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Beyond Shareholder Theory

Exploring effective business models
balancing profits and purpose



Melanie van de Velde



“Beyond shareholder theory:
Exploring effective business models balancing profits and purpose”

Melanie van de Velde

Submitted in fulfilment of the requirements for
the Degree of Doctor of Philosophy

Adam Smith Business School

University of Glasgow

May 2018

AUTHOR'S DECLARATION

Except where explicit reference is made to the contribution of others, this dissertation is the result of the author's original research and has not been submitted for examination which has led to the award of another degree.

Due acknowledgement must always be made of the use of any material contained in, or derived from this thesis.

Signature

Printed name

Melanie van de Velde

To Conor, Bean and Amie, you are my sunshine

For I hope you, and all children, will grow old in a fair, green, and harmonious world





Fish Climbing Trees

Film Production

This thesis is supported by a series of three films demonstrating how social enterprises across the globe provide empowering solutions to some of society's most pressing problems like child slavery, poverty and the ticking time bomb that is the environment. Through the amazing work done by social entrepreneurs around the world, these businesses are changing the lives of millions by giving people a 'hand up,' instead of a 'hand out'.

The films portray stories and condensed learning from prominent social enterprises from different parts of the world, and sector experts such as Professor Muhammad Yunus, Nobel Peace Prize Laureate.

The films can be viewed at:

www.fishclimbingtrees.global

Villagers at case study Authentic Travel, India



A visually impaired waiter taking customers to their table at Dining in the Dark, The Netherlands



Apprentice chefs at case study Bistro, London



Apprentices at case study Logistics, UK



A homeless client at case study Sandwiches, UK



Expert interviewee Willemijn Verloop, Director Social Enterprise NL, The Netherlands



Expert interviewee Liam Black, Impact investor, UK



Expert Interviewee Peter Holbrook, CEO Social Enterprise UK



Expert Interviewee Professor Muhammad Yunus, Nobel Peace Prize Laureate, Bangladesh

With a massive thanks to David Boni for all the stunning photography

www.davidboni.com

ABSTRACT

There is increased recognition that an economy based on a ‘shareholder paradigm’ has led to detrimental outcomes for society and the environment based on the assumption that profit maximisation should occur even at the expense of silent or weak stakeholders. Theories such as corporate social responsibility (CSR), shared value and stakeholder theory have added an element of purpose to the role of business next to a profit motive. However, they focus on ‘low hanging fruits’, and fail to clarify how value creation for society is effectively integrated into strategic decisions such as “how to justify fair prices to producers in developing countries instead of minimising costs to maximise profits and shareholder return?”

This study explores how to combine the best of both social and commercial logics to effectively achieve ‘profits and purpose’. In total 93 interviews were conducted across ten case studies and sector expert interviews. First, key concepts were derived from a cross-case comparison and data analysis in the context of training and employment social enterprises in the UK. To increase robustness the proposed concepts were studied in a wider context developed from: The Netherlands, India, Ecuador, US, Bangladesh, Ivory Coast, and Ghana.

Contrary to the predominant focus in the literature warning of ‘mission drift’ suggesting to prioritise ‘purpose’, this study shows that ‘leading with the business’ leads to better outcomes. By developing a business model around market demand instead of social need a stronger financial platform is created to pursue social aims, and clients can develop their potential more in line with market demand. Key factors are proposed that contribute to better outcomes including: ‘avoiding the pity purchase’ by positioning the enterprise around the value proposition; selecting markets based on commercial potential; managing a ‘blended income stream’; and providing a ‘balanced work environment’. The findings highlight that both commercial and social logics have a role to play, contrary to studies suggesting that one logic should supersede the other, but require different emphasis in each business model area.

By adopting a macro-perspective the study gained further insights into incorporating ‘purpose’ as part of mainstream business. A ‘profits for purpose theory’ is proposed as alternative to CSR, shared value and stakeholder theory to legitimately allocate resources to create value for society beyond the limited scope of ‘low hanging fruits’. By integrating principles of justice at the core of the business model, businesses can empower individuals and communities to contribute their potential in return for fair rewards. As Adam Smith proposed by using the profit motive with strong principles of justice major issues in society can be prevented and addressed to create a better world for current and future generations.

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Many times at the beautiful old university I would envisage people throughout the centuries walking across the cloisters. I feel privileged to be part of a history of people aiming to advance knowledge that can help humanity to evolve and do things better. I am very grateful for the support by everyone at the university, from the lovely cleaners, helpful librarians and administrators. I would like to thank Doctor Anna Morgan-Thomas, for your feedback and enthusiasm which helped me keep the faith. A further huge thanks to examiners Professor Helen Haugh and Professor Andrew Cumbers for your rigorous review and your invaluable feedback.

This thesis is built upon the experiences of some remarkable people. People who changed their lives around to make this world a better place. People who braved to embark on a journey with most people telling them “it’s never going to work”. By being the pioneers and with little blueprint to follow, they had to learn many lessons the hard way. Thank you for sharing your invaluable insights that I hope will help others who are following in your footsteps. I feel incredibly honoured to share in the personal experiences of all interviewees. I have been hugely inspired by each and every one of you.

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CHAPTER ONE: INTRODUCTION

“Overcoming poverty is not a task of charity, it is an act of justice.

Like slavery and apartheid, poverty is not natural.

It is man-made and it can be overcome and eradicated by the actions of human beings.”

Nelson Mandela (Mandela, 2013)

1.1 Introduction

The story of the Grameen Bank in Bangladesh, founded by Professor Muhammad Yunus, is a real inspiration to me, as it is for many others. Shocked by the severe poverty in his country back in the 1970s, Professor Yunus began by providing small loans to women to purchase materials to weave the baskets they made for a living. Prior to this the women borrowed money from ‘loan sharks’, who in return for the loans demanded to buy their products at very low prices. The small loans provided by Professor Yunus enabled the women to sell their baskets at better margins allowing them to grow their business and household income. To expand the concept Professor Yunus established the Grameen Bank, currently providing micro-loans to over 9 million mothers, having been active in 97 percent of the villages of Bangladesh. By 2010, 68 percent of the Grameen borrowers and their families had moved out of poverty based on indicators including having three meals a day, sleeping on a mattress instead of on the floor, and the children going to school (Yunus et al., 2010, Yunus, 2007). Next to its social impact the business has achieved profitability, and high repayment rates running at 99.6 percent (Cosic, 2017). The bank and its founder Professor Yunus were awarded the Nobel Peace Prize for developing the initiative, one of the most well-known social businesses globally. It is interesting that the initiative was awarded the Nobel Prize for *Peace*, recognising the importance of addressing poverty towards a more peaceful world.

There is an increasing belief that social enterprises can help alleviate some of the world’s most pressing problems in ways that cannot be accomplished by governments or charities (Wilson and Post, 2013, Smith et al., 2013, Bloom, 2012, Bornstein and Davis, 2010, Elkington and Hartigan, 2008, Chell, 2007, Rangan et al., 2007, Yunus, 2007). The Grameen Bank provides a remarkable example of how a business can help overcome a deep rooted issue such as poverty and be profitable at the same time. Whilst there are successful examples such as the Grameen Bank, many other social enterprises struggle to overcome challenges related to combining business principles with a social mission. Such challenges often lead to ineffective performance and high dependency on funding, and at worst organisational failure (Nee, 2015, Santos et al., 2015, Dacin et al., 2011, Tracey and Jarvis, 2006).

This thesis is motivated by my own experience in running a fashion social enterprise offering training and employment opportunities to adolescent girls living in the slums in Nairobi. We faced many challenges in developing an effective business model to achieve both ‘profits and purpose’. Operating with a largely unskilled and uneducated workforce resulted in substantial issues to achieve a level of quality of products and operations facilitating a level of revenue to cover all overheads. Customers who were willing to pay prices that would enable sufficient margins had a completely different set of expectations compared to the workforce of young adolescents who had grown up in the slums, where even the cheapest item of clothing is a luxury. The quality issues were further complicated by limited available supply of consistent quality materials. Furthermore, two retail outlets had been established in the main shopping malls in Nairobi based on proximity to the social enterprise but with limited sales potential. Following closure of the retail outlets in Nairobi, we subsequently targeted more promising markets further afield in tourist destinations in Africa, and in overseas markets in Europe and Asia. After reorganising the social enterprise and investing in training, simplified designs, and implementation of more rigorous processes, we eventually managed to develop better quality products. Although there were many improvements the social enterprise kept operating on a fairly small scale. The investments made were not sufficient to enable the required changes to develop a financially sustainable model. Without the required growth, the social enterprise struggled to establish a self-sustainable business and remained reliant on funding, creating a fragile future. At the time of writing this thesis I heard from the management in Nairobi that funding is being reduced and that the organisation will likely not survive, leaving the girls to face an uncertain future.

Developing a business to serve a social purpose proved much more complicated compared to years of successfully running commercial projects prior to managing the social enterprise. The challenging journey inspired me to learn more about how to successfully combine a commercial and social mission. By studying the business models and experience of exemplary social enterprises and sector experts this thesis aims to enhance understanding of how to design effective business models that enable both ‘profits and purpose’. This chapter sets the contextual background for the thesis firstly by introducing the concept social entrepreneurship in section 1.2. The main objectives for the study are outlined in 1.3, followed by an overview of the thesis structure in 1.4.

1.2 What is social entrepreneurship?

Social enterprises can be broadly defined as businesses that trade to tackle social problems, improving communities, people's chances in life, or the environment (Villeneuve-Smith and Temple, 2016). Although social enterprises can address a variety of social aims, many aim to alleviate problems related to poverty, inequality and social exclusion of marginalised groups in society (Teasdale, 2010). The concept of social entrepreneurship is not new (Moizer and Tracey, 2010). Several authors refer to Robert Owen's mills at New Lanark in Scotland as an early example of a social enterprise dating back to 1820 considering the factory's emphasis on improving the welfare of employees and their working, educational and cultural lives (Roy et al., 2015, Harrison, 2009, Alter, 2007, Shaw and Carter, 2007). Social enterprise initiatives have seen a rapid growth over the last three decades (Bosma et al., 2016, Dacin et al., 2011, Dees, 2007, Austin et al., 2006). A recent study by the Global Entrepreneurship Monitor estimates that nearly a third of start-up activities globally in 2016 comprise of social entrepreneurship compared to commercial ventures (Bosma et al., 2016). Recent estimates suggest that there are 70,000 social enterprises in the UK, employing around a million people (Villeneuve-Smith and Chung, 2013). Estimated growth numbers of social entrepreneurship are debated (Jamieson, 2013, Teasdale et al., 2013) due to unclear boundaries of what qualifies as a social enterprise. However, there is a level of consensus that social enterprises are a growing phenomenon.

Interest in social entrepreneurship has grown rapidly over the last years by scholars, practitioners and policy-makers around the world (Doherty et al., 2014, Wilson and Post, 2013, Smith et al., 2013, Chell et al., 2010, Kerlin, 2010). Scholars have published more than 500 new articles on social entrepreneurship over the last five years (Bosma et al., 2016). Several governments are implementing policies aimed at stimulating social entrepreneurship. New legal structures have been introduced to support the phenomenon such as the Benefit Corporation in the US and the Community Interest Company (CIC) in the UK (Cho et al., 2017). The United Nations and European Union have also implemented policies and programmes to support social enterprise initiatives (Bosma et al., 2016).

1.2.1 Social entrepreneurship typology

More recently, scholars have begun to divide social enterprises into categories in order to provide more clarity on the different types of organisations facing a different range of challenges (Santos et al., 2015, Besharov and Smith, 2014, Ebrahim et al., 2014, Smith et al., 2013). To illustrate, Smith et al. (2013) suggest four different types of social enterprises as summarised in table 1.

Social enterprise type	Aims and approach
Training and employment social enterprises	Social improvement through skills development, training and employment
Human and environmental welfare	Improvement through products, processes and services, such as energy efficiency
Fair Trade	Shifting power and resources to improve market conditions for producers in developing countries
Providing goods and services	Providing goods and services to previously disenfranchised customers such as micro-finance organisations, and ‘bottom of the pyramid’ (BOP) organisations delivering affordable products and services to people living on the lowest incomes

Table 1: Social enterprise typology

The four types can be divided into two categories. The first category includes the first three types illustrated above, each pursuing social aims through their methods of production such as work-integration, fair trade, ethical finance, and green energy (Huybrechts et al., 2014). The fourth type forms a different category by pursuing social aims through the result of production such as welfare services, community services, home care, health care, and waste recycling (Huybrechts et al., 2014). The two categories are visualised in figure 1. In the first category, the clients of the social enterprise are part of the value or supply chain and can be different from their customers. An example is a restaurant providing training and employment opportunities to previously homeless people, a recruitment company for visually impaired people, or a chocolate company aiming to improve the conditions for cocoa farmers in Africa through fair pricing and long-term relationships. By contrast, in the second category the clients, often referred to as beneficiaries, are also the customers of the social enterprise. Examples in this category are social enterprises providing affordable housing, eye-care, or water-filters to people living in poverty. This second category would support homeless people or cocoa farmers with affordable support they are not able to provide for themselves. By comparison, the first category aims to improve the livelihoods of clients such as homeless people or cocoa farmers by providing opportunities to leverage their talent and labour, and to be fairly rewarded for this contribution. By improving their livelihoods the clients in turn are in a better position to afford the services such as housing, medical care or water filters themselves. The various categories and types of approach can also be combined. The focus of this thesis is predominantly on the first category of social enterprises, reflecting the majority of social enterprises trading to the general public with the aim to support vulnerable people, create employment opportunities, and to address social exclusion (Villeneuve-Smith and Temple, 2016).

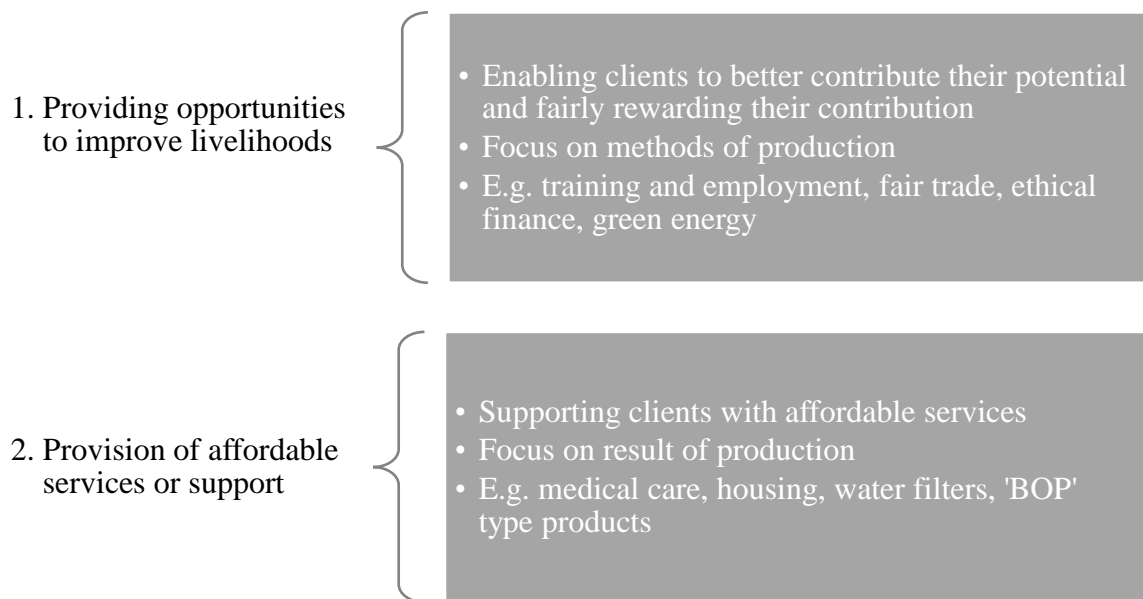


Figure 1: Two categories of social entrepreneurship

1.2.2 The ongoing definition debate

There has been an ongoing debate about the definition of social entrepreneurship, with no single definition to date declared as ‘the one’ (Alegre et al., 2017, Defourny and Nyssens, 2017, Ridley-Duff and Southcombe, 2012). Most authors agree on two defining characteristics of a social enterprise. Firstly, there is a level of commercial activity to generate ‘earned income’ versus solely relying on charitable or public income; and secondly the prioritisation of social goals above wealth creation (Doherty et al., 2014, Santos, 2012, Peattie and Morley, 2008, Mair and Marti, 2006, Peredo and McLean, 2006). A definition commonly used in the UK in line with those two characteristics is the government-proposed definition “A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners” (DTI, 2002, p.13).

The main disparities in the definition debate can be summarised around four main themes. The first theme evolves around the extent to which a social enterprise relies on ‘earned income’, derived from selling products or services versus depending on other types of funding such as grants or donations. The level of earned income required for an organisation to be categorised as a social enterprise varies from minimal to total reliance on trade (Doherty et al., 2014, Austin et al., 2006). By applying the ‘earned income’ criterion social enterprises are encouraged to increase their revenue from selling products and services versus depending on funding and donations. Some argue that social enterprises should strive

for their income to exist solely out of earned income through trade (Yunus, 2007, Boschee and McClurg, 2003). There are merits in encouraging social enterprises to increase their earned income, such as greater sustainability, financial freedom, and scalability (Nicholls, 2006). However, there is a counter argument that some level of dependency on philanthropy or subsidies is acceptable and desirable for social enterprises, depending on their purpose (Nicholls, 2006). Furthermore, a question can be raised as to whether it is fair for customers to pay indirectly for costs involved with training people from a disadvantaged background, or whether such additional costs should be funded by other types of funding?

The second theme in the debate comprises of varying views as to how the ‘prioritisation of social aims over private wealth’ is defined and should be controlled. For example, there is no agreement as to if and how much profit can be returned to shareholders, or whether assets can be sold for private gain. Professor Yunus (2007) argues that in order to qualify as a ‘social business’, zero dividend should be allocated to shareholders to ensure full focus on the social mission. The ‘social business’ philosophy of Muhammad Yunus has been adopted in many business schools (Bosma et al., 2016). Others are more flexible about controlling shareholder return. For example, Social Enterprise UK states that “We believe that more than 50% of an organisation’s profits should be reinvested to further the social or environmental mission” (Socialenterprise.org.uk, 2012). Policy makers have started to implement mechanisms with the aim to control the prioritisation of social aims versus generating private wealth. In the UK the legal structure Community Interest Company has been implemented that includes an ‘asset lock’, preventing assets to be sold for private gain (Gov.uk, 2016).

