings of this research, a model is developed to better understand the necessity of well-crafted social enterprise governance policies and practices in order to have an outsized impact on the clients for whom social enterprises are socially and ethically responsible (figure 1). This model illustrates the relationship between key themes and also provides answers to the research questions posed: how do social enterprises pursue ethical practices and social policies underpinned by a CSR agenda that enhances their stakeholders' capabilities, and within this how do governance mechanisms develop and ensure that the outcomes of their ethical and social policies and practices generate long-lasting benefits for their client groups? This model uses the metaphor of the bicycle to illustrate the concept of social enterprise governance mechanisms in delivering ethical and CSR provisions. Like a

bicycle, a social enterprise can be seen as a vehicle that is concerned with moving forward, along with transforming the lives of stakeholders associated with or dependent on their practices. According to this analogy, if a social enterprise wants to move in the right direction by delivering what it is supposed to be delivering based on its social ethos, it has to keep the rear wheel (i.e. social strategy of the social enterprise) and front wheel (i.e. outcomes of its social missions) aligned. Furthermore, just as both wheels need to move forward to give the bicycle balance, governance, like the chain of the bicycle, supports and monitors policy implementations against the stated social strategy. Connectivity is, thus, the essence of governance responsibility to transform commitments into tangible outcomes.

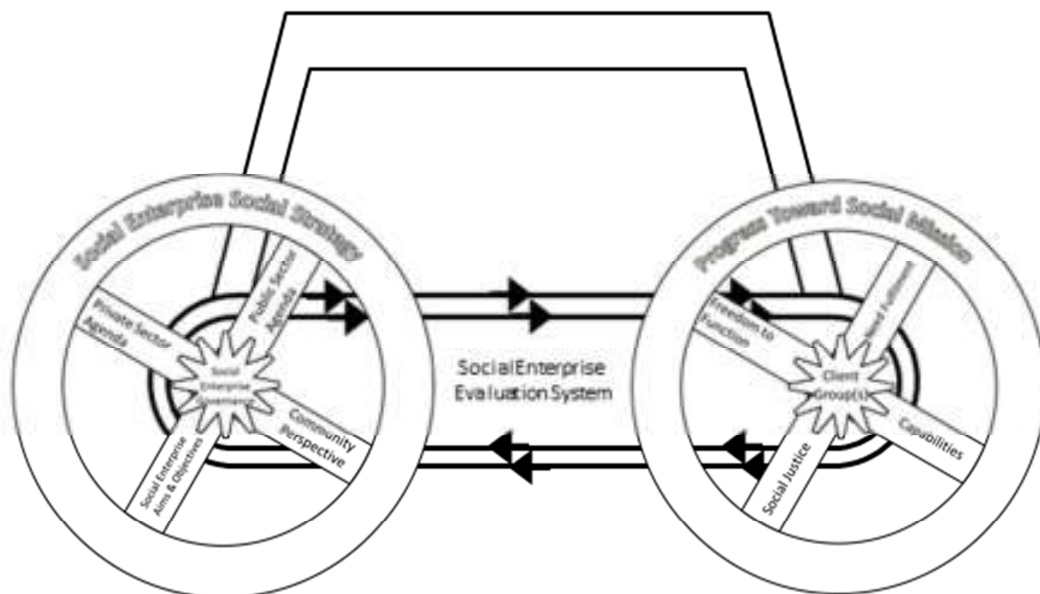


Figure 1: Governance and CSR convergence model for social enterprises

6.7.1 Social Strategy and Governance – *Rear Wheel*

Numerous studies have argued how corporations have actively invested in the development of social strategies as part of their civil citizenship

behaviour, although some scholars have argued that the focus of these strategies is to seek value for the firms (Husted et al. 2015). However, the success of such strategies is highly dependent on planning the combination of human and non-human resources reserved for potential social projects. From the findings, it can be argued that social enterprises very much need to understand, develop and implement social strategies in order to deliver on their organisational ethos legitimately and enhance accountability measures. This is something that should not be treated as a separate entity but should be embedded in their business model. The main trigger behind this impetus is to manage the tensions between exploitation of commercial opportunity and pursuit of social mission (Zahra et al. 2009). So, for a social enterprise to achieve its social objectives effectively, its governance system, when making critical decisions about issues, including the purposes of collective action, guidance for achieving its purposes, and oversight and accountability mechanisms (Stone et al. 2010: 310), must be driven by social strategy intentions.

Arguably, social enterprises are often faced with perilous challenges of government cuts in funding and loss of contracts to well-established organisations within consortia (Zahra et al. 2009). This has a knock-on effect on social enterprises' ability to manage their financial interests. Moreover, this further illustrates how the level of competition to secure funds and contracts with local authorities has been raised among third-sector organisations. This was not a surprise given the changes in the government's social policy agenda, which is driven by the cuts in public spending. This further supports the literature on how influential players within consortia can

dictate the development of a sector (Carmel and Harlock 2008). Due to complex market behaviour, corporates tend to highlight their contributions by tackling problems which lie on the surface of wider, more complex and deeper issues, and hence this serves the purpose of positioning in competitive markets (Husted et al. 2015). On this point, this research, based on the findings, argues that social enterprises need to deploy a strong social strategy to position themselves distinctively among the other types of business. To achieve such distinctiveness, social enterprises should not restrict themselves to only identifying emerging issues in society but, rather, adopt a strategy that can actually lead to the creation of real impacts. Planning and positioning have been regarded as important in the literature: the former holds a lot of importance in allocating and managing resources and the latter refers to the intention of achieving competitive position in the market (Husted et al. 2015). For social enterprises, planning an activity that generates greater social and economic benefits for clients will assist them in pursuing a competitive position in the third sector. The risk of not addressing the core symptoms of a societal issue, and, moreover, the lack of a strategic plan to tackle such issues, may put social enterprises in a disadvantageous position vis-à-vis their competitors in the third sector.

Due to the great interest developed by the government in the capacity building of social enterprises, based on the claim that this sector's business model has the potential to articulate both economic and social value for many stakeholders, strategic planning of organisational resources with the aim of achieving strategic positioning has been one of the main discussion points of this research. The findings from this research showed that many social

entrepreneurs complained of working within under-resourced streams of assets and maintaining complex organisational relationships with public- and private-sector organisations. This has raised concerns about enhancing their capabilities, particularly in the areas of skills and knowledge that can support the effective planning of organisational resources. This is where government or private-sector intervention should be based on helping organisations to manoeuvre effectively by identifying and combining an array of resources to create higher-level capabilities. One of the organisations in this research showed how its clear strategic vision enabled it to build strong collaborative partnerships with the private sector. For example, it directed corporates' CSR investment towards community benefits by planning and implementing much-needed social and economic projects in deprived communities. The organisation's claim was that it actually helped corporates to invest their money in matters which were really *local* to them and deserved support. Moreover, the projects were designed purely with the intention of benefiting those neglected groups of deprived community members. These findings support the empirical research of Husted et al. (2015), which concludes that organisations that highly value social responsibility tend to place importance on enhancing the capabilities of those working within the collaborative partnerships to achieve strategic positioning. Such practices also demonstrate how the representative of this particular social enterprise exhibits her social obligation along the lines of utilitarian ethics. The benefits were equally weighted for both the provider (i.e. corporate) and the beneficiaries (i.e. client group) in the planning and development of social projects.

Thus, this research revealed the importance of deploying strategic strands on social practices for social enterprises. Previous research has focused on how corporates can gain competitive positioning by effectively deploying organisational resources for particular social projects (Husted et al. 2015). However, the underlying aim was to comply with the voluntary duties of corporations, whereas, in contrast to this, social enterprises have mandatory obligations to benefit clients. Thus, the findings suggest how social organisations that embed social strategy in their business models can benefit for a number of reasons, including ease of showing accountability by measuring the effectiveness of resources allocated to creation of value or social outcomes, and the ability to establish trust-based collaborative relationships by achieving competitive positioning (Husted et al. 2015). This is where social organisations need to develop social strategies that use their distinctive core competencies (i.e. core ability to make a real difference in community) to strive for legitimacy and accountability. Nonetheless, as argued by Nejati et al. (2016), small firms engaging in CSR activities with long-term strategic intentions, rather than taking tactical short-term paths, enhanced returns in terms of financial performance and reputation.

6.7.2 Governance as the Hub of Social Enterprises

As presented in figure 1, governance systems serve as the *hub* at the centre of the rear wheel that connects all the *spokes* representing the various perspectives and agendas of key stakeholders, such as public, private and community, as well as their own social aims and objectives. It is clear that these key stakeholders have great influence in shaping social enterprises' governance so that boards view and understand social and ethical policies

and practices, including CSR agendas, and thus in developing businesses' social strategies to align with one another and achieve a mutual social agenda. The challenge for governance bodies, as hubs, is to allow equal space between the spokes of the wheel in order to maintain a smooth balance and prevent wobbling (i.e. drifting away from social mission) (Ebrahim and Rangan 2010; Ebrahim et al. 2014). As noted in the findings of this research, partnership consortia working towards the common vision of benefiting wider society were in actual fact difficult to achieve. This happened due to various key stakeholders' preferences regarding different contractual terms that emanate from different reference points. The ramifications for social enterprise in pursuit of mission, of which no stakeholder can arguably claim sole ownership, are that their own social mission becomes diluted or masked, thus triggering social mission drift. This resonates with the observation of Caplan (2003), who argues that there are many myths and half-truths behind the belief in shared interests among the partnerships. He argues that many actors in partnerships can appear to share values when what is actually happening is that they are persistently using the same words to mean different things. For example, partnerships in fair trade seek to address economic, social and/or environmental aspects, and hence, for a profit organisation, 'sustainability' would be interpreted as having some relationship to cost recovery; for the public sector, it would concern the strategic allocation of resources in an attempt to sustain itself in the future; and in the third sector, it would mean empowering communities and giving them a voice. Vaguely accommodating these interests can result in ineffective social policies and agendas, whereas, due to the hybrid nature of

social enterprises, policy emerging from governance should define a clear focus and differentiate between the responsibilities of the board and the management.

One of the important spokes of the rear wheel is not just giving employees a voice but embedding their perspective in policy development. As noted in the findings, internal CSR is one of the weak areas where social enterprises lack concentrated activities that really have an impact on their employees' well-being and development, which is also echoed by others in the context of the voluntary sector (Foote 2001). Also, owing to the relatively small size of social enterprises, weak HR practices are fuelled mostly by the behaviour of some large stakeholders such as public-sector organisations, who often influence the internal CSR practices of social enterprises to an extent (Cornelius et al. 2008). In addition to this, paid employees and volunteers exhibit different attitudes to working towards organisational aims. Unlike paid employees, volunteers seek a more altruistic approach to organisations and often withdraw their labour if they disapprove of the strategic direction a social enterprise is pursuing (Royce 2007). Given social enterprises' reliance on volunteers, mainly due to skills shortages, recruiting and retaining them is a key challenge raised by all respondents. From the ethical perspective, volunteers in particular occupy the dual role of client and employee, and it is social enterprises' social responsibility to invest in the well-being and personal development of their employees (as clients) as well as the performance of their employees (as an agent) (Doherty et al. 2014: 426). It can be argued that investing in employees' well-being and supporting them to develop personally and professionally by enabling their active involvement in

development of governance policies can result in eliminating some of the operational issues often faced by small social enterprises. This can further enhance one of the social enterprises' social objectives of reinjecting the social capital lost from deprived communities by enabling the long-term unemployed to secure mainstream employment (Nyssens 2006).

Given the multiple interests involved in community outreach agendas, developing effective and informed governance policies to move social enterprises in a strategic direction involves simultaneously considering organisations' stated social purposes and the perspectives of stakeholders. Such governance policies should be tailored to support the stated organisational social mission, represented by the rim of the rear wheel, which is supported by a tyre that requires regular maintenance, in the form of regular reviews of governance policies and social enterprises' memoranda of association. Nevertheless, due to the vested interests of these key stakeholders, governance in social enterprises, unlike in for-profit organisations, holds a high level of responsibility to envisage and promote policies that go beyond the traditional boundaries of compliance with laws and regulations. In order to actually make this operational, a more balanced partnership approach must be practised, rather than using rhetoric in policy change developments. The respondents equally echoed perceptions that there has been a sudden rush from all actors, including those in public-, private- and third-sector organisations, to embrace the rhetoric of social policy change to promote balanced enterprise activities resulting in regeneration of the social fabric of communities (Robinson et al. 2005).

6.7.3 Collaborative and Anticipated Governance

Dealing with the problems of social and economic/environmental issues seems to imply a new strategic approach, as the old traditional approach of pleasing influential customers has reduced the legitimacy of third-sector organisations to the extent that it is possible to maintain that social enterprise governance must change and better understand its role in accountability and legitimacy (Ebrahim et al. 2014), and anticipation and sustainability factors must be embedded within that, to develop, control and monitor the effectiveness of the CSR agenda in solving multifaceted problems. The starting point is to develop a social policy that aims to benefit primarily the core disadvantaged community groups who arguably enjoy the least benefit from regeneration activities, as opposed to businesses, and affluent newcomers in particular (Baeten 2000; Smith and Beazley 2000; Coaffee 2004; Coulson 2005). One of the frameworks on which to base social and ethical policies, as argued by Cornelius et al. (2008), is the capabilities approach. One of the aims in this research was to understand social enterprises' capacity-building practices as part of their delivery of their CSR agenda, and an extent to which Sen's capabilities theory can facilitate such; the findings highlight the weaker governance mechanisms that result in formulation of vague CSR policies. For example, social enterprises' anticipation of possible harm caused to client groups, wittingly or unwittingly, irrespective of operational challenges, leads to the argument that flaws exist in social and ethical policies that fail to articulate lasting improvement as core to their existence. Therefore, many social enterprises depend too much on partnership agendas and lack focus on their own social mission and often fall

into the trap of failing to achieve the right balance between priorities and activities (Hull 2000).