A third theme involves a disparity around additional defining criteria of a social enterprise such as the innovative nature of a social enterprise often referred to by scholars (Doherty et al., 2014, Bridgestock et al., 2010, Chell et al., 2010, Murphy and Coombes, 2009, Zahra et al., 2009, Austin et al., 2006, Peredo and McLean, 2006). Some authors indicate that the innovativeness of social enterprises is a consequence of having to find ways to overcome the challenges resulting from their dual mission, such as resource constraints (Doherty et al., 2014, Bridgestock et al., 2010, Di Domenico et al., 2010, Amin, 2009, Murphy and Coombes, 2009). Whilst innovation can be an important part of any organisation’s strategy to stay competitive, this thesis takes the view that it is not a defining characteristic for a social enterprise, as many social enterprises achieve sustainability and social outcomes through delivering tried and tested services (Amin, 2009).

1.2.3 At the forefront of a more ‘socially enterprising economy’

Social entrepreneurship has been recognised as having the potential to contribute to a more sustainable economy (Doherty, 2017, Porter and Kramer, 2011). A fourth area of debate is whether social entrepreneurship should be seen as part of the mainstream economy or as a separate phenomenon. Although some scholars have suggested social entrepreneurship to be a continuum, very few view social entrepreneurship as part of mainstream business (Battilana and Lee, 2014, Doherty et al., 2014, Austin et al., 2006). Most current definitions and validation systems such as labels and legal structures have treated the phenomenon social enterprise as a dichotomy, dividing social enterprises and businesses into different categories. Examples are legal structures such as the Community Interest Company in the UK, and the Benefit Corporation in the US.

Whilst most scholars and policy makers view social entrepreneurship as a separate phenomenon, mainstream businesses have increasingly begun to consider if and how to integrate a social purpose next to pursuing a profit motive. A recent survey across 10,000 respondents in the UK, US and seven other countries indicates that 90 percent of consumers expect companies to do more than make a profit by addressing social and environmental issues (Ebiquity, 2016). 84 percent of consumers said they would seek out responsible products whenever possible, and 80 percent of consumers indicate that they would tell friends and family about a company’s CSR efforts. In addition to consumer preferences, recent research indicates that job seekers, especially younger generations, prefer to work for companies delivering social as well as commercial outcomes (Deloitte.com, 2017). The survey results indicate that of those born between 1981 and 1996, 62 percent want to work for a company that makes a positive impact.

Increasingly, the role of the corporation based on the traditional shareholder perspective is questioned (Porter and Kramer, 2011, Harris-White, 2006, Mintzberg et al., 2002). Whilst industrialisation has brought many benefits, goods and services have been produced for short-term gains at the expense of the long-term health of our planet and societies (Szekely and Dossa, 2017). To address major issues such as global warming and one billion people living in extreme poverty on less than 2 US dollars per day, business has an important role to play in advancing the sustainability agenda (Szekely and Dossa, 2017). With companies increasingly engaging in activities benefiting society and planet, a question can be raised as to if and how social enterprises differ from companies pursuing social aims. Yunus et al. (2010) propose that social business could be a factor in changing the role of the corporation based on a traditional capitalist system to some extent, by helping academics and

practitioners to challenge the current shareholder paradigm. However, Yunus strongly emphasises social business to be kept separate from traditional business, allowing zero percent shareholder return to keep a clear focus on the social purpose of the venture (Yunus et al., 2010). Crane et al. warn of rethinking the role of business without questioning the sanctity of corporate self-interest, and to restore legitimacy without considering ingrained cultures and the role of the financial markets (Crane et al., 2014). Porter and Kramer propose that it is not realistic to eliminate corporate self-interest and propose a 'shared value theory' suggesting corporations to engage in 'win-win solutions' benefiting both social and financial goals, such as energy savings leading to both cost savings and environmental improvements (Porter and Kramer, 2011).

Theories such as CSR, shared value and stakeholder theory have begun to give 'purpose' a role in management decisions, next to 'profits'. However, these theories tend to limit their focus on business reducing their negative impacts or externalities, or at best consider 'win-win' initiatives (Szekely and Dossa, 2017). Moreover CSR, shared value, and stakeholder theory lack guidance on how to overcome challenges arising from conflicting social and financial aims beyond 'win-win' solutions (Melé, 2009, Campbell, 2007, Margolis and Walsh, 2003). This thesis further explores the differences between traditional businesses and social enterprises in upcoming chapters, and proposes key underlying principles towards a 'profits for purpose' theory, to encourage growth of social entrepreneurship as part of the mainstream economy. The use of the concept 'profits for purpose' is different from references to 'profits and purpose' throughout the thesis as follows. In the thesis title and throughout the thesis reference is made to balancing 'profit and purpose' implying the possibility of different emphasis on financial and social aims within the business model. The proposed concept of 'profits for purpose' introduced in Chapter Six implies a business adopting a paradigm of viewing their role to first and foremost create value for society, using the profit motive as a 'means to an end'.

1.3 Thesis aims and approach

Despite the potential of social enterprises to address critical issues in society such as poverty and inequality, there is a lack of knowledge of how to overcome typical challenges arising from conflicting aims. By pursuing a social mission through a business venture, a social enterprise combines commercial and social aims, often referred to as their 'dual mission' (Doherty et al., 2014, Banerjee and Duflo, 2011, Dacin et al., 2011, Ridley-Duff and Bull, 2011, Teasdale, 2010, Peattie and Morley, 2008, Mair and Marti, 2006, Peredo and McLean, 2006). Finding the right balance between these two often conflicting objectives tends to

create the main challenges for a social enterprise to achieve their social purpose as well as financial sustainability (Santos et al., 2015, Besharov and Smith, 2014, Doherty et al., 2014, Battilana and Dorado, 2010, Zahra et al., 2009). There are inspiring examples such as the Grameen Bank that demonstrate it is possible to achieve both commercial and social aims (Yunus, 2007). However, scholars suggest that social enterprises are often fragile organisations struggling to manage challenges due to competing objectives, and to achieve financial sustainability (Santos et al., 2015). Achieving the dual mission is further complicated by having ‘no blueprint to follow’ (Wilson and Post, 2013). Long-term sustainability of social enterprises depends on understanding how to overcome challenges leading to deficient performance or organisational failure (Moizer and Tracey, 2010).

There is a gap in our knowledge and understanding of how to address such challenges arising from combining commercial and social aims. Scholars call to explore this phenomenon in the field of business strategy, arguing that it is the fundamental design of the business model that makes the achievement of commercial and social aims possible (Wilson and Post, 2013, Hamby et al., 2010). A business model can be defined as a blueprint of the business logic of a company to make money, or in other words what it offers, to whom it offers this and how it can accomplish this (Osterwalder, 2004). Osterwalder describes the relationship between a business model and strategy by defining strategy as the vision, goals and objectives of the company and the business model as the translation of a company’s strategy into a blueprint of the company’s logic to earn money.

This thesis sets out to explore how social enterprises can be more effective in achieving their dual mission by studying the business models and experiences of ten prominent social enterprises in different parts of the world. In total 93 interviews were conducted. Across the case studies 74 interviews were conducted with clients, customers, senior management and founders. A further 19 interviews were conducted with leading sector experts to learn from their experiences and observations across a large number of social enterprises. Expert interviewees include Professor Muhammad Yunus, Nobel Peace Prize Laureate and Founder of the Grameen Bank; Peter Holbrook, CEO Social Enterprise UK; Liam Black, Impact Investor, and previous CEO of social enterprises such as Jamie Oliver’s Fifteen; and Willemijn Verloop, Director Social Enterprise NL in The Netherlands. Building on the valuable experience of the interviewees and case studies, the study provides several illuminating insights into key factors as part of the social enterprise business model that lead to a strong financial platform to effectively create value for society.

The research journey evolved into the following three main areas of inquiry:

1. First, how can the challenges arising from conflicting commercial and social aims be overcome? How can competing commercial and social logics be balanced effectively as part of the business model to enable both ‘profits and purpose’?
2. Secondly, what are key differentiating factors between social enterprises delivering more social impact compared to others? What is it about social entrepreneurship that leads to more structural long lasting solutions to issues such as poverty and inequality compared to traditional charitable solutions?
3. Thirdly, how does a social enterprise differ from a traditional business? And how can social entrepreneurship be encouraged as part of the mainstream economy?

Individually, and collectively these questions aim to develop an understanding of how stronger business models can be developed to successfully combine ‘profits with purpose’.

1.4 Thesis structure

Theoretical perspectives relevant to the key research findings are discussed in Chapter two, highlighting gaps in the literature related to the main contributions of the research findings. Chapter three provides an overview of the research design, clarifying the methods used to develop understanding of how social enterprises can develop effective business models to achieve their dual mission. The key concepts of grounded theory are explained, and the context, sampling strategy and data collection are justified. Data underpinning the analysis were collected based on five prominent social enterprises in the UK, and five further case studies operating in The Netherlands, Ivory Coast, Ghana, India, Ecuador and the US, meeting calls to study the phenomenon in a global perspective (Kerlin, 2010, Doherty et al., 2014, Bosma et al., 2016).

Having clarified the methodological choices, the thesis continues by discussing the findings in the following three chapters. Chapter four explores key drivers as part of the social enterprise business model to effectively achieve profits and purpose. The findings are based on analysis of all 93 interviews and a comparison of the financial and social outcomes and key business model drivers across the case studies. Chapter five proceeds by discussing a cross-case comparison highlighting the main factors driving social impact. The concept of ‘justice versus charity’ is emphasised, proposing key differentiating criteria between charitable support and social entrepreneurship. Building on Chapter four and five, Chapter six proposes how to effectively combine ‘profits and purpose’ as part of the mainstream

economy. Finally, Chapter seven concludes by summarising the main contributions and limitations of this study, and suggested avenues for future research.

The thesis structure is summarised in Figure 2.

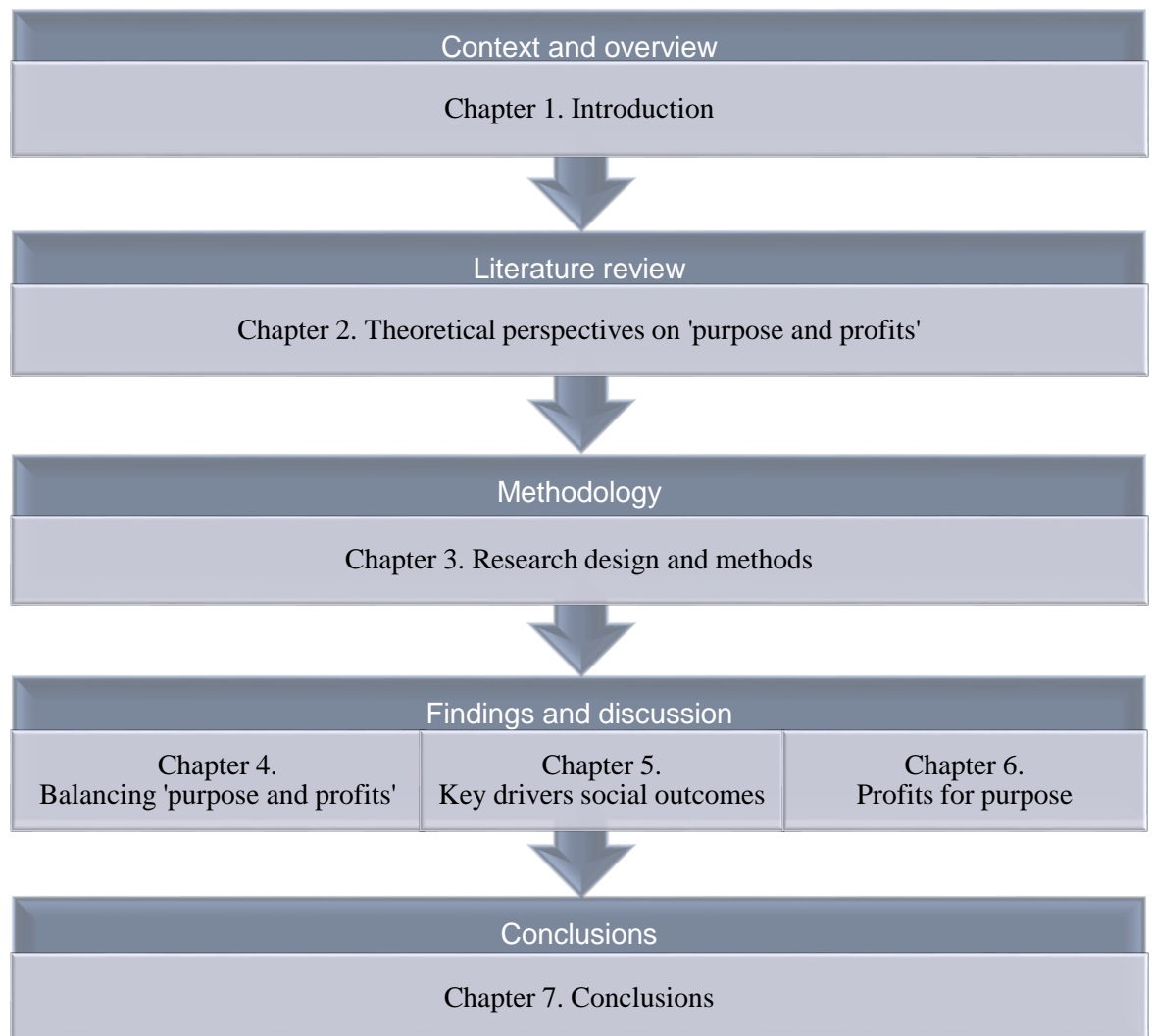


Figure 2: Thesis structure

CHAPTER TWO: THEORETICAL PERSPECTIVES ON ‘PURPOSE AND PROFITS’

“On the face of it, shareholder value is the dumbest idea in the world. Shareholder value is a result, not a strategy. The main constituencies are your employees, your customers, and your products. Managers and investors should not set share price increases as their overarching goal. Short-term profits should be allied with an increase in the long-term value of a company”

Jack Welch, CEO General Electrics (Guerrera, 2009)

2.1 Introduction

Early literature on social entrepreneurship predominantly focused on heroic tales and positive outcomes (Bornstein and Davis, 2010, Elkington and Hartigan, 2008, Yunus, 2007, Bornstein, 2004). Famous success stories such as the Grameen Bank attracted attention to social entrepreneurship as a promising vehicle to address major issues in society (Smith et al., 2013, Wilson and Post, 2013, Bloom, 2012). However, the rather one sided initial focus on successful examples did not reveal the difficulties faced by many other social enterprises. More recent studies have highlighted the challenges arising from combining both a commercial and social mission, often referred to as the ‘dual mission’ (Doherty et al., 2014, Banerjee and Duflo, 2011, Dacin et al., 2011, Ridley-Duff and Bull, 2011, Teasdale, 2010, Peattie and Morley, 2008, Mair and Marti, 2006, Peredo and McLean, 2006).

The combination of conflicting social and commercial logics is seen as the main cause of ineffective strategies leading to deficient performance or organisational failure (Santos et al., 2015, Besharov and Smith, 2014, Doherty et al., 2014, Wilson and Post, 2013, Battilana and Dorado, 2010, Moizer and Tracey, 2010, Teasdale, 2010, Zahra et al., 2009, Austin et al., 2006, Harjula, 2006). There is a lack of understanding of whether and how such challenges can be overcome, especially in the field of strategic management (Wilson and Post, 2013, Hamby et al., 2010). Managers have no blueprint to follow of how to make strategic decisions effectively in favour of social or commercial logics to achieve ‘profits’ as well as ‘purpose’. For example, when faced with a decision to recruit more skilled and experienced people, or whether to take on homeless people or refugees as apprentices what should be prioritised? Can and should the social enterprise incur higher training and management costs to achieve a social purpose? And what if that means that these additional costs put the financial sustainability of the social enterprise at risk? Or, when faced with a decision to locate the enterprise in a deprived area with much social need, but limited market potential, or somewhere with more promising commercial opportunities, what matters more?

Recent studies have begun to explore how prioritising commercial or social logics impacts on the tensions experienced by social enterprises (Woodside, 2017) and the success of the organisation (Battilana et al., 2015, Jay, 2013, Smith and Lewis, 2011). Whilst these studies provide valuable insights into possible ways to maintain a certain balance around the dual mission and prevent certain tensions they do not clarify as to how strategic decisions can be made as part of the business model to effectively achieve ‘profits’ as well as ‘purpose’. This study aims to contribute to this gap in our understanding by exploring key factors as part of the social enterprise business model that enable better financial and social outcomes.

This chapter sets out theoretical perspectives that relate to the findings from the study. In grounded theory methodology, the literature review is mainly conducted as part of a comparison with the key findings. Theoretical concepts and framework are developed following data collection and analysis, rather than derived from a literature review at the start of the research. However, the literature and existing theories related to the proposed concepts are presented here first ahead of the findings and discussion chapters, for advance clarity and to follow the same order as most academic publications.

First, perspectives on competing social and commercial logics are explored as part of recent studies in the context of social entrepreneurship in section 2.2. The combination of social and commercial aims is not unique to the phenomenon social enterprise. Businesses pursuing commercial targets increasingly adopt social initiatives, albeit in different ways and to a different extent. Section 2.3 explores why ‘profits and purpose’ should be combined as part of the mainstream economy. By clarifying *why* corporations should pursue creating value for society, instead of a sole purpose to maximise shareholder return, important insights are gained into *how* to combine the profit motive with a social mission. Section 2.4 draws on theoretical perspectives on combining ‘profit with purpose’ as part of mainstream business, namely CSR, stakeholder theory, and shared value. The three strands provide valuable insights into combining social aims with commercial aims, but are criticised for lack of clarity of how to overcome challenges related to combining ‘profit and purpose’, and for issues around the legitimacy of these theories. Section 2.5 introduces the concept that social entrepreneurship is not a separate phenomenon but a trajectory as part of the mainstream economy. Risks and opportunities of mainstreaming social entrepreneurship are explored drawing on comparisons with the mainstreaming of fair trade. Finally, the chapter concludes with a summary of the main shortfalls in extant theory of how to overcome challenges arising from combining profits and purpose in section 2.6.