One of the findings of this research illustrates how the community perspective is the missing spoke in the rear wheel, in the extent to which their voices are heard, as presented in organisational rhetoric, but are often masked, and donned and doffed at will either by or for the convenience of other actors. This is a concern also raised by Cornelius and Wallace (2010: 79) in their review of tri-sector partnerships, many of which focus on 'procedural justice' and enabling community participation in governance structures as a means of improving understanding of community needs, as well as enabling communities to shape partnership objectives. However, this research argues that, specifically in the context of small social enterprises, local councillors on boards occupy the dual role of public-sector representative and community representative, where the former role is considered more beneficial than the latter for small social enterprises. This raises two main questions: to what extent are local councillors' views legitimate representations of beneficiaries' concerns, and to what extent do local councillors avoid the inputs from local government plans in their views on the board level of social enterprises that can potentially lead to shaping of the social enterprises' CSR agenda to primarily support the least advantaged community groups? As noted in the findings, beneficiaries' voices were limited to gaining feedback related to the outcomes of social provision, but the extent to which their voices actually enable the setting up of social objectives was highly questionable, along with their lack of representation at the board level. Scholars have identified how social enterprises increase the

extent of stakeholder involvement in their governance structures (Cornforth 2004; Low 2006; Somerville and McElwee 2010; Wilson and Post 2013) but this research shows that board members are not necessarily representative of their communities and this is mainly due to the need to sustain the dual role of achieving financial solvency and social sustainability (Doherty et al. 2014). Increases in government intervention in terms of policy change enforces social enterprises at least for reporting purposes, to have balanced representation of stakeholders (Mason 2010), but nevertheless 'distributive justice' is an issue that still prevails in small social enterprises (Cornelius and Wallace 2010). The implications of this could lead to the development of an agenda that is lacking in the voices of the beneficiaries to whom all the other stakeholders are responsible.

6.7.4 Progress towards Social Mission – *Front Wheel*

As discussed above, the rear wheel represents the core of social enterprises, where the hub (i.e. governance) is the heart of social enterprises and is critical to policy development through collaboration with key stakeholders who hold influence in shaping social enterprises' organisational agendas. Now, the front wheel of this model (see figure 1) represents the implementation of policies (i.e. practices) as well as the assessment of outcomes that were primarily embedded in governance policy expectations. For social enterprises to deliver, the front wheel's movement must be able to create long-lasting impressions on beneficiaries; policies will be of little value if they cannot successfully be implemented. Regarding analysis of the outcomes of policies, the outer rim of the front wheel represents the progress achieved towards the overall mission, identified by analysing the

performance derived from each spoke and enabling a comparison to be run by feeding information to the rear wheel connected via a chain (i.e. a social enterprise evaluation system). Hence, the rear and front wheels represent a social contract between a social enterprise and its clients. The following section will discuss the potential outcomes that a good, well-scrutinised CSR agenda aims to deliver.

6.7.5 Quality of Life, Well-being and Social Justice

As discussed in the findings, social enterprises, formally or informally, undertake many initiatives, all aimed at making significant difference in community quality of life. Initiatives affecting quality of life were health, training and development, employment, social and community connectivity, education and poverty, all underpinned by covering the broader issues of citizenship and integration into civil society. In order to be able to tackle the multifaceted issues of social and economic exclusion, social enterprises need to understand how this affects the total life situation of the individual (Holt-Jensen 2000). The development of such understanding requires ongoing interventions to assess the results generated against the pursuit of the organisational social mission. A shared common belief in improving the quality of life and well-being of beneficiaries is deeply rooted in all the social provisions targeted at the community at large.

One of the most striking elements in relation to quality of life and well-being that is an important indicator of overall social enterprises' CSR was the fact that, while social entrepreneurs used a range of expressions to exhibit their understanding, most of them indicated very little interest in ongoing collaboration with beneficiaries in order to assess the real difference made in

their beneficiaries' deprived lives. This reflects a weaker understanding of social responsibility from their point of view in an era when debate around social integration through CSR practices has been evolving.

A few individuals indicated that the beneficiaries of service users are not the continuous liability to organisation once the service tenure ends, and therefore they must be able to progress further as they are supposed to become better off through such engagements. This reflects the fact that individuals do not foresee any organisational benefit in engaging any further with beneficiaries and hence lack interest in adopting different approaches to CSR development and implementation. Moreover, it was observed that service providers placed this further responsibility onto the shoulders of government as they claimed to deliver activities based on the instructions embedded in particular service provisions' agendas. This paradoxical behaviour suggests that these key players in the delivery chain focused on distributional benefits associated with CSR practices and hence sought to control CSR activities to ensure that the competing logic resulted in the best distributional outcomes for them.

In breaking the pattern of the traditional mindset of delivering provisions and thinking beyond that, many schools of thought (e.g. Cornelius et al. 2008; Cornelius and Wallace 2010) argue, based on Rawls's idea of *social justice*, for a shift in mindset regarding how governance should operate to improve understanding of community needs and then adopt a CSR agenda to make a difference in deprived communities' well-being. One difficulty with this yardstick was that current practices lack a focus on impact creation, which has not yet been significantly explored in the context of social enterprises.

However, in their reflections on their CSR practices, some respondents indicated that positive differences were made in beneficiaries' well-being, given that their organisations were actively seeking feedback on their CSR practices to enable the enhancement of such practices, whereas some stated that more than what was currently being done was required to enable communities to grow and develop. One important factor that appeared to have become a concern among the practitioners was the realisation that time plays a pivotal role in the emergence of well-being related outcomes, mainly those which are difficult to measure due to qualitative in nature. In particular, the social entrepreneurs who provide soft social provisions – for example, community cohesiveness, social support to neglected minority groups, and sexual-health-related services – declared that sustained relationships with service users were vital to their organisational practices even when time and other resource constraints presented barriers. This was particularly influenced by the individualistic character of social provision and their guiding principle of always acting for the benefit of their clients. Moreover, engaging clients within the process of delivering social provision reflects the emotional attachment of practitioners, which was regarded as an important factor affecting their CSR practices. In such cases, social entrepreneurs were influenced, rather unconsciously, by their personal values and emotions to contrary to the organisational guidance and direction from their governing boards. These findings strengthen the framework of the ethic of care that sees the personal values and emotional attachment of practitioners (Hockerts 2015), rather than strict guidelines from governing boards, as always involved in the delivery of soft social provisions.

6.7.6 The Capabilities Approach and Civic Society

In order to understand the cracks that need to be filled, social enterprises' role in reforming civil society needs to be revised somewhat. One approach that is likely to be particularly useful in generating insights into Bowen's (1953) assertion of "businesses' obligation to pursue socio-economic goals as expected and desired by society" is Sen's (1992, 1999) capabilities approach. Much research has been done on formulating the particular dimensions of the responsibilities entailed in the paradigm of social responsibility of business people (e.g. Carroll 1979, 1995). Applying Bowen's (1953) thinking on third-sector organisations, and particularly social enterprises, this sector claims to run in line with the moral philosophy of discretionary duties of their social contract with the community (Sacconi 2006). However, much of their practices are criticised as these fall at the basic needs approach (BNA) end of the discretionary spectrum (Cornelius et al. 2008). This raises concerns regarding the ethicality of their practices in relation to their role in reforming civil society. It can be argued that third-sector organisations, and particularly social enterprises, have as a core premise of their social contract a social agenda that is about going beyond the philosophical thinking of BNA and excelling in those social responsibility policies and practices that aim to enhance the well-being and development of the communities they serve.

This research argues that social enterprises must sustain the benevolent spirit of doing *good* and avoid the mindset of competition compromising their social purpose (Bush 1992; Ryan 1999). It is a manifestation of this socially entrepreneurial spirit focused on meeting social aims that can cause deprived

communities to become part of an active and cohesive civil society. This research has highlighted the serious shortcomings of BNA in underpinning the CSR agenda, particularly in social enterprises where the focus has been placed on meeting the basic needs of deprived communities and ignoring the sustainability of social outcomes. The findings of this research support the previous criticism of the BNA in delivering a CSR agenda and imply that it has difficulties and limitations (Reader 2006). Hence, the proposed model implies that Sen's capabilities approach, as argued by Cornelius and Wallace (2010), and as opposed to BNA, can shift away from a paternalistic approach to an enabling approach. As reflected in the findings, this research identified the relationship between enhancing the capabilities of clients as part of social responsibility and anticipation of harm. The capabilities approach, as opposed to BNA, which is richer and has deeper philosophical foundations than BNA, can serve as a core normative framework for the development and evaluation of CSR. Sen (1992, 1999) argues that activities designed to improve quality of life for deprived communities must consider ultimate ends (i.e. sustainable outcomes). From the capabilities approach perspective, it can be argued that social enterprises' core obligation is to identify and resolve core social issues in order to generate sustainable outcomes for deprived communities.

6.7.6.1 The Capability Set

Third-sector organisations, and particularly social enterprises, are increasingly collaborating with public authorities, not just to set out the programmes but to seek to build consensus on best practices that would generate the best possible outcomes. Most outcomes exhibited were directed

towards improving the quality of life of clients, but increasingly lacked an understanding of what really constitutes 'quality of life'. This model emphasises using Sen's capabilities approach, and particularly the capability set, to analyse the extent to which social enterprises' social provisions are improving their clients' capabilities. Nussbaum (1999) and Sen (1999) argue that, recognising the flourishing of human life of deprived communities, focus must be placed on the enhancement of capabilities. Nussbaum (1999) and Sen (1999) classify capabilities into three types. These are *basic capabilities* (reflecting the innate ability of individuals to function as human beings), which can be transformed into *internal capabilities* (with the support of the surrounding environment), and *combined capabilities*, defined as internal capabilities combined with suitable external institutional and material conditions for the exercise of the function. For example, an employee (paid or voluntary) may possess the knowledge (e.g. through education) and abilities to use his/her voice in the transformation of health and safety in the workplace but may be restricted in doing so because of the absence of an empowering culture (a consequence of the constraints placed on the workplace culture, or combined capabilities). Renouard (2011) takes the stance of relational anthropology and argues that combined capabilities are developed by an individual entering into relationship with others.

Within this, social enterprises need to consider how clients who have acquired basic capabilities can be moved on to develop internal capabilities, and thereafter from internal capabilities to combined capabilities. It can often be seen, as noted in the findings, that sometimes enabling clients to enhance their basic capabilities seems to be an end goal that social enterprises

pursue while lacking the foresight to encourage the clients to move on to the next level of capability. Focusing on basic capabilities can be regarded as an easy choice, but the claims of eradicating poverty and other societal issues, helping deprived individuals to live human lives, require more than that in the context of the worst economic indicators, which are often associated with many post-industrial cities in the UK. This model endorses Sen's (2005a: 158) claims that identification of capabilities is context-based and therefore a concrete list of capabilities would not be defensible. This argument is further supported by the changing nature of societal issues and change in partnership agendas.

As indicated earlier, for social enterprises to create sustainable social and economic impact, they need to anticipate the harm they may cause to clients. From the perspective of the capabilities approach, social enterprises must analyse clients' eligibility for moving from one level of capability to another as part of their evaluation. The exercise of understanding the lived consequences can further enhance policy formation aimed at enabling communities to become part of mainstream economic development.

6.7.7 Freedom to Function

Sen's (1992, 1999) idea of freedom also lays another theoretical block in building the social enterprises–community relationship, where freedom concerns the 'real opportunities' that individuals have to achieve what they value or have reason to value. He criticises the underlying assumption of CSR models stemming from the instrumental perspective, which focuses on maximising the collective utility and ignores the importance of individual freedom. His line of reasoning is compatible as far as the business–society

relationship is concerned. Renouard (2011) further elucidates the capabilities approach by reflecting on the CSR-related practices of MNCs in Nigeria. The programmes implemented by such MNCs are intended to improve the living conditions of people living near the site but have “developed the paternalistic behaviour, without encouraging the individuals’ freedom to participate in the development of such programs that are dependent on the good will of the company” (Renouard 2011: 87). The capabilities approach to developing CSR activities would emphasise that individuals living near the site must be encouraged to participate in and influence the formulation of such initiatives. These considerations may be applied to social enterprises, where notable questions may arise, such as to what extent the social contract between social enterprises (Sacconi 2006) (as discussed previously in the rear wheel part of the model) and deprived communities embraces and facilitates the participation of beneficiaries, and also, to what extent social enterprises consider ‘providing real opportunities’ to be an important feature of their business–society relationship model.

As noted in the findings, the current practices of social enterprises are often credited with working well at the local level due to their ability to develop sound relationships with communities, which helps them to be very responsive to local needs. But to an extent, working with communities to understand their *needs* and then engaging in partnerships to formulate practices that are often dictated by the influence of partners alleviates Sen’s concern on lowering expectations. The findings suggest that the lack of centrality of empowering those closest to the problem (i.e. community-based service delivery) (Austin 2003) leads to an issue of adaptive preference (Sen

1999). One of the spokes in the front wheel represents the extent to which clients are given the freedom to identify the best needs based on their reflection and then the freedom to give voice to CSR practices that lack in fulfilling the need gap. In this regard, the recipients of *needs* should be given the freedom to facilitate and enable their realised functioning rather than the agents implying their justification. Although this issue, as argued in the rear wheel part of model, could be solved by actively engaging community voices in the development of agendas, at the implementation stage it is critical to measure the extent to which clients are practising freedom to access and utilise goods. Just because community voices have participated in establishing social agendas does not mean they are practising freedom in utilising those goods. It is critical for social enterprises to ensure that social practices reflect communities' voices on needs; otherwise, discrepancies would undermine their future contribution and hence lower their expectations, referred to by Sen as adaptive preference (Sen 1999).

Furthermore, as argued in the literature, community organisations have the ability to build human capacity, i.e. 'cells of people' forming a lobby force that puts pressure on representatives of local agencies to find ways of seeking the continuity of socially oriented projects (Steinerowski and Steinerowska-Streb 2012). This can only be achieved in the context of social enterprises if community voices are empowered and embedded in the formulation of the CSR agenda and there is sustainability of outcomes generated by such social provisions that are true to their concerns. Current approaches within partnership settings have been criticised for ignoring the tendency of raising community aspirations, and failing to consider the broader impacts of

initiatives (i.e. freedom to function). This is an important finding that emphasises avoiding the mismatch between policy expectations and the lived reality of how social enterprises foster freedom of function among deprived communities. This can have direct implications on the extent to which communities have the means to fully function and flourish.

The difference between BNA and the capabilities-approach-led CSR agenda is that the former imposes minimum standards of conduct on organisations and attempts to comply with standards of acceptable behaviour towards the community, whereas the CSR agenda, guided by the capabilities approach, obliges the organisation to seek positives beyond limited moral commitments.

6.8 Summary

This chapter has discussed how social enterprises view CSR based on their perceptions, mainly regarding the role they ought to perform in reforming civil society, and the convergence between CSR and social enterprises' governance systems, which is regarded as significant for delivering the CSR agenda. It was highlighted that social entrepreneurs expressed views on CSR that illustrate their pragmatic approach rather than encapsulating Kant (i.e. duties), which echoes Windsor's (2006: 98) thought "that there is unresolved debate in ethics itself" and his assertion of a "moral philosophy which is trapped between Kant (i.e. duties) and Dewey (i.e. pragmatism)" that reflects how CSR is practised in social enterprises.