2.2 Perspectives on balancing the social enterprise dual mission

Theoretical perspectives on how to overcome challenges arising from the social enterprise dual mission are in its infancy. If (aspiring) social entrepreneurs, scholars, or policy makers turn to existing literature for guidance as to how to navigate the often competing social and commercial logics, they would likely conclude the following. Firstly, they would predominantly be warned against the risk of ‘mission drift’, mostly referred to as the commercialisation of the enterprise on the longer term to the detriment of the social mission (Santos et al., 2015, Ebrahim et al., 2014, Smith et al., 2013, Brandsen and Karre, 2011, Mersland and Strom, 2010, Yunus et al., 2010). For example, the social mission can drift to attract capital to grow the enterprise, leading to a shift in focus on commercial aims to deliver a return for investors (Battilana et al., 2015, Ebrahim et al., 2014). However, the reader may be confused by contradictory studies highlighting a lack of commercial focus as the main reason for deficient performance or failures (Bruneel et al., 2016, Tracey and Jarvis, 2006). The contradicting findings of whether prioritising commercial or social aims leads to better outcomes provide little clarity of how to make strategic decisions when ‘profits and purpose’ are not aligned. Recent studies have begun to propose ways to integrate social and commercial objectives within the organisation, for example through recruitment and socialisation policies (Battilana and Lee, 2014, Battilana and Dorado, 2010). Whilst these studies provide valuable insights into how to combine different logics into one organisation, they do not clarify as to how prioritising either commercial or social aims in strategic decisions impacts on the financial and social outcomes of the enterprise.

2.2.1 Paradox and contradictions around prioritising profits or purpose

Recent studies have begun to explore how prioritising social or commercial aims impacts the dual mission. Scholars highlight a paradox where prioritising social purpose has both positive and negative consequences for social performance (Battilana et al., 2015, Jay, 2013, Smith and Lewis, 2011). Battilana et al. (2015) suggest that emphasising the social mission leads to enhancing social outcomes, but also indirectly weakens social performance by reducing economic productivity. They indicate that reduced economic productivity due to employing staff with less experience in managing commercial operations decreases the resources available with which to pursue the social mission. Similarly, authors indicate that prioritising commercial aims can strengthen social performance due to improved financial resources but can also lead to the social mission to drift (Santos et al., 2015, Ebrahim et al., 2014, Mason and Doherty, 2014). Whilst these studies highlight complexities of prioritising social or commercial aims, they reveal little of how to overcome such challenges.

A recurring theme in the social entrepreneurship literature related to prioritising commercial or social mission is the warning to avoid ‘mission drift’ (Santos et al., 2015, Ebrahim et al., 2014, Smith et al., 2013, Brandsen and Karre, 2011, Mersland and Strom, 2010, Yunus et al., 2010). Studies highlight that social enterprises risk prioritising their focus on investors or customers over the clients they aim to support to secure financial resources to sustain and grow the enterprise, and therefore potentially neglect their clients and social aims (Battilana et al., 2015, Ebrahim et al., 2014). The predominant focus in the literature on ‘mission drift’ leads to the impression that social enterprises should prioritise their social mission over commercial objectives in order to maintain sufficient focus on the social purpose. However, other studies highlight the reverse risk of prioritising social aims to the detriment of commercial aims (Bruneel et al, 2016, Tracey et al., 2011). For example the main reason for the financial failure of Aspire, a well-known work integration social enterprise in the UK, was found to be deficient commercial performance due to too much focus on the social mission (Tracey et al., 2011). The proposed paradox and contradictory findings point to the complexities around prioritising social and commercial aims. Following these literature streams it remains unclear as to whether and how to prioritise commercial aims versus social aims in order to effectively achieve both profits and purpose?

2.2.2 Integrating social and commercial aims

Recent discourse explores certain mechanisms that social enterprises adopt to balance commercial and social aims. The focus of those studies has mostly been on how to balance competing institutional logics into one organisation. Institutional logics are defined as beliefs and practices guiding the behaviours of actors in their organisation (Battilana and Lee, 2014, Greenwood et al., 2010), and providing the ‘rules of the game’ (Jay, 2013). In the context of these studies social enterprises are studied as a ‘hybrid organisational form’. Hybrid organisational forms are defined by drawing on at least two different sectoral paradigms, logics and value systems (Doherty et al., 2014). A main feature of hybrids is that the logics they embody are not always compatible (Greenwood et al., 2011). Commercial organisations are traditionally expected to prioritise value capture for their owners, and social sector organisations are expected to prioritise value creation for their clients (Santos et al., 2015). Social enterprises combine competing logics of both value capture and value creation, resulting in what some scholars indicate as the key challenge social enterprises face to align activities that generate profit with activities that create impact (Santos et al., 2015). Commercial logic is structured around selling products and services on the market to produce an economic surplus ultimately to generate private wealth for the owners. Commercial

organisations can serve social needs, but the main aim of providing their services is a means to achieve the profit appropriation goal (Pache and Santos, 2013). Logics related to the social mission can be defined as the value created by the organisation for society in the achievements of environmental benefits and social gains (Santos et al., 2015). There are varied views on what defines social value. Battilana et al. (2015) define social performance as the degree to which an organisation is effective at producing positive social outcomes. For example, in work integration social enterprises, the social impact can be assessed by the proportion of clients that are able to find and retain employment (Battilana et al., 2015). Scholars also refer to other relevant indicators such as social status, self-esteem, health, family stability, and well-being (Smith et al., 2013).

Studies that explore how to integrate commercial and social logics suggest adoption of techniques such as balancing the workforce composition through hiring and socialisation policies, incentives and control systems (Battilana and Lee, 2014, Battilana and Dorado, 2010). Other recent studies indicate the importance of balancing culture and leadership (Besley and Ghatak, 2017, Lee et al., 2016, Battilana and Lee, 2014), monitoring of management, and organisational governance (Ebrahim et al., 2014). To illustrate, a study by Battilana et al. (2015) on work integration social enterprises in France proposes that ‘social imprinting’, defined as early emphasis on the organisations social mission, plays a critical role to maintain their focus on achieving their social aims. They suggest that such emphasis can be achieved by recruiting staff with a social work background. To balance commercial and social logics they propose to allocate responsibility for social and commercial activities to distinct groups, accompanied by ‘spaces of negotiation’ to encourage staff to discuss and agree daily trade-offs they face across social and commercial activities. To enable effective functioning of the spaces of negotiation they propose ‘socialisation processes’ to achieve a common ground between the different groups such as bi-annual retreats, training, internal communications, and job shadowing. Whilst the study by Battilana et al. (2015) proposes selection of staff from either commercial or social backgrounds, other studies propose selection of staff members with commitments to both identities to address dual objectives (Smith et al., 2013). Further studies refer to the importance of balancing external relationships such as with providers of financial capital (Battilana et al., 2015). Others explore possible legal frameworks such as CIC in the UK and benefit corporations in the US to increase the legitimacy around combining both commercial and social aims, with scholars indicating a lack of awareness and acceptance of such frameworks (Battilana and Lee, 2014).

The studies summarised above provide valuable insights into the overall prioritisation of commercial or social logic and possible ways to maintain a certain balance around the dual mission. However, they do not address the root causes of the fragile nature of social enterprises as a result of their hybrid nature and do not clarify as to how complexities as a result of combining a profit motive with a social mission can be overcome. For example, although it is a valuable insight that a balanced workforce can help achieve a certain balance between commercial and social culture, this does not reveal *how* prioritising commercial or social logic in certain strategic decisions leads to better outcomes for ‘profits’ as well as ‘purpose’. A social enterprise may have a balanced workforce in place considering both commercial and social aims, but when they are faced with a decision as to whether to invest in developing products that offer good opportunities for people from marginalised backgrounds, or products that would more likely generate better revenues and margins, what should they prioritise to achieve better outcomes? Or, faced with a decision which market segments to target, should the enterprise develop their strategy based on social need and locate their premises in deprived areas, or should it target markets with better commercial potential? Is the predominant focus in the literature on mission drift rightly suggesting that managers should first and foremost prioritise their social purpose in making such decisions? Or do the studies highlighting a lack of commercial focus as an important factor for failure provide the right warning not to focus too much on the social mission? Can more insights be gained to better understand how favouring commercial or social logic as part of strategic decisions impacts on financial and social performance?

2.2.3 Avoiding challenges, or can and should they be overcome?

Recent studies suggest that social enterprises can avoid or reduce the level of tensions by adopting predominantly either commercial or social logics throughout the organisation, instead of combining both sets of logics integral to their strategy (Woodside, 2017, Battilana and Lee, 2015, Besharov and Smith, 2014). Such studies clarify different levels of tensions and challenges experienced by different social enterprises, or how challenges can be prevented by emphasising either ‘profits’ or ‘purpose’. However, importantly, what is not clear is whether simply reducing the level of challenges by adopting predominantly one of the two competing logics leads to better outcomes? If, in order to avoid challenges a social enterprise makes most strategic decisions suiting a market logic, or predominantly based on a social need, will it likely address major issues in society effectively? For example, if a social enterprise is struggling to cover costs related to training clients from a deprived background through sales revenue, should it simply reduce the training provided or the

number of clients versus experienced staff by basing all their decisions on commercial logic? Or, should it focus on providing training to fulfil a social need, and turn the organisation into a non-profit venture and base all decisions on their social purpose? Or is it possible to turn the social enterprise into a profitable organisation whilst positively changing the lives of their clients? Does prioritising either logic as part of such strategic decisions lead to better financial and or social outcomes, or is it more effective to apply both logics, and how?

Organisations combining multiple logics, often referred to as ‘hybrid organisations’, can be divided by the extent and nature of the conflicts they experience due to their multiple logics (Battilana and Lee, 2015, Besharov and Smith, 2014). Organisations combining different logics are divided according to two dimensions. The first dimension is the degree of centrality, whether multiple logics are core or peripheral to the organisational functioning, and secondly by the degree of compatibility, whether logics provide contradictory or compatible prescription for action (Besharov and Smith, 2014). Besharov and Smith suggest that an organisation combining conflicting logics such as commercial and social logics both at the core to the organisation will face the most extensive level of tensions and challenges. These types of hybrids, referred to as ‘contested types’, experience extensive challenges and tensions due to integrating multiple logics in their mission, strategy, structure, identity, and core work practices, with no clear hierarchy between logics (Besharov and Smith, 2014). Studies highlight a range of internal and external challenges arising from combining both commercial and social mission (Battilana et al., 2015, Santos et al., 2015, Battilana and Lee, 2014, Doherty et al., 2014, Smith et al., 2013). Internal challenges are related to identity, allocation of resources, complexities in management and decision making and external challenges such as legitimacy, and the ability to attract funding and investment (Battilana and Lee, 2014). Several studies highlight the challenge of generating and allocating resources to invest in business activities as well as social aims (Battilana and Lee, 2014, Doherty et al., 2014, Moizer and Tracey, 2010, Mair and Marti, 2006). In addition, studies point to identity conflicts due to the dual mission (Smith et al., 2013, Battilana and Dorado, 2010), and issues in gaining legitimacy with stakeholders in order to manage relations and sustain commitments to both social and commercial aims (Battilana and Lee, 2014, Smith et al., 2013, Moizer and Tracey, 2010). Furthermore, managers in hybrid organisations face complexities in having to respond to competing institutional demands (Smith et al., 2013).

A social enterprise providing training and employment to clients from disadvantaged backgrounds through a commercial venture typically falls into the ‘contested type’ category, with both commercial and social logics at the core of the organisation (Battilana et al., 2015,

Cooney, 2006). These work integration social enterprises tend to provide opportunities to clients from disadvantaged backgrounds such as homelessness, previously incarcerated, long-term unemployed, refugees, or disabled (Woodside, 2017). These enterprises experience tensions between developing a workforce that can meet commercial requirements such as production deadlines, quality control, competition, business-customer relations, long-term commercial growth on the one hand, and effective client training and social service delivery based on social need on the other hand (Woodside, 2017, Cooney, 2006).

A study by Woodside suggests that the level of tensions between commercial and social requirements can be reduced by opting for one logic to supersede the other and dominate decision-making (Woodside, 2017). Her findings show that two out of ten social enterprises part of her study did not select either logic as dominant. By attempting to prioritise both logics in their goals and operations, they experienced such significant and unsustainable tensions that they risked organisational demise. For example, in one of the case studies, a restaurant with refugees as apprentice chefs, the revenues could not sustain the costs involved with training the apprentices and support services such as covering transport costs for those refugees returning home late from work, living in unsafe neighbourhoods. The founder concluded that in order to sustain the social mission it was not possible to sustain a for-profit business, and converted the venture to a non-profit organisation allowing him to fundraise for costs associated with the social mission. The study highlights some of the complexities involved with pursuing profits and purpose, and confirms the proposed theory that when an organisation combines both commercial and social aims at the core of the organisation it experiences increased tensions compared to one logic superseding another (Woodside, 2017, Battilana and Lee, 2015, Besharov and Smith, 2014). However, is it the right solution to sacrifice either logic from the heart of the venture in order to reduce tensions? Does this necessarily lead to better financial and social outcomes? Are there other ways to overcome the challenges arising from pursuing both profits and purpose that lead to better outcomes? This thesis will further explore these questions by studying how commercial and social logics can be applied in different areas of the social enterprise business model leading to better financial and social outcomes. As will become evident in Chapter four, this study suggests that the solution is not to prioritise one logic over the other as part of all strategic decisions, but that both logics have an important role to play in different areas of the business model. Key factors are proposed that can help overcome the challenges arising from combining both commercial and social aims at the heart of an organisation. By clarifying that different types of decisions such as ‘what customer segments

to target?’, or ‘how to achieve a balanced workforce?’ require different types of logics, the proposed concepts in this thesis help clarify the contradictions and proposed paradox in the literature as discussed earlier. This study seeks to develop insights into key factors in the design of the business model to overcome challenges to effectively achieve both commercial and social aims (Wilson and Post, 2013, Hamby et al., 2010). With little research available as to how to overcome such challenges, the following sections explore theoretical perspectives on combining profits and purpose as part of the wider economy.

2.3 Why combine ‘purpose and profits’?

Social entrepreneurship is not the only phenomenon where profits and purpose are combined. Many mainstream businesses adopt social and environmental aims in addition to their profit motive, at different levels, and in a variety of ways. This section discusses why corporations should combine profits and purpose. By clarifying *why*, the justification to pursue social aims as part of a firms’ strategy, important insights are gained into *how* to combine the profit motive with a social purpose.

2.3.1 Shareholder theory and the changing role of the corporation

‘There is enough on Earth for everybody's need, but not enough for everybody's greed.’

Mahatma Gandhi (OECD, 2017, p.1)

Humanity consumes the resources and produces waste aligned with 1.6 times of our planet (Network, 2012). If all countries on earth would adopt the same consumption standards as the US, we would need 5 planets. By comparison, more than one billion people live in extreme poverty on less than two US dollars a day. Pursuing shareholder return as ultimate purpose of business is increasingly recognised as the main cause of major issues in our societies, including rising inequality, exploitation of workers, social exclusion, industrial pollution and climate change (Szekely and Dossa, 2017, Hollender, 2010, Harris-White, 2006, Kelly, 2003, Mintzberg et al., 2002). The legitimacy in pursuing profit maximisation for shareholders is criticised for creating a culture of greed and selfishness encouraging corporations to ignore broader social responsibilities in favour of narrow shareholder value (Mintzberg et al., 2002). The focus on shareholder value drives increasing inequalities between those who create wealth and those who harvest the benefits (Mintzberg et al, 2002). Wage reduction to maximise shareholder return is often accepted and in many cases even celebrated as “efficiency” (Harris-White, 2006). Companies are seen to be prospering at the expense of the wider community, and increasingly the legitimacy and role of business in society is questioned (Porter and Kramer, 2011).

It is widely accepted that the purpose of a commercial business is maximising shareholder value, especially in Anglo-American economies. By definition being ‘commercial’ means having profit rather than other value as a primary aim (Oxforddictionaries.com, 2017). Friedman argues that profit maximisation is the primary objective of business, and that the firm owes no obligation to society beyond the generation of economic returns (Friedman, 1962). Whole fields of economic inquiry such as Pareto optimality theory, economic regulation and transaction cost analysis are based on the assumption that the *raison d’être* of corporations is to maximise profit and shareholder value as best they can (Campbell, 2007, Dahlman, 1979). For instance, ‘Pareto optimality’ theory considers that a company may have to incorporate costs related to negative externalities, but adopts a paradigm of serving self-interest as underlying principle. In the case of a factory causing pollution ‘Pareto optimality’ theory suggests that the transaction costs of dealing with the negative externality should be less than the costs related to the pollution to take action. In a scenario that costs involved with negotiation and inspection to prevent or rectify consequences caused by the pollution are larger than the costs involved to endure the pollution the theory proposes that the externality is ‘Pareto-irrelevant’ (Dahlman, 1979). This illustrates how the theory assumes that a business should serve self-interests and only take action to benefit society if it is ‘cost-effective’, instead of considering justice and fairness principles based on moral grounds.

There is a growing recognition that in order to address the root causes of some of the major issues in our societies and the environment, there needs to be more balanced thinking between generating private wealth for a few as the legitimate *raison d’être* of corporations, with what is beneficial to all stakeholders, including the wider society and environment (Porter and Kramer, 2011). The 2017 Deloitte Millennial Survey, based on the views of almost 8,000 millennials in 30 countries, reports that 86 percent of their respondents believe that the success of a business should be measured in terms of the social impact beyond its financial performance (Deloitte.com, 2017).