Due to the nature of social enterprises' operational activities, it is very important to take contextual factors into consideration to understand what is entailed in defining CSR from social enterprises' viewpoint. Therefore, the

term CSR, which is mainly associated with large firms, is inappropriate for scaling down to social enterprises without an understanding of the peculiarities of this form of enterprise. Scholars argue that CSR is an eclectic field due to its association with many standpoints emanating from economic, ethical, political and legal philosophies (Carroll 1994, 1995; Garriga and Mele 2004; Fassin 2005; Fassin 2008; Fassin et al. 2010), all aiming to establish convergence, which leads to further ambiguity in this field. Hence, an appropriate understanding can only be developed if it emerges from the context, content and perspectives of a particular form of organisation (i.e. social enterprises from the third sector). Thus, the discussion of results suggests the emergence of new theory related to CSR in the context of social enterprises that includes economic, political (Garriga and Mele 2004) and societal perspectives to guide the policies and practices underpinning their CSR agenda. However, Garriga and Mele (2004) argue for the ethical perspective as the fourth perspective in guiding policies and practices enabling CSR understanding, while this research suggests that the ethical perspective is already embedded in social enterprises' ethos and mission, and hence the social perspective serves as another guiding principle. This is a perspective that is mainly ignored in social enterprises' CSR practices.

Rapidly growing concerns over the weaker performance of third-sector organisations, and particularly social enterprises, in terms of policy development has brought the governance systems of social enterprises into the spotlight. A broader diversity of viewpoints from many stakeholders collaborating in a partnership agenda with social enterprises with an underlying aim of performing their individual responsibilities further blur or to

an extent cause mission drift of social enterprises. This was highlighted due to many factors, such as the hybrid nature of social enterprises (Cornforth 2014; Ebrahim et al. 2014) and differences between the mindsets of social practitioners and boards of governance, which shy away from operating on the same lines of thinking, as highlighted by this research. The findings suggest that this difference is mainly driven by lack of trust and power.

In a nutshell, the findings of this research have led to the redefining of the role and responsibilities of social enterprises in performing their CSR agenda, and, within that, the way governance should be practised, such as in relation to anticipation of harm that may be caused wittingly or unwittingly by their organisational social practices. An important factor is echoed by Cornelius et al. (2008), who argue that social enterprises' CSR agendas must emphasise the two principles of beneficence. Building on the stance of Cornelius et al. (2008), this research suggests the importance of translating social strategy orientation towards CSR into socially responsible practices of social enterprises. The analysis of CSR and governance practices undertaken by social enterprises, along with the mentality of generating outcomes, has led to an emerging model of convergence of social enterprises' CSR–governance.

The next chapter concludes this thesis with a discussion of the implications of the research for social enterprises in the UK and policymakers. The limitations of the study and recommendations for further research will also be discussed.

CHAPTER 7: CONCLUSION

7.1 Introduction

The aim of this research is not to criticise third-sector organisations, and particularly social enterprises, for their great work and the contribution they make to revitalising the lives of deprived communities. Rather, the intention is to gain a deeper understanding of how social organisations view and develop ethical policies and practices, including CSR, with the aim of enhancing their clients' capabilities. The growing inclination of government to see social enterprises as the salvation to the deep-seated problems faced by most deprived communities and the paucity of research in the areas of social enterprises and CSR are the main factors of influence in conducting this doctoral study. Therefore, this research was designed to fill a gap that exists in the literature and can be considered innovative and timely given the growing interest of many stakeholders in CSR and social enterprises.

7.2 Summary of Findings

The journey of interacting with social entrepreneurs to understand their views of CSR has raised more questions than it answers. It is clear that social enterprises are not capable enough of addressing pressing social problems and, therefore, they increasingly engage in partnerships and collaborations (Takahashi and Smutny 2002; Stone et al. 2010) – leading to changes in social enterprises' views and experiences of CSR. Many governance models underpinned by resource dependency theory, stewardship theory and democratic theory were discussed in the literature to identify an appropriate

model that upholds accountability, legitimacy and transparency in organisational operations (Mswaka and Aluko 2015). None of these models explicitly demonstrates the relevance of such governance systems to delivering social enterprises' CSR agendas intended to generate real outcomes for client groups. The findings suggest that a governance system relevant to social enterprises would be one that enables collaboration and facilitates the diverse interests of various partners. Within that, there is a challenge in administering the complex and changing nature of collaborations in order to enable the development of mutual memoranda of association. In particular, once the partnership has been formed, changes in political, social and economic streams affect both the governance relationships and CSR policies and practices. This task is not made any easier by the many challenges noted in the findings, such as lack of skills and knowledge, lack of influence, and lack of transition arrangements in the context of small social enterprises. Mswaka and Aluko (2015: 66) discuss how having a for-profit approach in governance models can lead social organisations to achieve both financial and social goals, whereas this study revealed that the practices led by the governing board are more important, irrespective of any governing model, in aligning all the operational (i.e. economic) activities to fulfil organisational social ethos.

Furthermore, this study suggests that social strategy is critical to the implementation of CSR agendas emanating from governance mechanisms. It is argued that an *ad hoc* approach by social enterprises to the delivery of formal and informal social provisions represents the blurry missions and goals set out at organisational level. In a social enterprise, the organisation's

stated social purpose must be crafted carefully because it is something the organisation has to live with for its lifetime, and, most importantly, consistently deliver. However, goals can be set in such a way that they are achieved efficiently and can be measured both qualitatively and quantitatively in order to comply with the organisation's social mission. As noted in the findings and, equally, echoed in literature, mission drift prevails in social enterprises as a result of weaker governance and the absence of social strategy. While social enterprises make some significant difference in deprived communities, their current practices cast doubt on their ability to make lasting changes. Complying with such line of thinking is the key to developing successful social strategy, and anticipation of such issues plays an important role. This can enable social entrepreneurs to manage the challenge of preserving the identity of hybrid organisations, by responding adequately to market pressures from clients and partners. Moreover, the governance leadership will then be able to promote and work with those partners (i.e. public or private) who have understood and absorbed the values and priorities of social organisations (Austin 2003). Adoption of these different streams, normally associated with the for-profit sector, has influenced social enterprises to revisit social strategy emanating from their governance mechanisms. This is a significant addition to the literature, given the paucity of research on social enterprise governance and CSR.

In addition to that, this study argues the importance of delivering social enterprises' ethical and CSR stances, and the governance model that best facilitates this is the one that is most suitable or appropriate. This shows that the notion of enabled governance that converges with the CSR agenda is an

appropriate model for social enterprises, and one which enables social enterprises to deliver their organisational promise more effectively and efficiently. Enabled governance includes policies and practices based on generating real and tangible social and economic benefits for disadvantaged community groups.

7.3 Theoretical Contribution

The development of a model that emphasises, first, that governance and CSR are strongly converged rather than two separate entities, particularly in the context of social enterprises. Therefore, second, this model illustrates how the roles and responsibilities that a governance system must undertake in regard to being accountable for the delivery of organisational CSR agendas as per organisational ethos need more scrutiny and evaluation. The proposed model illustrates how the integration of such concerns has strategic importance for social enterprises achieving a dual purpose. The reality today is that highly influential partners dictate the mutual agenda and therefore demand measurable outcomes. Selecting the right partners and engaging them in strategy development would ease the pressure of reporting all the elements, particularly those that are hard to measure.

In this study, governance systems pertaining to small social enterprises were addressed to understand the processes and mechanisms that take place in relation to developing organisational social and ethical policies and practices and ensuring that their overall CSR agenda is directed towards achieving real outcomes. Given the contributions social enterprises have made to improving the lives of disadvantaged groups of communities, this study concludes by

asserting that social enterprises are lagging behind in providing an enabling environment to clients so that they can enhance their quality of life. This represents a vital constituent of social enterprises, where anticipation of harm in the CSR arena is crucial for the success and legitimacy of social enterprises' role in reforming civic society. This is primarily due to a lack of the understanding necessary to underpin their CSR agendas, along with the fact that the social enterprises studied, in the area of Bradford, are small in nature and have restricted capacity and therefore can only deliver minimal provision. It was noted that increased collaborations with public authorities were sought as a means of enhancing capacity building, which complicated the CSR agendas of social enterprises in that perceptions of social responsibility differed from one partner to another. However, some claims of cross-sector organisations working towards common CSR goals on some form of collaborative basis appeared to a large extent to be part of the rhetoric of organisational communication rather than being evident in practice. Economic and social inequalities will persist and continue to grow for as long as social practices inherit the social injustices that underpin them. In a time where the importance of social enterprises is growing, it is very important to reassess the CSR policies and practices and the nature of outcomes perceived to be generated.

This study also argues, based on the findings that practitioners should be given flexibility in their day-to-day activities, and governance interference should occur only when it is needed. Whereas, proponents of governance's active interference argue that governance fiduciary duties involve financial sustainability and therefore stress the active interference in operational

activities (Mswaka and Aluko 2015: 64). This reflects the agency theory model of governance.

In addition to this, due to sustained social pressure as a result of the for-profit sector's malpractices (Doherty et al. 2014), confusion has emerged over what determines the best governance and what is meant by CSR. However, in the context of third-sector organisations, and particularly social enterprises, good governance is vital to social enterprises' delivery of the CSR agendas that are embedded in their organisational ethos. Thus, this study ignores the notion of treating governance and CSR as separate entities and establishes the stance of treating CSR as being integral to good governance if the social agenda of social enterprise is to advance.

The main theoretical contribution of this study is its interesting findings pertaining to convergence of the CSR agenda and the governance of social enterprises (as presented in figure 1) with regard to efficient and effective delivery of social provisions with clear socially strategic intent. This is where the strategic orientation of developing and delivering CSR agendas emanating from the governance system must embed evaluation systems to assess the progress made for the deprived communities targeted. This evaluation system runs concurrently, based on outcomes generated in the areas of capabilities, needs fulfilment, social justice and freedom to function, comparing them against the policies derived from the governance systems of social enterprises.

In economies where intractable problems of persistent poverty and economic and environmental issues exert a burden on the state, social enterprises are

perceived to play a key role in sharing such burdens due to their ability to combine enterprise with the social purposes embedded in their business models (Doherty et al. 2014). Most social enterprises are still falling behind in the journey of reforming civil society through the eradication of the social, economic and environmental issues encountered by deprived communities. Therefore, identifying factors that can enhance their understanding of social responsibility agendas in terms of policies, practices and outcomes provides invaluable practical and policy implications for small social enterprises.

7.4 Research Implications for CSR and Social Enterprises

The themes that emerged from data analysis and the relationship between them, as presented in the model, represent the emergent developments in social enterprise governance in relation to the formulation of CSR policies and implementation. This research serves the dual purpose of improving academic rigour on governance and CSR of social enterprises and, in relation to the practical goal of this research, creating a more specific framework covering the main aspects of human development that social enterprises can use to evaluate and improve their understanding of CSR. It is equally acknowledged by many scholars that governance plays an important role in the success of any organisation, and hence in particular in social enterprises: the nature of the governance model influences not just the social strategy direction but also the social enterprise's outcomes (Mswaka and Aluko 2015). The model presented is intended to support social enterprises to practise governance that accounts for dynamic interests arising from diverse perspectives, reshaping the institutional order, redefining traditional

categories and establishing new ones over time due to the changing nature of societal and economic issues, in order to achieve a sustainable way of organising. However, this model is in an experimental phase where governance mechanisms are being redefined given the challenges to the avoidance of social mission drift posed by the hybrid nature of social enterprises (Ebrahim et al. 2014).

This research also suggests that social enterprises who want to improve their CSR efforts from a practical perspective must aim to actively evaluate outcomes, both quantitatively and qualitatively. The results from the 'performance evaluation' practices will enable social enterprises to revise their CSR agendas at governance level and also enhance their legitimacy, which enables them to avoid scrutiny and negative evaluation by the main resource providers (Ebrahim et al. 2014). This also emphasises the *end*, which is to maximise the benefits for clients, and hence the contributions of activities are just *means* to reach the *end*.

Lastly, practitioners need to be aware of the two principles of beneficence, *gifts freely given* and *causing no harm*, and therefore must institutionalise both principles as an integral part of their CSR agendas (Cornelius et al. 2008). The study suggests that the second principle is interpreted vaguely by practitioners, who are far from understanding the social impact that encapsulates both principles of beneficence. Hence, the anticipation of indirect and difficult-to-measure elements of social provision is critical to the success of CSR agendas.

7.5 Policy Implications

This research suggests the strong convergence between governance and CSR in the context of social enterprises, as opposed to commercial organisations where corporate governance and CSR development take place along separate lines (Lea 2004; Beltratti 2005; Aguilera et al. 2006). Unlike established charitable organisations, social enterprises lack robust codes of conduct and laws to direct and regulate their organisational behaviour. This is mainly due to the emerging and small nature of these businesses, where CSR agendas emanate from social entrepreneurs' understanding and experience, followed by identification of governance systems, as per the law, that facilitate social entrepreneurs' personal CSR agendas. Hence, as a result, social enterprises are constantly evolving codes of conduct and, often, manifest charitable codes to demonstrate their governance behaviour. Thus, this may create some implications for regulatory bodies from the politico-legal perspective, as argued by Takala and Pallab (2000), in terms of introducing laws and codes of conduct to regulate social enterprises' behaviour.

In regard to internal HR practices embedded within holistic CSR agendas, social enterprises appeared to fail to apply adequate HR policies and practices to ensure the effective management of employees. This creates challenges for policymakers, who need to force social enterprises to implement formal HR practices (i.e. they are often perceived as an additional burden) while not destroying the efforts they have made to make a positive contribution externally. Thus, the policymakers need to understand the dual nature of social enterprises (self-interest and social priority) in order to develop an approach that influences social enterprises to engage in internal

CSR (Rutherford 2000). An approach taken by policymakers to scale down traditional CSR from large firms to SMEs without understanding the peculiarities of this sector (Jenkins 2004) can cause further implications for social enterprises.

7.6 Reflections on the Limitations of this Research

This research has a number of limitations that need to be taken into account when considering its overall contribution. Methodologically, this research was limited by the small size of the sample of social enterprises in the area of Bradford in the UK. As with any qualitative research, the goal was not to provide statistically generalisable conclusions but, rather, to provide in-depth and rich data on the real experiences of social entrepreneurs and the views they hold on CSR.

Another limitation is related to the data analysis part of this research. The interpretation of social entrepreneurs' accounts was conducted solely by the researcher, underpinned by theoretical ideas presented in the social entrepreneurship and CSR literature. The researcher tried to create an explanatory (in the findings chapter) and exploratory (in the discussion chapter) framework to present the interpretation from the theoretical perspective. It is acknowledged that the findings reflect the researcher's interpretation and it was not put to the participants themselves. However, all nonverbal signs were recorded in order to position the contents during data analysis to be able to provide a refined interpretation.