Companies increasingly adopt social initiatives, in different ways, and for different reasons. Several studies suggest that commitment by corporations to social and environmental impact can lead to benefits such as increased consumer preferences, customer loyalty, attraction to potential employees, employee loyalty, and increased brand value, and superior financial performance (Flammer, 2015, Sayedeh Parastoo Saeidia et al., 2015, Weber, 2008, Husted and Allen, 2007, Schaltegger and Heal, 2005). From an economic perspective, there is theoretical logic but inconclusive empirical evidence that engaging in socially responsible activities can reduce costs and risks to the firm, build competitive advantage, enhance

reputation and legitimacy, and create synergies (Brown and Forster, 2012). Beyond the business case to pursue social aims, there are altruistic motivations to pursue social initiatives without regard to economic benefits (Brown and Forster, 2012). With inconclusive evidence of the financial benefits to engage in social initiatives, practitioners face challenges of explaining to their shareholders why and how they choose to pursue social initiatives at a significant cost to those who invest in their companies (Brown and Forster, 2012). To gain further insights into why corporations should engage in pursuing a social purpose, the next section explores the role of the profit motive and questions the justification for the shareholder perspective as legitimacy of the corporation.

2.3.2 Questioning the profit motive as justification for the ‘selfish economy’

‘The tramp comes with the locomotive, and alms houses and prisons are as surely the marks of material progress as are costly dwellings, rich warehouses, magnificent churches.’

Henry George (George, 1912, p.12)

Underlying assumptions validating the legitimacy of pursuing profit maximisation for shareholders as the main role of the corporation are questionable. A first assumption is a narrow view of human beings as essentially ‘homo economicus’, intent on maximising personal gains. In Western societies it is often accepted that people are motivated by pursuing their own narrow economic and material self-interests (Crocker et al., 2017). However, for many people, integrity and care for others are important values. Research suggests that concern for others, or ‘otherishness’, is as much a part of human nature as selfishness (Crocker et al., 2017). Extensive research shows that humans are only ‘boundedly self-interested’, meaning that self-regarding behaviour is limited by the norm of fairness (Bosse and Harrison, 2011). Concern for fairness means that we are self- and other-regarding (Bosse and Harrison, 2011). Interestingly, research suggests that selfishness versus care for others has consequences on our psychological well-being, physical health, and relationships (Crocker et al., 2017). People have evolved to look after both self-interest and the interests of others. A ‘fight or flight motivational system’ is relevant in certain situations to protect ourselves. However, the survival of the species depends on the evolved human capacity to care for others. Humans have evolved to live cooperatively in social groups in which people look after each other. Behaviour to care for others predicts improvements in psychological well-being, physical health and even predicts how long people live (Crocker et al., 2017). In contrast, selfishness does not appear to foster psychological well-being, physical health or healthy relationships. Selfish behaviour encouraged in many corporations does not do justice to the full essence of human beings. It might lead to increased wealth for a few, but it

ultimately does not lead to a healthy society or environment for any of us. The essence of responsible management is to judge the difference between short-term calculable gains and deeply rooted core values (Mintzberg et al., 2002). The point is not to ignore a level of self-interest in human beings, but that there has to be a balance with justice for everyone.

A second underlying assumption justifying profit maximisation as the ultimate purpose of the corporation is the argument that everyone benefits from economic growth created by companies in the 'selfish economy'. Reality shows that this argument is flawed when economic progress is measured not just by averages, but by distribution of wealth to reflect societal value (Mintzberg et al., 2002). By comparing cities and countries with different levels of economic progress Henry George raised the issue in 1879 that economic progress tends to go hand in hand with rising inequality and destitution (George, 1912). George explained how increased productivity leads to a relative reduction in income for those producing the wealth, because the increase in productivity drives up the value of land, resulting in most of the gains being allocated in rent to land owners. For example, in the case of a farmer, if he increases his productivity by using better tools, the land value increases, resulting in increased rent:

'The increase of productive power does not increase wages, because it does increase the value of land. Rent swallows up the whole gain and pauperism accompanies progress.'
(George, 1912, p. 103)

The gap in proportion of the wealth allocated between producers and land owners is further increased by speculation of land value. The expectation of further future enhancements leads to speculation resulting in a further increase in rent, driving a further divide between the proportion of wealth allocated to land owners, and a smaller proportion to the labourers creating the wealth:

'The confident expectation of the future enhancement of land values leads to speculation, or the holding of land for a higher price than it would then otherwise bring '
(George, 1912, p. 117)

Similarly, in the manufacturing industry, George observed how an increase in productivity leads to increased speculation of land value and rent, with a smaller proportion of the gains allocated to the labourers. His study highlights how already in 1879 economic progress did not necessarily benefit everyone, but in reality leads to rising inequality and poverty:

'Just as community advances the scale of material progress,..., and greater utilisation of labour-saving machinery make possible greater economies in production and exchange, and

wealth in consequence increases, so does poverty take a darker aspect. Some get an infinitely better and easier living, but others find it hard to make a living at all.'

(George, 1912, p.12)

Kelly compares current privileges of shareholders with those of feudal aristocrats, with shareholders extracting wealth from the workers who create the wealth, just as feudal lords extracted wealth from farmers on their lands (Kelly, 2003). She questions why shareholders, often distant from the operations and who may have hardly contributed to the wealth creation, can lay claim to such a large share of the benefits? She argues that feudal lords played a valuable role in bringing social stability, but that similar to stockholders today, the role and its associated responsibilities faded but the benefits claimed increased. These days around one percent of the equity on the Wall Street stock market is actual investment, with 99 percent trading to speculate, but not actually being invested in firms. Taking stock buybacks by companies into account, new equity sales are actually a negative source of funding. So in reality, investors are mostly not really investing, but extracting wealth and speculating (Kelly, 2003). Whilst the role of investors should not be undervalued either, Kelly's arguments do highlight the injustice of pursuing wealth creation for those with the most power such as maximisation of shareholder 'return', and senior management pay, instead of dividing wealth fairly to those creating it. The next section highlights how the gap between rich and poor is widening, and draws attention to certain consequences for society.

2.3.3 The current state of poverty and inequality

The most recent global poverty figures published by the World Bank indicate that in 2013 one in ten of the world population lived below the extreme poverty line of 1.90 dollars per day (Worldbank.org, 2017). 569 Million children and young people are estimated to live on less than 1.25 dollars a day, with 5.9 million children dying each year from diseases that could have been prevented (Savethechildren.org.uk, 2017). In the UK the Office for National Statistics estimates the overall poverty rate for 2014 at 16.8 percent, with poverty defined as equivalised disposable income of less than 60 percent of the national median (Ons.gov.uk, 2014). The number of children in the UK living in poverty is estimated at 3.9 million, with latest figures predicting a further 50 percent rise by 2020 (McCall, 2016). There are rising reports of homeless children living in temporary accommodation, accidental injuries, poor dental health, rickets, children coming to school hungry, and the child mortality rate in the UK is one of the highest in Western Europe (McCall, 2016). The UN has expressed serious concern about the effect of regressive policies on economic and social rights in the UK, claiming a breach of the UK's international human rights obligations (McCall, 2016).

Poverty is not necessarily caused by unemployment, but is related to low wages and precarious employment. 66 percent of the children in the UK living in poverty live in working families (McCall, 2016). The most recent OECD report highlights that in most countries, the gap between rich and poor is at its highest level since 30 years (OECD, 2015). As figure 3 shows, on average, the ten percent of wealthiest households hold half of the total wealth globally, the next 50 percent hold almost the other half, while the 40 percent least wealthy own little over three percent. In terms of income, the report shows that the richest ten percent of the population in OECD countries earn 9.6 times the income of the poorest ten percent. In the 1980s, this ratio stood at seven to one rising to eight to one in the 1990s and nine to one in the 2000s (OECD, 2015).

Distribution of global resources amongst the worlds' population (OECD, 2015)

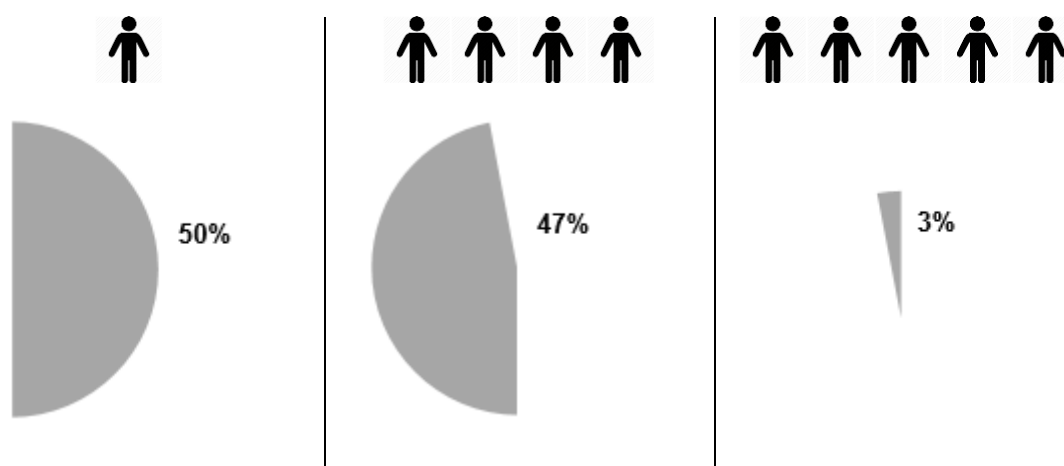


Figure 3: Distribution of global resources

Apart from moral grounds, there are good reasons why society should tackle poverty and the widening gap between rich and poor. Research suggests that poverty, and particularly inequality is correlated to negative consequences for our societies such as increased crime rates, mental health issues, and worsened life expectancy (McCall, 2016, Enamorado et al., 2014, McAuley, 2007, Kelly, 2000, equalitytrust.org.uk). For example, the Millennium Cohort study of 19 000 UK children shows that children who have never lived in poverty have a one in ten chance of a mental health issue by the age of 11 years, but if they have experienced persistent poverty then this rises to 30 percent (McCall, 2016). Burns highlights how the relatively poor health indicators in Scotland are related to poverty (Burns, 2013). For example, the difference between life expectancy between the most affluent and most deprived areas in Glasgow are on average 10 to 15 years. 60 percent of the excess premature

mortality in Glasgow are due to psycho-social causes of deaths. Research suggests that unless people find the social and physical environment comprehensible, manageable and meaningful, they experience a state of chronic stress (Burns, 2013, Antonovsky and Sagy, 1986). When children live in dysfunctional families in conditions of poverty, and drug-related and domestic violence can occur, children experience higher stress levels. The level of cortisol related to stress blocks the entry of leptin into the brain, switching off the function in the brain that signals fullness after eating, which research shows leads to obesity in adulthood. Worse than obesity, significant numbers of adverse experiences in childhood link to a three-fold increased risk of heart disease later in life, increased violent and criminal behaviour, and eight times higher rates of alcoholism (Burns, 2013). Burns highlights that much of the stress experienced by people can be reduced by increasing a level of control on their lives, and to reduce alienation of marginalised communities by enabling them to transform their lives themselves (Burns, 2013).

Reducing poverty and inequality is not just important for those living in adverse conditions. Research shows that by reducing inequality, overall economic productivity increases. A recent OECD report indicates that growing inequality is harmful for long-term economic growth (OECD, 2016). The increase in income inequality between 1985 and 2005 is estimated to have reduced cumulative economic growth between 1990 and 2010 by 4.7 percent. The OECD report points to large amounts of wasted potential of human capital as a consequence of people in disadvantaged households struggling to access quality education and opportunities.

To reduce the growing divide between rich and poor, the OECD report highlights the importance not only of employment, but of 'good-quality jobs' (OECD, 2016). Levy (2016) suggests that although having a job may seem better than no job, low unemployment rates do not necessarily translate into low income inequality. Most jobs that have been created in the last three decades are characterised by temporary contracts, part-time employment or self-employment with not always very good conditions (Levy, 2016). These types of jobs create job opportunities but have also contributed to higher inequality. The recent OECD report indicates that temporary and part-time work and self-employment now account for about a third of total employment in OECD countries (OECD, 2016). Many of these types of jobs offer poor conditions in terms of earnings, job security or access to training. Particularly for low-skilled temporary workers these types of jobs tend to lead to earnings instability and slower wage growth. Households that are heavily dependent on such jobs experience higher income poverty rates of 22 percent on average (OECD, 2016).

2.3.4 The misinterpretation of Adam Smith

'The Wealth of Nations' by Smith is often referred to as the original rationale for developing an economy based on profit maximisation as overriding purpose of the firm. Smith's arguments have been interpreted as greed is good, and that by being selfish and becoming richer everybody benefits (Harrari, 2015, Jordi, 2010). The historian Harrari claims that Smith's proposition that the selfish human urge to increase private profits as the basis for collective wealth is one of the most revolutionary ideas in human history from an economic perspective, but even more so from a moral and political perspective (Harrari, 2015).

From a review of Adam Smith's work it appears that his arguments have been misinterpreted. To demonstrate this, and to get a better understanding of the role of the profit motive, let us have a look at what Smith actually wrote. The first proposition by Smith in the Wealth of Nations is the division of labour towards improving productivity. Specialising labour requires allocating different capacities of individuals to different roles. Smith proposes that by pursuing their own interests in finding the most advantageous employment each individual naturally prefers employment which is most advantageous to society:

'Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command.. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society.. As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can.'

(Smith, 1776, p.XXXVIII)

Smith explains that this principle enables the division of labour, with each individual specialising and becoming more productive in his labour, whether it concerns a particular person making bows and arrows in a tribe, a smith, or specialised labour in manufacturing. A related quote often referred to as the excuse for selfish conduct in business is:

'Give me that what I want, and you shall have this which you want, ..., is how we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest... By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good'

(Smith, 1776, p. 19)

Now what does this actually mean? Does Smith have a point in saying that we should not expect our bread as a charitable gift from the baker but from his own interest? It seems just that the baker would trade his bread in return for the produce of other members of society, instead of giving it away for free. It also seems right for the baker to produce the types of bread valued by society that would increase the chances for his business to do well. By each individual pursuing their self-interest in maximising their ability to trade, they likely contribute what other members in society value. The profit motive, as opposed to benevolence, therefore has an important role to play. By pursuing a profit motive in a free market, market dynamics encourage resources to be allocated efficiently, according to what is valued by customers. However, there is an important difference in reading the argument as an excuse for profit maximisation as an end in itself and selfish conduct without justice. From reading Smith's work, it seems clear that with the above statement he did not mean that the baker should underpay his staff or suppliers if he can get away with it to maximise his profits. On the contrary, he makes it very clear that free market principles can only operate with strong justice principles. For example, Smith highlights the importance of 'fair play', 'reciprocal assistance', and 'justice as the fabric of society':

'In the race for wealth, and honours, and preferments, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of.'

(Smith, 1759, p. 82)

'All the members of human society stand in need of each other's assistance'.. 'Where the necessary assistance is reciprocally afforded.., the society flourishes and is happy.'

(Smith, 1759, p.83)

'Justice, is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society, that fabric which to raise and support seems in in this world, to have been the peculiar and darling care of Nature, must in a moment crumble into atoms.'

(Smith, 1759, p. 84)

The perceived conflict between Smith's arguments to pursue self-interest in trade, and his arguments for strong principles of justice has been referred to as 'Das Adam Smith Problem'. However, careful examination of his arguments suggests that Smith did not propose conflicting ideas between a selfish economy and one of justice. Instead, he proposed to combine free trade as 'a means to an end', with strong principles of justice towards the 'end goal' of creating value for society. On several occasions Smith refers to the importance of

justice towards a happy and flourishing society. Whilst Smith's work can rightly be criticised on certain points, using his work as an excuse for the imbalance in pursuing profit maximisation as ultimate purpose of the corporation seems unjust. He certainly did not seem to want to provide an excuse for the exploitation of workers, or rising inequality, or social exclusion in society. Smith argues the importance of enabling people to contribute their labour, the 'most sacred property', and 'distributive justice' of wealth towards a flourishing and happy society:

'No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothes and lodged.'

(Smith, 1776, p. 83)

'The wages of labour are the encouragement of industry, which, like any other human quality, improves in proportion to the encouragement it receives. Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than where they are low.'

(Smith, 1776, p. 86)

'The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. To hinder poor man from employing his strength and dexterity in what manner he thinks proper, without injury to his neighbour, is a plain violation of the most sacred property.'

(Smith, 1776, p. 127)

In summary, principles of free trade and profit maximisation have a valuable role in efficiently allocating resources in response to what is valued by consumers. However, Smith did not propose the profit motive to be the overriding aim as an excuse to pay unfair wages to employees, or unfair prices to suppliers, or as a justification of environmental waste.

2.3.5 Justice versus charity

The previous section argued that the main grounds for questioning the shareholder perspective, viewing the role of business to maximise wealth of a view instead of creating value for society, is based on principles of justice. Social entrepreneurship has been referred to as a more promising vehicle to address issues such as poverty and inequality, compared to a traditional charity approach (Smith et al., 2013, Wilson and Post, 2013, Bloom, 2012). In developing our understanding of how profits and purpose can be combined effectively to address issues in society, it is important to understand how justice differs from charity.

Firstly, there is a difference between a business ‘giving back’, or preventing issues in the first place. There is an increased recognition that businesses have played a primary role in creating issues such as poverty, inequality, climate change, and waste (Szekely and Dossa, 2017, Porter and Kramer, 2011, Harris-White, 2006, Mintzberg et al., 2002). Preventing the creation of these problems appears more effective and just, compared to creating major issues in society and the environment and then mitigating these to some extent. Furthermore, when a company incorporates a social purpose next to the profit motive based on charitable principles it can still do injustice to other stakeholders. Brown and Forster provide the example case of Hooters, a restaurant chain who donated \$200,000 to breast cancer research in 2010. In that same year, Hooters was party to multiple weight discrimination, and wage and hour class action lawsuits filed by its employees. Although their charitable gift did not cause issues in itself, it was overshadowed by the injustice done to Hooter’s own employees (Brown and Forster, 2012). Based on the justice principles proposed by Adam Smith, Brown and Forster refer to ‘justice’ as the duty of a company to treat its workers in a fair manner, to uphold the integrity of the community, to maintain appropriate fiduciary responsibilities to its investors and creditors and to treat its customers and suppliers in a manner that does them no harm, and to make corrections for any past harms (Brown and Forster, 2012). For example, when a company is deciding whether to fund community scholarships or subsidise a supplier who has been hit by a hurricane, under Smith’s justice principles, the supplier has claim on equal opportunity, while the community does not have a claim on benevolence (Brown and Forster, 2012). The principles by Adam Smith suggest that philanthropy is desirable, but optional with less legitimacy than claims based on justice (Brown and Forster, 2012). Both Smith and George refer to justice as essential to society, and charity as desirable, but not essential. In Smith’s words:

'Beneficence,..., is less essential to the existence of society than justice'. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it.'