In terms of internal CSR of social enterprises, the more specific offshoots of it, such as the impacts created through their HR practices, were not

investigated in depth. This is because the practice of contracting freelancers to perform certain internal and external operational activities was used to avoid long-term commitment to employees, and this therefore triggered to least response in relation to their internal HR practices. Also, due to the nature of social enterprise practices, which are oriented heavily towards external clients, internal areas necessarily received less attention than would have been the case if this research was solely focused on internal CSR.

This research focused on the owner-managers of social enterprises, due to their involvement in both governance to develop policy and their work as practitioners to put such policy into practice in the form of CSR agendas. It was observed that some social entrepreneurs were very much open to discussing the problems and issues they faced, whereas a small number of social entrepreneurs were reluctant to open up. This is because they didn't want to create the impression that there was something going wrong in their organisation.

7.7 Suggestions for Future Research

This study does not claim to signal a new trajectory that social enterprises are exploring in the field of CSR and governance; instead, it brings to the surface the core elements that, arguably, are already embedded within the ethics of social entrepreneurship and civil society reforms. An approach is required that makes it possible to see the relevance of such issues and embed them in social enterprises' mission, the achievement of which is a constant process. This research raises the possibilities of further research focusing on clients as stakeholders, to investigate how they perceive and to

what extent they utilise the outcomes of social provisions provided by social enterprises, which is arguably a time-intensive project that requires a lot of collaboration. This perspective would enable a comparison to be drawn between social enterprises' and clients' views of outcomes and hence could potentially enhance the development of the CSR agenda.

Another important aspect of future research would be to investigate the views of public-sector governing boards, and those of social entrepreneurs in particular, to gain insights into the formation, development and effectiveness of collaborations in relation to effective CSR strategy. This research only focused on social entrepreneurs who happened to be the founders of social enterprises and tended to have a major stake in organisational performance. It was observed that tension prevailed between social entrepreneurs and members of governing boards in regard to policy formulation and matters of implementation. Therefore, the driving forces of these two different sample sets would be explored to find out the extent to which these contradict or complement each other's motives, with this exploration eventually leading to institutional changes.

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Appendix 1: Semi-structured Interview Protocols

1. What do you understand by social responsibility of social organisations?
2. How do you view/define community development?
3. In what ways do you help communities to build their capabilities?
4. How do you ensure communities are actually making positive difference in their lives?
5. What do you understand by social impact when you develop your communities based practices? Can you talk about some of the indicators of social outcomes that you try to target to evaluate the effectiveness of your initiatives?
6. To what extent do you actively embed the element of social impact in your organizational social policy agenda?
7. What are main guiding principles on which you base upon your socially responsible agenda?

Wellbeing:

1. How do you view the importance of employees' wellbeing as being a social organisation?
2. What sort of formal and informal wellbeing programmes do you undertake at organisational level?
3. How do you measure the effectiveness of wellbeing programs specifically designed for your employees?
4. Can you draw upon an incident where you had noticed or identified positive shift in your employees' wellbeing and development?

5. In what ways do you consider yourself better than for-profit organisations when it comes to employees' wellbeing?
6. Do you find it challenging to meet the expectation of your employees as being a social organisation and why?

Partnerships:

1. How do you view the role/importance of partnerships with public and private sector?
2. How do you work within your partnership programmes settings which enable all the sectors to share same understanding of creating social impact?
3. In what ways such partnerships support your organisational goals?
4. Can you talk about some of the important challenges you face in maintaining such partnerships?
5. Do you experience any conflict of interests among such partnerships programmes?
6. To what extent public and private sector embeds the creating social impact as a main core to build partnerships?

Governance System:

1. What does governance system mean to you for social organisations?
2. How do you view the importance of governance system in relations to social responsible agenda?
3. Can you talk about the role of your governance system in terms of making social/ethical policies and practices?

4. What sort of guidelines do you tend to follow to base your governance system in relations to social responsible agenda?
5. How do you define the role of community in governance system?
6. To what extent do you think community perspective can really add value to create social responsible agenda?

Appendix 2: Interview Transcript Analysis (Sample)

Note: Interviews were transcribed using Microsoft word. Line by line, statements or small extracts were coded using different code names and brief memos were written in the comment box. The interview transcripts were printed off and colour coded manually.

Interview 4 – 14th July 2015

I = Interviewer, P = Participant

I: Thanks for spending time with me to be interviewed. So my question to you is— what do you understand by social responsibility from social organisations' perspective?

P: right, well, I've got 2 companies, one of them is just a normal limited company and I run as a social enterprise, there is a community interest company, so with the CIC that's very clearly defined for social benefits and um do have to report on every year, so I actually setup CIC on purpose because I believe very strongly and passionately about putting something back into the communities, so um, I wouldn't say I particularly work to any set definition of social benefits but, I believe in what we do and I am trying make sure I help a lot of people along the way, that's very strongly embedded in what I do, so it's about action rather than trying to work to a set of criteria

I: So do you use any soft guidelines that you base your actions upon them?

P: My heart, probably the answer, the way I look at it, the ~~is~~ organisations can work to a set of criteria they reporting to, and it rather like a race, if you're working along one clear path to set end ~~and~~ goal, it's a very narrow track and people tend to slow down before they hit that marker, if you're working to such social guideline ~~of~~ or social agenda, social benefit and your heart is set on social benefit, you're not working on narrow track, you're ~~not~~ working to a set target, you're working towards what can, how can I run my company to benefit people, so running a business for genuine reasons of helping people is far more important, of Course underlying those

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Comment [1x14_1]: Policy on social benefits

Comment [1x14_2]: Giving back

Comment [1x14_3]: Views on Social Benefit

Comment [1x14_4]: Giving back

Comment [1x14_5]: View on social benefits

Comment [1x14_6]: Self-Listening to self, embedded in self-beliefs/values

Comment [1x14_7]: Reporting Parameters
From the government on reporting parameters, Working with strict parameters

Comment [1x14_8]: Consequences of pressure/demand

Comment [1x14_9]: Flexibility
SEs need to be flexible how they function—this flexibility can be referred to a social flexibility

I: do you think social responsibility agenda start off from the governance system and people on the governance system understand this?

P: It will start from the governance system provided you have right people there to start with, but wrapped up into that you have then got questions of how long those people are on the board for... what's your transition arrangements—those are crucial, if you look at the governance side those people are absolutely—if they've got drive if they're absolutely crucial in the way they operate it is absolute crucial, if that is all set up effectively you could then genuinely say that they are driving it... that's a whole other area—I don't know if you've come across this before but if you look at charities for example, I will ask you this question because I ask a lot many other people this question—if you look at the board of charity operating 100 % as it should do so for the best interest of charity, for the social community benefits, all those

Comment [Int4_100]: Right people on board

Comment [Int4_101]: Time duration of board members

Comment [Int4_102]: Facilitating the replacements

"Understanding Social Enterprises' perspective on Social Responsibility Agenda – Interview 4 SIO"

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thing—out of 100 what percentage would you say charities in the UK operate top level as they should do?

Comment [Int4_103]: Example of governance malfunctioning

P: [pause] um... I don't think so, I don't think so, um I always strive not to, and I always... if I am raising expectations or um raising people's aspirations I always temper that with reality checks, it's easy to build people hopes—I give you a classic example again—I am not in for the voluntary sector I would say that up front—but if you look at—one of my criticisms for charities—a lot of them tend to follow funding, a lot of them driven by the, they need funding either to keep bringing in to cover the cost of charity or they chase funding because it is available and then they think of something they can do to match that funding—the downside of having funding is it's time limited—so they will choose a bank of beneficiaries, they will deliver it like funding, but when that funding comes to an end they've built up a level of

Comment [Int4_112]: Building hopes and expectations

Comment [Int4_113]: Funding and charity

"Understanding Social Enterprises' perspective on Social Responsibility Agenda – Interview 4 SIO"

14

expectations, they've build up a need, because they have established that as a need and they have met that need but they've also build up a dependence on that that service or whatever it is that they are delivering—what happens when that funding

Comment [Int4_114]: Funding identify the needs

I: what would happen if most of the organisations will develop a lot many people with many soft skills which increase the supply of such people and then there aren't enough jobs for these to take on, what would happen then?