(Smith, 1759, p. 84)

Secondly, it is important to recognise the difference between empowering people and communities to improve their own livelihoods based on principles of justice, instead of providing traditional charitable support. Whilst charitable institutions increasingly aim to provide empowering solutions, the argument here refers to the difference between 'acts of charity' and 'acts of justice'. Charity is defined as 'the voluntary giving of help, typically in the form of money, to those in need' (Oxforddictionaries.com, 2017). Principles of justice here refer to providing people and communities with the right to contribute their labour and potential, and to be fairly rewarded for their contribution in return. By applying such principles of justice, people and communities have less need for charitable support. For example, food banks may provide some relief to those living on very low salaries, or those excluded from the labour market, but they do not structurally address the problem of the increasing disparity in distribution of wealth. Similarly, charities may provide second hand shoes to children in poor farming communities in Africa, or install water wells, but this does not structurally solve the root cause of their poverty. By applying principles of justice the root cause of such issues can be addressed more effectively. By applying principles of fair distribution of wealth to those creating the wealth, such as cocoa farmers in Africa, they can improve their own livelihoods and decide on installation of water wells themselves.

It is important to note that charitable solutions are the right solution in certain contexts, for example in the case of emergencies, or people who are not able to contribute their labour, such as those with severe disabilities. In such circumstances empowerment, and principles of justice are less relevant or effective by comparison. However, when charitable or welfare support are provided to address issues such as long-term poverty, this can lead to unnecessary dependencies, and dampening of entrepreneurial spirit, instead of providing more structural solutions such as training and employment, creating a positive development spiral (Rangan et al., 2007, Shikwati, 2005). Poverty has several dimensions, including issues such as social exclusion, self-esteem, and being deprived of the freedom to develop individual capabilities and functioning (Burns, 2013, Sen 1999, Nussbaum 2000). Providing opportunities and fair rewards to people and communities based on principles of justice, instead of charitable support, contributes to these important other dimensions related to poverty. Empowering people and communities implies removal of unjust inequalities to

make their own choices and to have a level of control over improving their own lives (Haugh and Talwar, 2016, Burns, 2013). Furthermore, by increasing the level of control over their own lives and reduce alienation of marginalised communities other benefits can be gained such as reduction of stress leading to mental and physical health issues (Burns, 2013).

With blurring boundaries between charities, social enterprises and companies, there is a lack of understanding by scholars, practitioners and policy makers which type of approach is appropriate and effective to address different types of problems. Social entrepreneurship and a profit motive is not appropriate or effective in certain contexts, for example in the case of medical care. In other situations, such as reintegrating people from excluded and marginalised backgrounds, empowerment opportunities can be more effective compared to depending on charitable support. Confusion arises when organisations claim to be a social enterprise, but in fact deliver solutions of a charitable nature. For example, the organisation 'One' sells water and other drinks to generate income, and uses their profits for water projects such as installation of water pumps in poor areas (Onedifference.org, 2017). Similarly, the 'social enterprise' 'Toms', sells shoes based on the 'buy one, give one' model. Herrera (2013) questions the effectiveness of Toms by not addressing the root cause of poverty, namely the lack of access to fair-paying sustainable employment. She suggests that rather than solve the root cause of why people cannot afford to buy shoes for their children, organisations such as Toms rely on the existence of poverty as an essential part of their marketing (Herrera, 2013). Perhaps in response to some of the criticisms the organisation has begun to explore how to embed production facilities in regions where they provide donations. Whilst organisations such as One and Toms aim to achieve very noble causes, and may provide important short-term solutions as a bridging gap, there is a risk that such 'social enterprises' create a level of dependency instead of empowering people and communities with longer term structural solutions enabling them to buy shoes and build wells themselves. By recognising the importance of a structural and empowering approach to effectively address issues such as poverty this thesis therefore questions definitions and related policies encouraging charitable solutions as part of the phenomenon social enterprise. For example some current definitions refer to social enterprises as combining commercial market logic with 'social welfare' logic (Pache and Santos, 2013), or as the combination of business and 'charity' (Battilana and Lee, 2014), instead of referring to solutions that pursue a social purpose through empowerment and principles of justice. This thesis will further explore key differentiating factors of social entrepreneurship in Chapter six.

2.3.6 Summary: the profit motive as ‘a means to an end’

In summary, pursuing a profit motive as sole purpose of the corporation without principles of justice leads to major issues in society. As Aristoteles argued virtue lies in balancing two opposite vices. Adam Smith proposed that virtue lies in the middle between an excess, and a defect of attention to self-interest (Smith, 1759). Aside from balancing the profit motive with justice, understanding the value of the profit motive provides important insights into how a company can incorporate both profit and purpose effectively in their business model. The profit motive has an important role in allocating resources towards production of goods and services that are valued to the extent that the combination of resources is worth more than the separate parts. Therefore, the ‘*what*’ offered by a business, should take the profit motive into consideration, to tailor production to what is valued to such an extent by the market that wealth is created for the producer. However, ‘*how*’ the offering is produced, and how the wealth is distributed amongst those creating the wealth should be based on principles of justice towards the ‘end purpose’, to create value for ‘people’ and ‘planet’. Finally, when considering combining profit and purpose, it is important to recognise the difference between justice and acts of charity to effectively address the root cause of issues such as long term poverty, and avoid negative side effects such as unnecessary dependencies.

2.4 ‘Profits and purpose’ in the mainstream economy

This section draws on theoretical perspectives on combining social and commercial aims as part of the mainstream economy, including CSR, shared value, and stakeholder theory. The understanding gained in the previous section of why corporations should combine profits and purpose provides important insights into the relevance and shortcomings of these theories. Contradictions around the justification of the theories are discussed, and where they fall short in terms of their instrumental value guiding management as to how to overcome challenges arising from conflicting commercial and social logics.

2.4.1 CSR and shared value

One literature strand explores the engagement of companies in social and environmental aims as part of the phenomenon of CSR. There are wide and narrow views of what CSR should entail. A more narrow view of CSR can be described as a company engaging in ‘doing good, beyond the interests of the firm and that which is required by law’ (McWilliams and Siegel, 2001). Often, the narrow view of CSR is interpreted by corporations as ‘giving back to charity’, for example through organising fundraising events. The narrow approach to CSR has been criticised for several reasons. Firstly, viewing CSR as a ‘philanthropic add on’ neglects the issue of doing harm. For example, a business may support different charities but

damage the environment, exploit employees or discriminate against women in the workplace (Campbell, 2007). Secondly, a narrow approach to CSR has been criticised for resulting in limited impact (Porter and Kramer, 2011). A third area of criticism is that CSR programs tend to have a limited connection to the business, making them hard to justify and maintain over the long run (Porter and Kramer, 2011). Finally, when social initiatives are not aligned with business objectives it can diminish customers' beliefs in the organisation (Lin et al., 2009). Understanding the difference between 'justice' and 'benevolence' as discussed in the previous section provides important insights into why the narrow approach to CSR falls short. First, traditional CSR adopts an approach of mitigating problems businesses have a primary role in creating in the first place such as climate change, poverty, injustice and inequality (Szekely and Dossa, 2017). Moreover, depending on the type of charity that is supported, this type of CSR can lead to negative side effects by perpetuating unnecessary dependencies. Thirdly, by allocating resources to a program separate from the business, opportunities are missed to direct these resources to improvements aligned with the business strategy based on principles of justice.

A wider view of CSR, incorporating social or environmental initiatives as part of the central strategy, is perceived to achieve more impact as well as benefits to the company (Lin et al., 2009, Husted and Allen, 2007). Sustainability is a long-term goal and should be embedded as an integral part to the business model to achieve long-term results (Haugh and Talwar, 2010). A different term related to a wider perspective of CSR is the concept of 'shared value', introduced by Porter and Kramer (2011). Shared value refers to CSR as integral to a companies' profitability and competitive position. Shared value contrasts with a narrower view of CSR by leveraging unique resources and expertise of the company to create economic value through creating social value (Porter and Kramer, 2011). For example, strategic CSR programs can lead to business benefits through creating a competitive advantage with consumers valuing the CSR attributes, and positive impact on recruiting and retaining skilled personnel. (Lin et al., 2009, Porter and Kramer, 2002). Furthermore, social initiatives can lead to innovative strategies, for example by developing new products, serving new customers, and developing new ways to configure the value chain (Porter and Kramer, 2011). An example is GE's 'Eco imagination range', which is a new range of energy saving products contributing to environmental improvements, which GE claims increased their brand value by six billion dollars in three years (Porter and Kramer, 2011). The focus on such 'win-win' examples has been criticised as a limited perspective on sustainability, concentrating on 'low-hanging fruits' (Szekely and Dossa, 2017). A question arises as to

whether companies only have a responsibility to minimise harm by reducing ‘externalities’, or should their role be the use of planet’s wealth and human resources to create value for society (Szekely and Dossa, 2017, Hollender, 2016)?

Whilst a strategic approach to CSR, and shared value initiatives, tend to achieve more social impact and business benefits compared to charitable CSR programs that are less integral to the business, important issues of justice and legitimacy remain. The underlying ‘shareholder perspective’ does not change, no matter if CSR initiatives are more integral to the business strategy. This means first of all that CSR initiatives have to be justified to shareholders. Unless a strong business case for sustainability can be made, the costs involved may be perceived by some shareholders as nonessential to achieving the goals of the company. Furthermore, an economic downturn may cause companies to reduce their investment in sustainability initiatives (Haugh and Talwar, 2010). With profits remaining the ultimate purpose of the company, the focus on sustainability initiatives tend to be limited to ‘win-win’ initiatives, such as Porter and Kramer’s ‘shared value’ examples. Crane et al. (2014) criticise Porter and Kramer for simplifying the complexity of social and environmental issues giving the impression that complex problems can be transformed into win-win situations for all affected parties (Crane et al., 2014). They argue that this is a failure to acknowledge and to address social and economic tensions and propose that much of the CSR and stakeholder management literature has done likewise (Crane et al., 2014).

Whilst pursuing ‘win-win’ initiatives can lead to social and environmental improvements, there is a lack of guidance for management as to how to make strategic decisions when there is a conflict of interest between profit and impact on society or the environment. A second issue stems from what is referred to by Freeman et al. (2010) as the ‘separation thesis’, by relying on a separation between business and society, and a separation of business and ethics. They criticise CSR for lacking focus on value creation, because ethics is an afterthought in the value-creation process. Freeman et al. suggest that CSR exacerbates the problems of capitalism and ethics by adopting a paradigm of disconnecting ethics to their activities. They provide the example of the financial crisis, with the banks and financial services firms all having CSR policies and programs in place, but because they did not see ethics as connected to how they create value, they were unable to fulfil their basic responsibilities to their stakeholders and ended up destroying value for the entire economy (Freeman et al., 2010).

2.4.2 Stakeholder theory

Freeman et al. propose stakeholder theory as an alternative to shareholder theory to provide management with a way to think about value creation for different stakeholders (Freeman et al., 2010). They define stakeholders as ‘any group or individual who can affect or is affected by the achievement of the organisations objectives’, such as customers, shareholders, and employees (Freeman, 1984). The main proposition by stakeholder theory is that companies practicing stakeholder management will be relatively successful in achieving traditional aims such as profitability, stability, and growth (Donaldson and Preston, 1995). Freeman et al. claim that compared to CSR, stakeholder theory embeds ethics in the fabric of management, by describing management to have a moral obligation towards its stakeholders (Freeman et al., 2010). Stakeholder theory provides a more integral perspective compared to the narrow view of CSR, and a more embedded view of creating value for stakeholders throughout the value creation process instead of solely maximising shareholder return. However, a few important questions can be raised based on the insights discussed in the previous section as to why corporations should combine profits with purpose.

In essence, stakeholder theory does not see the role and legitimacy of a corporation to create value for society and the environment, but proposes to create value for stakeholders to ultimately benefit financial performance of the business. This perspective holds two main issues in relation to the proposed theory of the profit motive as a ‘means to an end’ to create value for society. Firstly, stakeholder theory claims to embed ethics in the fabric of the organisation. However, stakeholder theory has been from the start about enhancing profits, not about the role and legitimacy of business based on principles of justice. Freeman’s stakeholder theory differs from shareholder theory in that it adds that strategy should be developed with ethics, for example to avoid exploitation. Whilst ethics and economics are not separated to the extent to which CSR is criticised, neither does stakeholder theory place ethics central to the purpose of the firm (Melé, 2009).

Stakeholder theory sees the role and legitimacy of the corporation to serve the interests of the corporation’s stakeholders, not society and environment (Elms et al., 2011). For example an arms manufacturer or tobacco firm might well treat every one of its stakeholders appropriately to benefit the success of the company, and yet underperform in creating value by making society better, healthier, or more peaceful (Elms et al., 2011). Freeman suggests that certain stakeholders require more active monitoring than others, depending on how sure managers are about how stakeholders will behave, and as to how critical the stakeholder’s support is to the success of the corporation. Such principles suggest that less powerful

stakeholders receive less consideration compared to stakeholders with more power. In the case of conflicting interests between shareholders and suppliers with little power such as small cocoa farmers, or the environment, it is more likely that shareholder interests are prioritised instead of principles of justice such as fair distribution of the wealth created. Therefore, the business model still implies an assumption that profit maximisation should occur even at the expense of silent or weak stakeholders (Szekely and Dossa, 2017). Moreover, the stakeholder perspective does not provide a platform to consider opportunities to create positive impact for communities, or marginalised groups, or environmental opportunities in the case that these are not stakeholders of the corporation. A final criticism of stakeholder theory is that it fails to address how to overcome challenges as a result of conflicting interests between social and financial aims (Campbell, 2007, Margolis and Walsh, 2003).

2.4.3 Summary: where CSR, shared value and stakeholder theory fall short

In summary, discourse on CSR, shared value, and stakeholder theory provides several useful insights into combining profits and purpose as part of the mainstream economy. A first useful insight is that a strategic view of social initiatives integral to the business tends to lead to better impact as well as business benefits compared to separate charitable initiatives as part of a narrow approach to CSR. This thesis proposes that understanding the difference between justice and charitable support plays an important role towards addressing the root cause of issues such as poverty. Secondly, whilst a strategic approach to CSR and shared value initiatives leads to better results in terms of the social impact and business benefits, these perspectives separate justice and ethics from business. Stakeholder theory claims to achieve less separation between ethics and strategic decision making in business. However, by considering stakeholders' interests before value creation for society, there may be improvements in terms of ethical conduct compared to a shareholder perspective, but major issues for society or the environment can still arise.

None of the proposed theories tackle the underlying assumption that the role and legitimacy of business should be to create value for society, and the environment, with profits as a means to an end based on principles of justice. By doing so, the normative value of each of these theories can be questioned due to issues around their justification. As the benefits for implementing social initiatives have not proven to outweigh the costs, the legitimacy for these theories is proposed to be on moral grounds. However, with none of those theories sufficiently addressing the role and legitimacy of the corporation on moral grounds, the justification of these theories is contradictory. Furthermore, with financial performance as

ultimate aim, only social initiatives that ultimately benefit the financial bottom line can be justified, resulting in limited adoption of ‘low hanging fruits’. Therefore, it is proposed that these theories fail to clarify how to balance conflicting interests between stakeholders (Melé, 2009), and between ‘purpose and profits’.

2.5 Social entrepreneurship and the mainstream economy

With corporations incorporating social initiatives next to their profit motive, albeit in a variety of ways and to a different extent, a question can be raised as to whether and how this differs from social entrepreneurship? Some use the term ‘social intrapreneurship’ when referring to social entrepreneurship as part of a mainstream corporation (Tracey and Stott, 2017, Michelini and Fiorentino, 2012). Although some scholars have suggested social entrepreneurship to be a continuum, very few view social entrepreneurship as part of the mainstream economy (Battilana and Lee, 2014, Doherty et al., 2014, Austin et al., 2006). Definitions, policies and incentives implemented in recent years are mostly based on a dichotomy, dividing social enterprises and mainstream businesses into two separate groups. One issue resulting from viewing social entrepreneurship separately is the question where to draw the line between a corporation and a social enterprise? There is an ongoing discussion failing to clarify unified criteria in defining this boundary.

2.5.1 Social enterprise or social entrepreneurship as part of business?

Social enterprise scholars and practitioners do not agree as to if and how much profit can be returned to shareholders in order to qualify as a social enterprise, or whether assets can be sold for private gain. Yunus et al. propose a ‘pure form of social enterprise’, which they refer to as a ‘social business’, to prevent challenges arising from conflicting interests between profit and purpose (Yunus et al., 2010). They argue that shareholder value maximisation remains the rule in a capitalist system, pointing out that balancing this with social objectives is often problematic. They contest that the owners of a social business can never be allocated any dividend to keep the focus of the organisation fully on the social mission and avoid the challenges between conflicting interests between ‘profit and purpose’ (Yunus et al., 2010). Several business schools apply the strict definition by Yunus that a social business cannot return any dividend to shareholders (Bosma et al., 2016). Other organisations are more flexible regarding the restriction around shareholder return. For example, Social Enterprise UK states that “We believe that more than 50 percent of an organisation’s profits should be reinvested to further the social or environmental mission” (Socialenterprise.org.uk, 2012). Policy makers have started to implement support mechanisms with the aim to control the prioritisation of social aims versus generating private wealth. For example in the UK the

legal structure Community Interest Company has been implemented that includes an ‘asset lock’, providing a restriction around selling assets belonging to a social enterprise for private gain (Gov.uk, 2016). Others do not adopt the view that boundaries should separate social enterprises from mainstream businesses but instead view social entrepreneurship as an important trend part of mainstream business (Driver, 2012). The next section draws a comparison with discourse on fair trade to gain further insights into risks and opportunities of mainstreaming a similar phenomenon.