P: I've just stepped down from board of a community centre based on _____ part of _____. Conversation we often had was um we provide, subsidised sessions, support services and services, and often sessions on how to cook meals (audible- 34. 03)—broadly speaking in the community centre they will come to a session, they'll eat and as soon they've eaten they're off [smiles] but this conversation we had was, the community generally speaking didn't want to pay for things, they said, they couldn't afford to pay for things—but if you continue to subsidise or provide free you're building bigger and bigger dependence on subsidise or free—so how do we overcome that).

Comment [1nb4_118]: Example of dependency culture

I: That's a challenge.

P: It's a really really big challenge, we had a sort of thing long and hard and hard about to do it and it's same for every community—if you continue to provide free or subsidise and all you can do provide a lot of training support and you give people things—are you genuinely helping those people? Are you actually in a way harming them—food bank is probably a really good example, there are pros and cons about food banks and discussion about food banks—yes they meet a need but the flip side of a lot of people argue food banks are building a dependence, they will depend on free hand outs, that's not actually solving a problem—you're focused on the symptoms rather than underlying cause.

Comment [1nb4_119]: Harming the people

Comment [1nb4_120]: Focusing on root causes rather than symptoms

I: there is this thinking developing that to reform the civil society less dependability should be sought on charity organisations and focused should be placed upon capacity building and sustainable social impact.

P: If you talk about capacity build for (audible- 35.39) sector, that's been a challenge for many many years, its—genuinely in my heart—I don't think it's going to be solved because the people who—broadly speaking the people who are in voluntary sector tend to be very passionate (audible- 35.57) in their ways they are not open to change—um there was a report what was it called now, trying to think, there was a

Comment [1nb4_121]: Rigid Culture of voluntary sector

Int. (11)

Partnership
Agenda

11

Funds and financial
solvency.

around where people have become dependent rather than seeing as a stop gap and moving on, and this is where I think conservative government are like pulling a big chequer on that, you know, but now you don't see as a something to depend on because it might not be there. 28:22

Jobs policy
factors and
implications.

I: in your partnerships you may have to report back to the funders, you may have set some sort of indicators to measure your performance and show it to them, but when it comes to judge the self sustainability, how do you measure that to report back to the may be board?

P: well sometimes the board members actually attends some of the review meetings so if a partnership been created they would allocate a board member to help oversee what is going on so they don't just my word for it they will come and observe they speak to the partners to see how things are working and whether, we have to—

would say, in the past we haven't really thought about "why would it be benefiting our organisation?" we have started to doing it more. "Is it beneficial to our organisation?" looking at how sustainability, it's been the toughest thing for us where in the past we have been busy busy trying to help other to sustain themselves we've not looked what is going on there as much, and where that comes in for us would say a small part of it now is helping working in partnerships with others, but I felt under my management that it should work both ways, we should develop others and then other should be helping to develop us—looking at our gaps. And we have

conflict on
indicators

supportive.

contracting
with other
organisations

applied for other funding streams, so we have projects here that help sustain us, so it's a bit of both—so if one goes we've still got a backup plan, if that goes we've still got a backup plan, but we are still looking to develop the funding stream within us, we are looking and we have been focused on the core funding stream. I would say we only started looking at that about 18 months ago as an organisation, we've always

Restricted
funds and
financial
solvency.

Partnership agenda
perception of a business relationship

"Understanding Social Enterprises' perspective on Social Responsibility Agenda - Interview (1) ABCD"

1st W

Employees wellbeing — managing employees

21

people that fit that category, and offer them the program and pick the people. Then in communities officially employ particular target groups and then organisations like ourselves and we would say we've got vacancy of 2 youth worker or a handy man or an admin worker and then they will go their own sort of recruitment drive and training and all that kind of stuff. Then if so many show interests they come to us and we interview them. Now one of the guys who is sat around the corner he has come in to us as a handy man we just interviewed for 2 youth workers. So they will just come to us 6 months employment contract employed by communities not employed by us

formal training of HR

② Enhancing capabilities

(audible-55:17), so it's practically a massive 30 hours a week placement over 6 months and they would participate in all the training that we offer, we will incorporate them into our budgets, training budgets they will become support workers to our projects depending on their job title. But while they are here they approve to any job

① internal HR and working from within

vacancy that I might receive in email or what admin would receive generally— everybody receives that. So we don't say to them 'oh I am sending that to you because I want you to apply for it because I don't want you to work here— that is not the reason'. You might want to apply for it you might know something who might want to apply for it, pass it on. So its not about you in terms of like me saying 'I don't want to work with you I don't like you', its developing them and they can see themselves you know that we are very opened and transparent as possible. So in terms of looking after their wellbeing, it's about getting them to think about not just themselves but other people that they might know. 56:34

Caring about and it's applied in employee wellbeing

Q: Is this coming from top bottom or is this coming from you as the manager, this culture of well-being, internal well-being of employees?

employee treatment

P: hmmm I would say that's more my theme, my approach because it's very different from my previous assessor. No. [pause] I have always been open and honest with

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→ Views ethics as a leadership and internal HR

→ Views of internal ethical HR practices.

Int (11)

Employee treatment

22

my board in terms of how I do things here, and I have got the support of, I would say, majority of the board, that's fine. Because you never know when you do need people to move on and you cannot hold people, if you train them to certain level they get experience to that level and they are knowledgeable, then they are not going to stay especially if you cap their salaries and there is not further development within the organisation in terms of coming up the ladder, they reach the point they were going to reach then they are bound to move across to something else. Which is fine but then that gives the opportunity to somebody else to come up and get trained, so everybody understands that. 57:50

too treated
and inspired
personal
managing
employees

→ leading to create flow environment...

I: Okay, you know mentioned about the government that they want to reduce this dependability culture, and you as a social organisation do tend to rely on the funds and donations, have you never thought of going on a different path and register as CIC, this will allow you to do some revenue generation activities on side to keep you self-sustained financially. 58:15

P: we are registered charity with limited company status so we are able to income generate anyway. We do accept donations, thing like that, but we have always seen its going to go back to the young people so once it meets our cost recover our costs, the rest the surplus would always come back to the young people. And it was always found that the best way to work. But if we were a CIC, may be its something that the board may consider as the way forward. But if we all think, at the moment this is where it best and as a charity we can apply for more funding than a CIC could. CIC has certain restrictions and we can where we are at the moment we can apply for statutory funding as well as charitable funding. And we are facing funds rather than being choosy but only because things have got very very difficult and certainly under the austerity measures so we are fighting for survival just like anybody else really.

① funds and
organisational
questions.

②
both parties
are cutting
funds

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Appendix 3: Use of terms

Semi-structured interviews were conducted with twelve different interviewees. The terms below show the response rate.

Terms	Response rate
Majority	Refers to more than 75% response rate
Most	Refers to between 50% - 75% response rate
Some	Refers to between 25% - 50% response rate
A few	Refers to less than 25% response rate