2.5.2 Lessons learned from mainstreaming fair trade

Links between fair trade organisations and social enterprises are often made with both combining social and economic objectives (Huybrechts and Defourny, 2008). Organisations accredited with the fair trade label purchase some of their supplies based on fair trade principles such as a minimum price to be paid to producers; payment of an additional social premium to allow producers to invest in community infrastructure projects; long term relationships and supply contracts to allow for planning and sustainable production practices; and pre-financing for producers who often have limited access to credit (Moore et al., 2007). Fair trade has been credited with a positive impact on many low-income producers around the world (Doherty et al., 2013). Whilst both social enterprises and fair trade accredited organisations have a dual mission of social and financial aims in common, they can differ in several ways. Some social enterprises are fair trade certified, but many social enterprises have social or environmental aims other than or in addition to fair trade standards. Fair trade accredited organisations are also not always necessarily social enterprises, going by the common definition in the UK that social enterprises principally reinvest their surpluses in the business for their primarily social objectives or in the community, rather than being driven by the need to maximise profits for shareholders (DTI, 2002, p.13). An organisation may be accredited with the fair trade label but can predominantly aim to generate surpluses for their shareholders, as is the case in the example of Starbucks, and thus not be qualified as a social enterprise. Although there are differences between fair trade organisations and social enterprises, it is proposed that several relevant lessons can be learned from the discourse on the fair trade movement.

First, the development of fair trade from a separate movement to the wider economy shows how mainstreaming can lead to rapid growth, both in terms of sales and public awareness (Doherty, 2011). Similar to social entrepreneurship, fair trade started as a separate phenomenon from mainstream businesses. A study by Doherty et al. (2013) shows that in countries where fair trade has been encouraged as part of mainstream business by adopting

more flexible standards, the expansion rate of fair trade is significantly higher. Their findings show a faster adoption rate in more mainstreamed countries such as the UK, where spend per capita on fair trade was 11.57 euros, 17 times as much compared to 0.66 euros in countries such as Italy where stricter standards apply (Doherty et al., 2013). The study also highlights risks of engaging with mainstream businesses such as dilution of fair trade principles and reputational damage of the fair trade brand (Doherty et al., 2013). Not all fair trade certified organisations adhere to all requirements including the minimum price to be paid to producers; an additional premium for investment in communities; long term relationships to enable sustainable production; and pre-financing for producers with limited access to credit (Moore et al., 2007). Mainstream corporations can gain many positive reputational and financial benefits through very limited investment in fair trade values (Moore et al., 2007). When a company derives benefits from its association with fair trade, but minimal effort is made to adhere to the live the principles, this can lead to reputational damage for the whole fair trade sector (Doherty et al., 2013). An example that raised questions was the accreditation by Transfair USA of Starbucks' coffee in 2000, for purchasing less than one percent of their coffee at fair trade regulations. Doherty et al. (2013) note that Starbucks represents seventeen percent of the operating income of Transfair USA. Studies highlight that consumers do not consider the fair trade label to always genuinely lead to benefits for producers (Annunciata et al., 2011, Johannessen and Wilhite, 2010). Transparency is important to avoid 'fair washing' by companies who are not living up to the fair trade principles (Johannessen and Wilhite, 2010). There is a general level of scepticism around businesses genuinely committing to social and environmental aims. Respondents in the Deloitte millennials survey judged the motivations of businesses contributing to social initiatives on average as 5.4 on a scale of one 'purely to improve their reputation', to ten, 'genuine desire to change things for the better' (Deloitte.com, 2017).

Drawing a parallel with social entrepreneurship would suggest that encouraging the phenomenon as part of mainstream business may contribute to wider adoption, with a larger scale impact on society and the environment. Extant research does not provide answers as to whether social entrepreneurship should be protected as a separate phenomenon to prevent dilution of the concept, or if policies can be implemented to encourage wider adoption to scale the social outcomes. Perhaps the focus of the debate should expand beyond the benefits and risks of mainstreaming social entrepreneurship. It would be valuable to consider if and how growth can be encouraged by mainstreaming the phenomenon and explore how risks

around diluting the concept and reputation of social entrepreneurship can be mitigated, learning from the fair trade experience.

A question arises as to whether issues such as dilution of the fair trade brand is a result of applying different levels of standards, or whether this is a result of the lack of clarity and transparency around these different levels? There is very little research exploring recognition of different levels of commitment to fair trade guidelines. There has been a suggestion to develop a next level of fair trade accreditation called 'Fairtrade Plus' (Reed et al., 2010). Doherty (2013) criticises this concept by suggesting that consumers might not take to the additional 'Fairtrade Plus' label and that some multinational corporations might lose interest in the fair trade certification as consumers might no longer rate it as highly compared to the 'Fairtrade Plus' label. This criticism by Doherty et al. (2013) can be questioned by drawing a parallel to the scale-based star system in the hotel industry, where consumers and providers consider and take part in the scale based system, even when their performance is rated at the bottom end of the scale. Chapter six further explores the concept of viewing and encouraging social entrepreneurship as part of the mainstream economy, considering if and how risks such as dilution of the concept such as in the fair trade sector can be prevented.

2.6 Conclusions

The combination of profits and purpose is an increasing phenomenon in mainstream business. By exploring the justification for companies to pursue a social purpose next to a profit motive, questions arise about shareholder theory and its perspective of the role of business to be first and foremost to maximise shareholder return. Considering the profound negative impact on society of the 'selfish economy' in terms of poverty, rising inequality, and environmental issues there is increased recognition to redefine the purpose of business. It is proposed that if we want to create a more just, harmonious and effective society the legitimacy of the corporation should be the creation of value for society, with the profit motive as a means to an end, combined with strong principles of justice.

Theoretical perspectives on combining 'profits and purpose' as part of the wider economy, such as CSR, shared value and stakeholder theory provide valuable insights into how different strategies of engaging with social initiatives can lead to more impact as well as business benefits. However, none of the proposed theories adopt the view that the role and legitimacy of a corporation is to create value for society, with profits as a means to an end. By doing so, the normative value of each of these theories can be questioned due to issues around their justification. As the benefits for implementing social initiatives have not proven

to outweigh the costs, the legitimacy for these theories is proposed to be on moral grounds. However, with none of those theories sufficiently addressing the role and legitimacy of the corporation on moral grounds, the justification of these theories is contradictory. Moreover, with financial performance as ultimate purpose of the business, only social initiatives that ultimately benefit the financial bottom line can be justified, resulting in a limited scope to consider ‘win-win’ solutions. Therefore, it is proposed that these theories fall short at exploring how to overcome challenges that arise when social aims are not aligned with financial benefits and lack value in providing guidance for managers as to how to balance conflicting interests between ‘purpose and profits’.

This thesis seeks to contribute to the gaps in extant discourse of how to overcome key challenges arising from combining purpose and profits, to prevent ineffective strategies leading to deficient performance or organisational failure (Moizer and Tracey, 2010). The study sets out to develop insights into key factors in the design of the social enterprise business model that are fundamental to the achievement of both ‘profits and purpose’ (Wilson and Post, 2013, Hamby et al., 2010). The methodology in the next chapter has been designed to support the study of three main areas where extant theory falls short:

1. First, how can the challenges arising from conflicting commercial and social aims be overcome? How can competing commercial and social logics be balanced effectively as part of the business model to enable both ‘profits and purpose’?
2. Secondly, what are key differentiating factors between social enterprises delivering more social impact compared to others? What is it about social entrepreneurship that leads to more structural long lasting solutions to issues such as poverty and inequality compared to traditional charitable solutions?
3. Thirdly, how does a social enterprise differ from a traditional business? And how can social entrepreneurship be encouraged as part of the mainstream economy?

CHAPTER THREE: RESEARCH DESIGN AND METHODS

“Not everything that counts can be counted, and not everything that can be counted counts.”

Attributed to Albert Einstein (McKee, 2004, p.153)

Researchers are criticised for regularly making a mistake of measuring what can be measured, rather than investigating the key issues (Bryant, 2017). There is an important gap in our understanding of how to effectively achieve the dual mission of profits and purpose, and on actual social outcomes of social enterprises (Teasdale, 2010). It is challenging to measure and compare the social impact created by social enterprises due to varying aims and non-standardised metrics (Arena et al., 2015, Stevens et al., 2015, Luke et al., 2013, Millar and Hall, 2013, Smith et al., 2013). Grounded theory was chosen as a pragmatic qualitative methodology to develop new insights as to how some social enterprises effectively combine ‘profits and purpose’ (Suddaby, 2006, Glaser and Strauss, 1967), while many others struggle to achieve a viable business model (Moizer and Tracey, 2010, Doherty et al., 2014). Section 3.1 clarifies the key characteristics of grounded theory and the philosophical assumptions underpinning the methodology. In 3.2 an overview is provided of the research approach, including the sampling strategy and data collection methods. Three films were made to support communication of the research findings through a powerful format. The film production led to useful partnerships with key sector organisations enabling access to prominent case studies and interviews. Moreover distribution of the films supports knowledge sharing of the research findings to a wider audience as discussed in section 3.3. Section 3.4 explains the analysis process, illustrating a step by step example of how key concepts are developed based on systematic comparison between data sets. The chapter concludes with a summary of the research methodology in 3.5.

3.1 Methodology

With limited theory available as to how to overcome the challenges arising from pursuing a dual mission, grounded theory was chosen as the most likely methodology to develop new insights, as opposed to testing existing ideas (Goulding, 2005). This section explains key concepts of grounded theory and its implications for the study, followed by an overview of the philosophical assumptions underpinning the research approach.

3.1.1 Grounded theory

The main aim of grounded theory is to generate new theories by incrementally building abstractions from detailed analysis of the data, as opposed to testing preconceived hypothesis (Bryant, 2017). In summary, the qualitative methodology entails a constant comparison

method during data collection and analysis, developing concepts that explain common themes and patterns observed in the data most effectively (Charmaz, 2014). Grounded theory has been applied as a methodology as opposed to merely an analytical technique involving three main distinctions compared to other qualitative research aside from the analysis. First, the research adopted a strong focus first and foremost on observing and analysing what is happening in the field, a key characteristic of grounded theory in order to keep a fresh perspective on the phenomenon and limit potential influence by existing research and theories (Bryant, 2017). The literature review at the start of the research was limited to familiarisation and orientation, ensuring that the proposed research holds out the prospect of a meaningful contribution. A more extensive literature review was conducted at a later stage as the basis for a comparison of the conceptual findings after developing an independent analysis (Bryant, 2017, Glaser and Strauss, 1967).

Secondly, the research involved data collection and analysis simultaneously, another distinct feature of the grounded theory methodology (Charmaz, 2014, Glaser and Strauss, 1967). In practice, grounded theory research is less linear compared to other qualitative methodologies. Grounded theorists stop and note ideas, insights and realisation of analytic connections at any time during the research process. In line with grounded theory the sampling and data collection process evolved to follow leads towards potential valuable findings (Charmaz, 2014). Effective grounded theory is mostly inductive, but requires an interplay between induction and deduction throughout the constant comparative method (Urquhart, 2013, Suddaby, 2006). With grounded theory the researcher keeps collecting and analysing data to define the properties of a category until no new properties are found. Thirdly, the sampling strategy was aimed at developing categories toward theory construction in line with grounded theory (Charmaz, 2014, Glaser and Strauss, 1967). For example, once the tentative categories were developed based on the interviews and case studies set in a similar context in the UK, further interviews and case studies were conducted in different contexts to obtain further insights into robustness and additional attributes of the categories as further explained in section 3.2.

Whilst grounded theory is gaining popularity, there is still some debate around its merits (Hall et al., 2013). The main advantage of the methodology for this thesis is the predominant focus of discovering patterns between business model design and effective outcomes in terms of profit and purpose, with little existing theory available to draw upon. There is a strong argument in that history shows how science is more advanced by the inductive process of making positive discoveries, instead of showing that something is not true (Locke, 2007).

To illustrate, when Darwin visited the Galapagos Islands he did not set out to test existing hypothesis. Instead, he concentrated first and foremost on collecting and analysing his observations of how species such as finches and tortoises vary across the Galapagos archipelago. By constant comparison of data, thought and reasoning, he proposed that the different species all shared a common ancestor, and evolved and adapted, by natural selection, to exploit vacant ecological niches. This resulted in evolutionary divergence and the creation of new species, the basis of his proposition of the theory of evolution in the 'Origin of Species' (Darwin, 1969). For instance, the theory explained his observation of tortoises on different islands showing that those with less access to plantation on the ground had evolved into species with longer necks to access taller plants. The research by Darwin is an example of how a predominant focus on analysing patterns observed in the field can lead to valuable new insights. Had Darwin used more traditional research methods and set out to focus on testing existing theories instead of concentrating on observing patterns in the field by applying grounded theory, he may not have derived the theory of evolution.

Theories developed from using grounded theory methodology are initial substantive theories aimed at their usefulness, credibility, and originality, rather than formally tested theories aimed at 'absolute truth' and 'universal validity' (Bryant, 2017, Charmaz, 2014). When a grounded theory is first developed it can usually not claim the status of a formal theory that can only come with time and further studies by others (Bryant, 2017). Nevertheless, as Glaser and Strauss highlight, a substantive grounded theory is often of great practical use long before the proposed theory is tested in more details (Glaser and Strauss, 1967). In grounded theory, theorising entails identifying a slightly higher level of abstraction than the data (Suddaby, 2006), by making use of previous knowledge and experience of the researcher to interpret the data (Goulding, 2005). A theory is defined here as a relationship between abstract concepts aiming to develop explanation or understanding (Charmaz, 2014). Theories can spark illuminating insights to see the world from a different perspective and create new meanings of it (Charmaz, 2014). The fundamental contribution of grounded theory resides in guiding interpretive theoretical practice, not in providing a blueprint to predict outcomes (Charmaz, 2014). The objective of this thesis is not to provide a 'one size fits all solution' to overcome challenges due to the social enterprise dual mission. Instead, the aim is that key patterns observed will help develop our understanding of why some social enterprises are more successful than others in achieving 'profits and purpose'. In addition, the theories emerging from this research aim to inspire a different viewpoint on the role of the corporation, questioning the legitimacy of the shareholder perspective.

3.2.2 Philosophical assumptions

Classic grounded theory is essentially ontologically, ‘what we believe about the world’, and epistemologically, ‘how we can come to know what we know’ neutral (Bryant, 2017, Urquhart, 2013). From an ontological perspective grounded theory can therefore differ between a positivist perspective, reflecting a belief that knowledge is ‘out there to be discovered’, an interpretivist perspective with the truth ‘evolving and to be interpreted’, or a constructivist belief that ‘reality is local and specific with humans not discovering knowledge but constructing it’. The beliefs underpinning this study fit mostly with an interpretive perspective recognising that analysis involves interpretation (Strauss and Corbin, 1998, Strauss and Corbin, 1994). This perspective follows from a symbolic interactionism paradigm where scientific truth is seen as the ongoing interpretation of meaning produced by people engaged in a common project of observation of a particular phenomenon (Hall et al. 2013, Suddaby, 2006). The chosen interpretivist ontology contrasts with views by positivists who tend to take a realist position and assume that a single objective reality exists independently of what individuals perceive (Hunt, 1991). Positivism is criticised for making events dependent on time and context sound more universal and generic than they actually are (Charmaz, 2014). Interpretive theory emphasises interpretation and gives abstract understanding greater priority than explanation, fitting the belief that a qualitative researcher embarks on a journey of discovery rather than one of verification (Bryman, 1984). Contrary to most other methods grounded theorists call to report findings by making the voice of the researcher explicit rather than opting for the ‘passive voice’ since it is more engaging, less impersonal, and acknowledges the role of the researcher instead of creating a false sense of objectivity (Bryant, 2017, Hall et al., 2013, Suddaby, 2006). Whilst I prefer the personal voice, I have kept this to a minimum with the aim to ease absorption of the thesis by the majority of scholars more used to the passive voice.

The interpretivist ontology fits with my belief that reality evolves and that research can play an important role in helping us evolve to develop better societies. Like Darwin and Mead my beliefs are that humans are part of an evolutionary process (Hall et al., 2013). In contrast to the physical sciences, social sciences investigate how human invention continually generates new ways of interaction and organisation. To understand new modes of interacting and organising grounded theory methodology offers flexibility around issues of interpretation and enables exploration beyond long-standing assumptions (Suddaby, 2006). As such my perspective fits with a pragmatist view in that we can learn from reflecting on experience, and test options to inform decisions that can lead to more beneficial behaviour and desired results (Hall et al., 2013). To me this is the main objective of conducting research

in social sciences, to systematically observe and analyse how different modes of interacting and organising leads to different outcomes to help guide us to evolve for the better.

A second assumption underpinning the methodology is that reality is dependent on context such as time and location, as we evolve to better ways of doing things, or sadly at times worse ways. As we develop different levels of awareness and understanding, knowledge is interpreted differently and as such constructed in our minds, fitting with a ‘constructivist paradigm’ (Hall et al., 2013, Charmaz, 2014). However, whilst different levels of understanding can lead to different interpretations of reality, it is my belief that there is a certain level of knowledge to be developed separate from our minds. In recognising that people can hold different views of what is beneficial, I believe that certain outcomes are more desirable than others, outside our minds. For example, we have evolved from believing to a certain extent that apartheid and slavery are not desirable, nor just. Whilst this paradigm is a matter of choice, and some may still choose to believe that apartheid or slavery is desirable, I believe that a society that is more tolerant to racial differences leads to better outcomes for everyone in terms of harmony, inclusion and justice. Similarly, I believe that we are evolving to a level of awareness that poverty, rising inequality, and climate change are not desirable for our societies. Regarding the wider context of this thesis, I believe that a perspective of ‘profit for purpose’, where profits are a means to an end to create value for people and planet leads to better outcomes compared to the traditional shareholder perspective. This rests on an overriding assumption that it is more desirable for humanity to evolve to modes of organising that lead to a more harmonious, inclusive, and just society.

An interesting comparison can be made to Plato’s ‘allegory of the cave’, as to whether research findings reflect reality, or the superficial (Bryant, 2017). Plato’s allegory refers to a group of people who are chained up in a cave staring at the blank wall at the back of the cave. Because they can only see the shadows of anything that passes in front of the fire that burns outside the group mistakes the shadows for reality. Plato compares the shadows to the external world experienced by most, to getting free from the shackles, turning around, seeing a ‘deeper reality’, realising that all they had seen until then were the shadows on the wall. It is the aim of this thesis to question the predominant conditioning in our societies based on shareholder theory where the role of the business is to maximise profits to increase wealth of the most powerful. By getting free from the ‘shackles’ in accepting this shareholder paradigm, this thesis seeks to develop our understanding of a perspective where resources are used to create value for people and planet, with the profit motive as a means to an end.

How do the assumptions outlined above impact on the research findings and interpretation of the proposed theories? As in Plato's allegory, all knowledge claims can be challenged questioning whether the shadows are mistaken for reality. There is a risk of 'confirmation bias', with most grounded theorists arguing that theory cannot be based on verification because it is far too easy to see confirmation if that is all one is looking for (Bryant, 2017). The next section outlines the implications of the philosophical assumptions, and describes the actions taken to manage potential bias and increase the robustness of the results.

3.1.3 Impact of philosophical assumptions on the research approach

In line with the interpretivist paradigm I recognise that my experience has played a role in defining the starting point of the research, as well as in interpreting data. Many grounded theorists argue that the active involvement of the researcher as part of the research method plays an important positive role. The ability to draw on previous experience and insights is referred to as 'theoretical sensitivity' as a personal quality of the researcher (Hall et al., 2013), involving the attribute of having insight, the ability to give meaning to data, the capacity to understand, and capability to identify what is relevant (Suddaby, 2006). I embarked on this research journey after seventeen years of senior management experience in both the commercial as well as the social enterprise sector. This experience gave me insights that I believe helped me to better understand and analyse the data as well as establish relevant departure points for the research. For example, I believe that previous insights into some of the complications arising from combining commercial and social aims provided good starting points, rather than limit ideas in developing the focus of the inquiry (Charmaz, 2014). I believe that my previous experience played an important positive role in developing the focus of the inquiry, and in managing the interviews and understanding the relevance and nuances of the data (Bryant, 2017, Charmaz, 2014). However, I am aware that my personal beliefs could potentially lead to interpretation bias. To manage potential bias and increase generalisability and validity of the research I took the following steps.

First, the research includes a large and varied data set, including 93 interviews across ten prominent case studies and sector experts. Drawing on valuable experiences across the case studies and interviews resulted in sufficient knowledge to see and articulate differences and distinctions, anchoring the analysis in rich and plentiful data. The analysis process consisted of constant systematic comparison within and between interviews, and across case studies, literature, and sector reports. Systematically comparing large data sets reduced sensitivity to interpretation bias, and increased validity of the data. By gathering data in different contexts the research gained theoretical sensitivity, with the emerging theory likely applicable to a

wider world compared to small grounded theory studies that more likely apply to only the studied situations (Charmaz, 2014). Verification in this study is not used to ‘establish truth’, in a positivist sense, but to evaluate trustworthiness throughout the analysis rather than finding ‘proof’ through follow up studies (Strauss and Corbin, 1994). The constant comparison between data did not aim at triangulating data to verify propositions to be a reflection of a ‘reality separate from our minds’. Instead, comparison between interview data and case studies in different contexts reduced sensitivity to interpretation bias and increased robustness of the findings (Charmaz, 2014, Hall et al., 2013, Urquhart, 2013).

Secondly, the analysis process is made transparent and is explained and illustrated step by step in section 3.4 and in the discussion of the findings in the following chapters. An overview of the analysis is summarised in several tables, demonstrating how representative data is advanced to codes and propositions (Nagel et al., 2015). Finally, independent observers were asked to review data against key concepts to check against potential personal bias as further explained in section 3.4 (Isabella, 1990).

3.2 Research approach

The study set out to contribute to a better understanding of how to overcome challenges arising from the dual mission of a social enterprise to prevent ineffective strategies leading to deficient performance or organisational failure (Moizer and Tracey, 2010). The research evolved into developing key factors in the design of the business model that are fundamental to the achievement of both ‘profit and purpose’ (Wilson and Post, 2013, Hamby et al., 2010). The research strategy to support the study fitting with the grounded theory methodology and the philosophical assumptions is summarised in table 2 and is further explained below.

Methodology	- Grounded theory
Philosophical assumptions	- Pragmatic, interpretive perspective
Literature review	- Limited literature review at the start for familiarisation - More extensive review as part of analysis to compare proposed concepts
Data collection	- 93 semi-structured interviews including: - 74 interviews and observations across 10 case studies (UK, The Netherlands, India, Ecuador, US, Ghana, Ivory Coast) - 19 Interviews with sector experts (UK, The Netherlands, India, Bangladesh, Ecuador) - Other data sources such company reports and sector reports

Sampling	<ul style="list-style-type: none"> - Purposive sampling: sector expert interviews and five ‘training and employment’ case studies in the UK leading to tentative categories - Theoretical sampling: sector expert interviews and five further case studies in different contexts to develop and strengthen validity of properties
Analysis	<ul style="list-style-type: none"> - Interviews were transcribed and coded - Memo writing throughout data collection and analysis - Raising tentative categories based on significant patterns observed in UK - Developing categories and robustness findings based on data wider context - Cross-case comparison of some key concepts to gain further insights - Systematic, iterative process until ‘theoretical sufficiency’ - Comparison of propositions with extant theory - Independent observer review of propositions against data set

Table 2: Summary research design and methodology

3.2.1 Use of the literature

Grounded theorists tend to limit the literature review at the start of the research project and focus first and foremost on observing what is happening in the field (Bryant, 2017). I started with an initial review of social enterprise discourse for the purpose of familiarisation and to gauge whether the focus of enquiry would enable sufficient academic contribution. With a clear indication that there is a lack of understanding around effective social enterprise business models, sufficient confidence was gained that the study could provide valuable fresh insights to extant discourse as well as practitioners and policy makers. A more extensive literature review was conducted as an integral part of the analysis. As outlined in Chapter two, the literature review concentrated on studying social enterprise as exemplars of hybrid models combining both commercial and social logic, and a wider perspective of combining profit and purpose as part of the mainstream economy including shareholder theory, CSR, shared value, and stakeholder theory. This later investigation of the literature was used to substantiate the findings and further elucidate the key concepts proposed and enhance internal reliability and generalisability (Bryant, 2017, Urquhart, 2013).

3.2.2 Data collection methods

The principal method of data collection is interviews, building on the theoretical usefulness of interview data (Charmaz, 2014). Additional data were collected through observations and documents such as annual reports where available. To achieve theoretical sensitivity, reducing the likelihood of misleading claims or a superficial analysis (Glaser, 1998) the study is based on a large number of interviews. Investigating social enterprise experiences in different countries enabled comparison of what patterns emerge across different settings or which are more context bound. A summary of the collected data is illustrated in table 3.

Research participants	Type of data	Interviews	Main locations
Social enterprise CEOs/ founders	Interviews	18 interviews	UK, The Netherlands, India, Ecuador, US
Social enterprise managers/ support staff	Interviews	22 interviews	UK, The Netherlands, India, Ecuador, US
Social enterprise clients	Interviews, observations	22 interviews	UK, The Netherlands, India, Ecuador, US
Customers	Interviews	12 interviews	UK, The Netherlands, India, Ecuador, US
Industry experts	Interviews	19 interviews	UK, The Netherlands, India, Bangladesh, Ecuador

Table 3: Summary data collection

Interviews

In total 19 interviews were conducted with industry experts based in the UK, The Netherlands, India, Bangladesh, and Ecuador. A further 74 interviews were conducted across ten case studies. In line with grounded theory, the interview approach changed to some extent throughout the study (Charmaz, 2014). Grounded theory does not involve starting from a clear and precise research question, but favours a more flexible approach to the research context, especially during the early stages (Bryant, 2017, Charmaz, 2014). Interview guides with open ended questions were developed (see appendix 3 to 6), which were adjusted throughout the data collection phase depending on context and initial analysis from previous interviews. When interviews were conducted and analysed the theoretical direction of the study began to emerge. Some interview responses stood out and other interview statements clustered and began to shape the analysis. These patterns informed subsequent interviews. In short, the interview guide evolved with the study.

Case studies

In total ten case studies were visited including five case studies in the UK, and a further five case studies based in The Netherlands, India, Ecuador, US, Ghana, and Ivory Coast. An overview of the case studies is provided in table 4. Examining case studies enabled a cross-case comparison (Miles and Huberman, 1994, Yin, 2014)) enabling deeper inquiry into certain patterns emerging from the interview data. For example, a cross-case comparison between financial and social outcomes and differentiating factors in the business model led to valuable insights as further explained in section 3.4. In addition to the interviews relevant documents were studied that were possible to obtain such as annual reports and performance reports, for example to examine financial and social outcomes of the case studies.

Case study	Commercial offer	Social aim	Clients	Countries	Visit	Interviews	Interviewees
Bistro	A high end bistro	Training and employment	Homeless or ex-offenders	UK	3 Days	12	Founder, senior management, clients, customers
Logistics	Logistics and warehousing	Training and employment	Homeless or ex-offenders	UK	1 Day	5	Founder, senior management, clients
Youth Support and Go Karting	An electric go carting track, and restaurant	Training and employment	Disadvantaged youth	UK	2 Days	8	CEO, senior management, clients
Sandwiches	A sandwich chain	Training and employment	Homeless	UK	2 Days	7	Co-founder, senior management, clients, customers
Janitors	Social landlord, cleaning and gardening services	Training and employment	Disadvantaged long term unemployed	UK	2 Days	6	Senior management, clients
Dining in the Dark; Coaching and Recruitment	A dining in the dark restaurant, coaching and recruitment	Training and employment	Young professionals with disabilities	The Netherlands	2 Days	7	Founder, senior management, clients, customers
Taxis	The first fully electric cab company in Europe	Training and employment, environmental improvements	Unemployed over 50 years old	The Netherlands	1 Day	4	Founder, senior management, clients, customers
Chocolates	Chocolate manufacturer and distributor	Ethical supplier relationships striving to eradicate child slavery in the cocoa industry	Cocoa farmers in Ghana, Ivory Coast	The Netherlands, Ghana, Ivory Coast	1 Day	3	Chief Chocolate Officer, senior management, customers
Authentic Travel	Travel experience in local tribes and hamlets in India	Increase livelihoods, prevention of migration to city slums	Poor tribal communities in India	India	3 Days	11	Co-founders, senior management, clients, customers
Apparel	Ethical apparel company	Raising awareness and environmental improvements	Local communities in Galapagos	US, Ecuador, Peru	3 Days	11	Founder, senior management, clients, customers

Table 4: Overview case studies

Participant observation

Whilst the data collection and analysis is predominantly based on the interviews, participant observations were made during visits at the case studies. Each of the case studies was visited for a period of minimum one to maximum three days as highlighted in table 4. During the visits interviews took place and observations were made related to impact of the opportunities on clients' lives. The observations were captured by film footage and notes were added to the memos that were used as part of the constant comparative method during the data collection and analysis.

Pseudonyms

To keep confidentiality a pseudonym is used for the case studies and case study participants. For the sector experts actual names and job titles are used to underline their experience connected to illustrative quotes as formally agreed with the participants. Ethical consent forms were developed (see Appendix 7) and signed by the interviewees. For those interviews that were filmed, separate agreement forms were signed to feature in the films. Finally, the literature review and relevant sector reports were used as an additional form of data.

3.2.2 Initial purposive sampling strategy to develop categories

In line with grounded theory, initial research participants were chosen because of their relevant experience in the context of the study. This approach is called purposive sampling (Bryant, 2017). The study set out by interviewing key social enterprise sector experts, including Professor Muhammad Yunus, Nobel Peace Prize Laureate and founder of the Grameen Bank in Bangladesh, Peter Holbrook, CEO Social Enterprise UK, Liam Black, Impact investor and previous CEO of Jamie Oliver's Fifteen; Willemijn Verloop, Director Social Enterprise NL in The Netherlands, and Fraser Kelly, CEO Social Enterprise Scotland. In total, 19 sector experts were interviewed, as outlined in Appendix 1.

The initial expert interviewees were selected for the following reasons. First, they were able to provide valuable rich insights based on years of observing a wide range of social enterprises who perform well and those who struggle to achieve their dual mission. Secondly, prominent sector experts such as CEO of Social Enterprise UK, and Director of Social Enterprise NL in The Netherlands were able to identify and help gain access to case studies perceived to be exemplary in terms of financial and social outcomes. And thirdly, the interviews and subsequent meetings with sector experts led to sponsorship and partnerships to produce the films supporting the study as further outlined in section 3.4. The interview with Professor Muhammad Yunus, a key figure in the sector globally, was

particularly valuable as his appearance in the films helped raised the interest of high profile experts and case studies who tend not to take part in research projects since they are often approached to take part in such projects but have little time available. The ability to draw on the experience from those at the forefront of developing business models effectively towards 'profits for purpose' contributed valuable insights to the data.

Based on the insights gained from interviews with key sector experts initial case studies were selected. Social enterprises perceived as successful in achieving their dual mission were selected as they are more likely able to provide insights into how to overcome challenges arising from balancing competing logics (Siggelkow, 2007). Whilst the main focus throughout the study was to learn from social enterprises as to how to effectively achieve the dual mission, ineffective strategies or failures were studied as part of accounts on initial stages of the social enterprise or previous social enterprise failures. Furthermore, sector experts were able to provide insights into a comparison of social enterprises perceived as more successful in achieving their dual mission compared to others. The study started with five prominent social enterprises in the UK, each providing training and employment opportunities to clients from economically deprived backgrounds. One example is a bistro in London training homeless people as qualified chefs with some now working in high end establishments such as the Savoy Hotel. Another example is a fast growing company providing warehousing and logistics solutions to customers including Amazon, offering opportunities to ex-convicts. The five selected case studies largely mirror the profile of social enterprises in the UK with the majority of social enterprises trading with the general public and a large number of social enterprises providing employment and training opportunities (Villeneuve-Smith and Temple, 2016). Analysis of common patterns amongst the five case studies and sector expert interviews in the UK led to theoretically sufficient themes and tentative categories. Theoretical saturation means that additional interviews were no longer adding new properties to key patterns emerging as to how to effectively achieve financial performance as well as social impact (Bryant, 2017, Charmaz, 2014, Urquhart, 2013).

In line with the philosophical assumption that findings are context bound, the next sampling stage was aimed at gaining insights into which of the tentative categories are valid beyond the context of social enterprises providing training and employment opportunities in the UK. To strengthen theoretical plausibility of the analysis and gain a better understanding of which concepts likely apply to a wider world (Charmaz, 2014), additional interviews were therefore conducted with social enterprises and sector experts in different contexts.

3.2.4 ‘Theoretical sampling’ in a wider context to develop category properties

Following the initial stages of comparing data to establish common patterns further data sources were identified with the aim to develop the properties of the theory, termed ‘theoretical sampling’ (Bryant, 2017, Charmaz, 2014). The purpose of theoretical sampling in grounded theory is to construct full and robust categories (Charmaz, 2014). Whilst the initial sample included comparable case studies to study common patterns to develop categories, the focus during this further sampling stage was to identify what properties are valid in a wider setting or if any further properties are to be added to a category.



Figure 4: Map purposive and theoretical sample

Key concepts in this study were derived initially from 48 interviews with sector experts and across five comparable case studies in the UK, each providing training and employment opportunities to people from disadvantaged backgrounds. In order to gain insights into how the tentative categories based on data in the UK apply in a wider setting, the study continued with a further 45 interviews across five case studies and sector experts based in wider contexts, as illustrated in figure 4.

As part of the wider context first 17 interviews across three prominent case studies and sector expert interviews were conducted in The Netherlands, with one of those case studies also operating in Ghana and Ivory Coast. Access was facilitated through a connection between the sector expert interviewees CEO of Social Enterprise UK and Director of Social Enterprise NL in The Netherlands. The social enterprise sector in The Netherlands has a similar level prevalence of social entrepreneurial activity compared to the UK (Nee, 2015). The context of these case studies are different in terms of culture, poverty levels, and inequality indicators. The UK has higher inequality levels and poverty rates compared to The Netherlands, with the Gini coefficient between the 10 percent highest and lowest earners in UK at 0.36, compared to 0.23 in The Netherlands (OECD, 2016). Values of the Gini coefficient range from 0 in the case of 'perfect equality' (each person receives the same income), to 1 in the case of 'perfect inequality' (all income goes to the person with the highest income). Whilst homelessness is on the rise in The Netherlands, the percentage of homeless people in the UK were estimated to be twice as high in 2016. Research by Heriot-Watt University estimates the number of homeless people in the UK at 236,000 in 2016, 0.36 percent of the UK population (Heriot Watt University, 2017). By comparison, homelessness in the Netherlands was estimated 31,000 in 2016, 0.18 percent of the population (Netherlands, 2016). Furthermore prison population rates are twice as high in the UK compared to The Netherlands (OECD, 2016).

To get further insights into a context that differs even more in comparison to the UK, further interviews were conducted in countries further afield. 26 Further interviews took place with sector experts and case studies operating in countries with varying cultures, levels of development, poverty and inequality including India, Bangladesh, Ecuador, Peru and the US. The prevalence of nascent social entrepreneurship is relatively medium to high in each of these countries (Nee, 2015). Interviewees and case studies were selected based on their perceived status to do well both in terms of commercial and social impact, to provide insights in a different context and setting, and ability to gain access. In addition to providing a

different context in terms of location, the case studies selected during the theoretical sampling stage reflect different types of social enterprises, likely facing a different range of challenges (Santos et al., 2015, Besharov and Smith, 2014, Ebrahim et al., 2014). The main purpose of the case studies in the UK is training and employment to economically deprived clients including homeless, and ex-prisoners. The aim of the five further case studies in a wider context included training and employment of young disabled and the unemployed over fifty year olds, enhanced income for cocoa farmers and eradication of child slavery in the cocoa industry, generation of additional income for tribal villages and prevention of migration to city slums in India, and environmental improvements and improved income for single mothers in Peru. An overview of the case studies and different contexts is provided in table 4 on page 52. Additional details of all interviewees are provided in Appendix 1 and 2.

Section 3.4.3 illustrates how studying the wider context influenced the development and robustness of key categories. Sufficient confidence was gained that validity of the key concepts was strengthened to apply in a wider setting than training and employment social enterprises in the UK. Following the 93 interviews in different contexts, a point was reached where no further details were added to the key concepts borne out of the data. Similar instances were observed over and over again, and no further properties were added to the categories, the point in grounded theory where data gathering can be ended (Bryant, 2017).

3.3 Films and knowledge sharing

The research project adopts an innovative knowledge exchange approach by sharing key findings through a powerful film format. The film production enabled access to prominent case studies and interviewees leading to rich insights. The impact of the research project was enhanced by working in partnership with key social entrepreneurship institutions to produce three films based on the PhD research findings. Partnerships were established with Social Enterprise UK, Social Enterprise The Netherlands, School of Social Entrepreneurship, Community Enterprise in Scotland (CEIS), PwC and RBS/ NatWest. The film production also gained an award by UnLimited supporting knowledge sharing initiatives in the social enterprise sector. Through the partnerships the research findings were shared amongst a wide network of practitioners, and policy makers through their online communities and the films were shown at events in the UK and The Netherlands such as social enterprise conferences. A dedicated event showcasing the films was organised in the EYE cinema in Amsterdam for social enterprise scholars, policy makers and practitioners. The films have received excellent feedback across their audience.

Interviews were recorded either by audio or video. Some participants were interviewed twice, first recorded by audio and at a later stage by film to enable a comparison of responses and assess possible bias due to the use of a film camera. Even though different wording, examples and illustrations were used, the main emerging patterns and themes resulting from the audio and video interviews were consistent. The films can be viewed at www.fishclimbingtrees.global. A screen capture of the website is shown in figure 5.

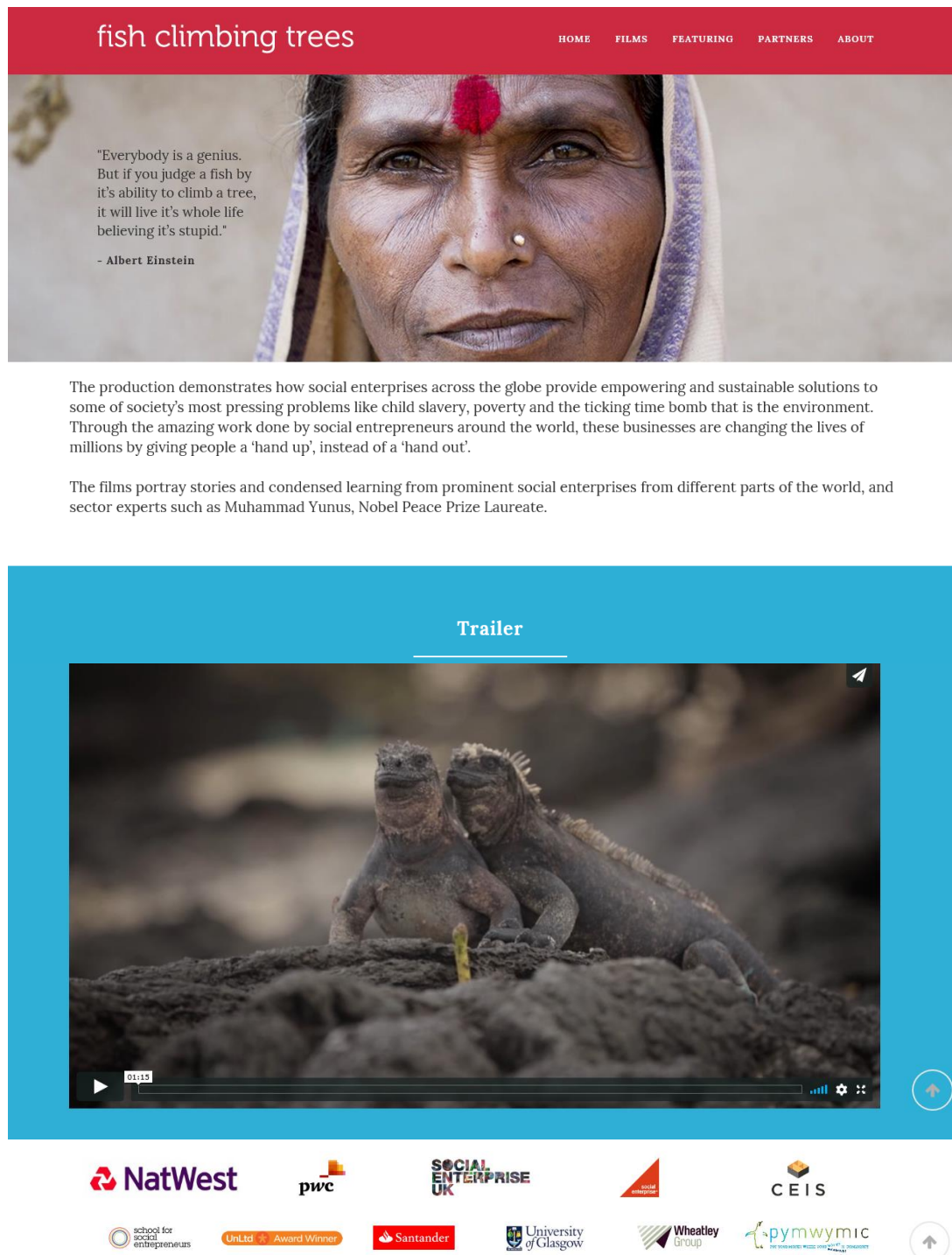


Figure 5: Website www.fishclimbingtrees.global

3.4 Data analysis

The key steps taken to analyse the data are visualised in figure 6 and further outlined below.

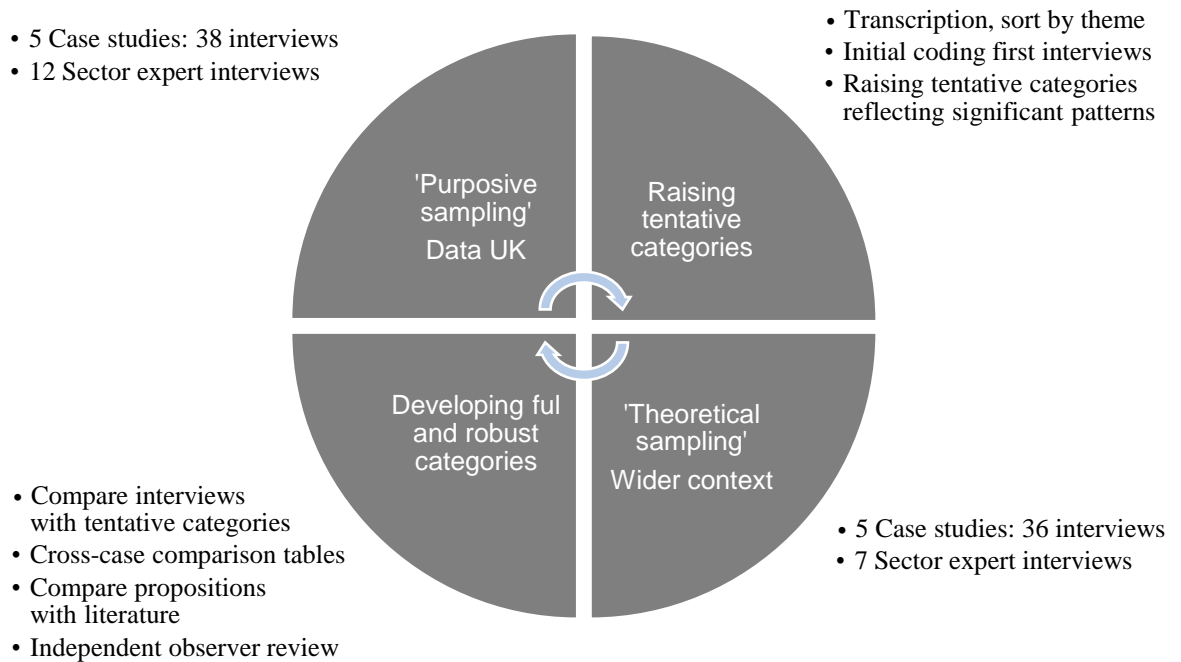


Figure 6: Data analysis process

3.4.1 Raising tentative categories

First, the interviews were transcribed and where required translated into English. To facilitate comparison of data, interview responses were arranged by theme in an overall spreadsheet. To illustrate, a screen capture of a small part of the spreadsheet is shown in figure 7. The data was divided into 18 themes, such as ‘challenges arising from the dual mission’, and ‘success factors to achieve the dual mission’, and ‘social impact’ across a spreadsheet counting 4147 cells.

First, the UK data was coded, enabling comparison between interviews related to a similar context of training and employment for clients mostly from an economically deprived background including homeless, ex-prisoners, and young unemployed. Responses were coded initially by naming segments of data with a label to categorise, and summarise data (Charmaz, 2014). For the first few interviews all data was coded.

Overall data analysis table 20 March 2016 - Excel

Melanie van de Velde

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	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	
1		Experts - Yunus				Experts - Darren				Experts - Margaret				Experts - Peter				Experts - Robert				
2		Clip code	second	length	Line	Clip code	second	length	Line	Clip code	second	length	Line	Clip code	second	Initial coding	Focus coding	Line	Clip code	second	length	
3	Concept & relevance	Yunus1	6:27-6:39		Business is a vehicle, you take it wherever you want to go. So you want to make money, you take your vehicle prepare for that kind of job which takes you to make money.	EX Darren2	10:13:23:19		The big difference and the big need for racial enterprise is that race in today's world is that they get into a space where the work that they do can be monetized. So a lot of NGOs do the same work that racial enterprise do, for example collection of honey, purifying it and then selling it off to the market, NGOs do that. Whether it's also working with artisans and creating jewellery products, NGOs do that. The difference that race for racial enterprise is that their existence depends on that very activity that they chase.	EX Margaret5	01:56:28:21		So my first reaction is actually excitement. I think that it's a super time right now where you see more and more integration of the idea of business with benefit. Business that can actually serve the community across the world, really. I think that it's the most efficient manner for something to continue because once you build in an enterprise into the company then there is a way that it can endure far generation if it's well run. There's always going to be a place for philanthropy, it's really critical and necessary, especially in the cultural sector, especially as we begin to help some of those companies with capacity building. The only way that the model can support that is through philanthropy. So both are really critical, but the rise of racial business means we're stepping to bifurcate these models and do charity here and impact here, and that we're	EX Peter1	15:36:12:01	SE producer better outcomes than charity	Employment effective route out of poverty	Well, if you believe that employment is an effective route out of poverty, rather than a charitable service, then in every case a racial enterprise producer better outcomes than a charity. Although lots of charities are racial enterprise too. So I think first of all I would say that the old definition that we've traditionally used to compartmentalize things: private sector, charity, racial enterprise, are no longer relevant. Increasingly things are much more hybridized, they're much more fluid, and there's a lot of overlap between them. If you wanted a specific example of where a racial enterprise has made a difference, I think looking at international development is a great example. So if you look at the winner of the Social Enterprise of The Year award last year we had Divine Chocolate.	EX Robert4	22:58:01:18		
9		Yunus1	6:56-7:08		So this is a vehicle that takes you to the peak of the profit. But I don't want to go to the peak of the profit. I want to go to solve the problem of the people. So what I did was I created another vehicle.	EX Darren2	10:14:25:13		For example if racial enterprise is into honey, procurement of honey and selling of honey they exist to do that. And if they don't do it well, they don't exist. Because if they don't make enough money to pay salaries and to pay their team. And I see that as the very defining factor for racial enterprise and why they exist and why they will go forward, because they exist primarily to do what they do. While NGOs do honey, they also do other stuff. And they get money to do other stuff. So they can pay salaries even if they are inefficient in selling honey. But racial enterprise are purely	EX Margaret6	01:56:07:03		I think different countries have different needs. So I think that we will begin to see more and more businesses in Europe, for example, that are going to integrate this into their core values. And we'll need them. We'll need them around education, we'll need them around various institutions that are starting to lag a little bit. The entrepreneurship that's happening in the developing world, in Africa and India, they're leapfrogging over our kind of 19th century infrastructure, basically and applying these models there now. And we're going to end up learning from these countries, which is brilliant. And then if you drill in and you go deeper and you go, for example, into Nairobi, then when you're dealing with... what's the name of the slum? Sorry,	EX Peter1	15:37:01:23		Divine Chocolate has been having an incredible impact on cocoa farmers across Ghana for well over ten years now. The traditional charitable model is that you give food and you provide aid and you provide that kind of emergency assistance. Well, giving cocoa farmers the power of owning their own brand that's sold in eleven countries around the world is much more enriching, there's much more pride and honour and dignity through making your own money in the world and then determining how it's going to be spent, rather than waiting for, normally, charities from white countries to appear in your country and help you build a school. I mean, there's really no difference. It's not just about meeting a human need, it's about changing an economic model.	EX Robert4	22:58:51:18			
10		Yunus1	7:32-7:37		So I put the name racial business. Because it solves racial problems.	EX Darren2	10:15:08:24		And that's the pure difference that race between racial enterprise. And the other thing is race, and don't get me wrong, NGOs are not not needed, NGOs are needed because they look at stuff that cannot be monetized, for example healthcare, cheaper glasses, malaria, stuff like that that cannot be monetized. That's where they have a massive role to play. And of course supporting racial enterprise in their early days.	EX Margaret7	01:59:09:17		So far example if you're talking about Nairobi and you're talking about the Kibera slum, the needs there are about sanitation and health care and about really basic education. So the country itself, the model will arise from what the need is, basically, in the country.	EX Peter2	15:38:02:04		Sure. Thinking back to my own experience at Sunlight, what I would draw upon is the fact that for many years we operated as a charity, and we were in effect allocating lottery money and other people's grant funding to try and support people that were marginalized and in difficult circumstances. Actually achieving the model on its head and the coming and enterprise felt very natural for us because it was about achieving the best outcomes for people.	EX Robert4	22:59:19:02			
11		Yunus1	7:44-9:25		Bangladesh doesn't have electricity, 70% of the people of Bangladesh have no access to electricity. It is a sad state as you go around in Bangladesh after sunset it is all dark. Little	EX Darren2	10:15:47:17		Absolutely. Absolutely. I think racial enterprise, by the very need to do things well, and the very need to reach out to the customer and get that customer to come back to you again and again, they do think efficiently. For an NGO that's not the case. Their care may be wonderful, may be	EX Margaret8	02:00:22:07		Yeah, I think that there are differences in different countries, and I think that that's completely natural because different countries have different needs. So far example if you're talking about Nairobi and the Kibera slum then what we're talking about about racial enterprise that are dealing with sanitation issues, health issues, really basic education needs.	EX Peter2	15:38:45:14		And actually giving them jobs and employment opportunities and careers, and thereby giving them hope and dream and ambition for the future, had a far more profound and transformative effect than simply giving them free services. And a very, very quickly worked out that this way and far faster for the organization because it allowed us to plan and build and develop businesses	EX Robert7	23:00:24:10			

Figure 7: Screenshot spreadsheet arranging narratives by theme

The codes were closely matched to the data. Codes were not aimed at ‘correctness’ but rather at usefulness, explanatory power, and conceptual reach (Bryant, 2017). Where relevant ‘deeper codes’ were used to reflect the deeper meaning of what is happening in the data (Charmaz, 2014), as illustrated in table 5:

Narrative	Tentative code
<i>“If you’re passionate about it then you can do it. You can definitely do what you want to do. Not give up hope. I was sent to jail three years ago and I didn’t think that I’d be able to be working in The Savoy, from the day I got sent to jail to three years from then.”</i>	Creating pride and self-esteem

Table 5: Illustration 'deeper coding'

Whilst ‘Mark’ does not directly mention pride and self-esteem, his response indicates a level of pride and self-esteem in obtaining a job as a chef in a high end establishment, after leaving prison three years earlier. The code ‘creating pride and self-esteem’ is more relevant and indicative of what is happening in the data compared to a more descriptive code such as ‘do not give up hope’.

Based on the initial codes tentative categories were raised as a higher level of abstraction, above and beyond that found in initial codes (Bryant, 2017). In developing the idea of clusters or patterns, categories can be thought of as containers for related data, where some properties are common to all those within a category (Bryant, 2017). To illustrate the analysis process an example is outlined below for each of the steps in the development of a category as part of the theme ‘social impact’. Table 6 illustrates some of the initial coding for UK data related to the impact created by social enterprises on their clients. A table with a full list of narratives and codes related to this tentative category is included in appendix 8.

Illustration coding relevant data UK related to the theme ‘social impact’

Tentative code	Narrative	Participant
Creating hope and ambition, transformative impact	<i>“Giving them jobs and employment opportunities and careers, and thereby giving them hope and some sort of ambition for the future, had a far more profound and transformative effect than simply giving them free services.”</i>	Sector expert, UK
Breaking through barriers	<i>“I do find the third sector is quite institutionalised. They have heard every homeless person or jobless or workless person socially excluded person. All the excuses about why they can or can’t do something. When you get someone in a live working environment you can challenge them a lot more, and tell them to get their head stuck in and come to work on time and we can patch through some of that and they listen. And I have seen people having conversations with key workers and job centre advisors and they don’t listen.”</i>	Founder – Bistro, UK
Creating pride and self-esteem, and happiness	<i>“So I was training the apprentices and doing the menus and I had this new responsibility. I loved it. It’s one of my real good achievements. In that time we cooked for every politician you can probably imagine; David Cameron we’ve met, I cooked for The Queen on top of The Gherkin, I met Gordon Brown, sat around the round table with Hazel Blears, Boris Johnson came for breakfast. So many different memories that I have in my life. “</i>	Client – Bistro, UK
Creating income, structure, stability Improving relationship with family	<i>“I was just released from prison the end of last year, this is the first job I’ve got since I was released from prison. So it’s gave me some structure, some stability, and some money for the kids and my girlfriend, which is obviously good.. I’m working hard, I’ve got my family to focus on, I’ve got the job now. All my family’s really proud, considering what happened six months ago, where I was. And now that I’m going to the gym, working out, spending time with my family, my kids, so aye, there’s been a big change in me.</i>	Client – Janitors, UK

<p>Creating transformative impact</p> <p>Getting into employment, obtaining certificates</p>	<p><i>“Before I came to ‘Logistics’ I was on a bit of a downward spiral, I left school without any GCSEs, and I sold a few drugs and I stole some things. I was a bit of an unsavoury character, I wasn’t happy in myself, I got a few run-ins with the law and I wasn’t going anywhere. And then I heard about this scheme. So I came here, and Mike knew that I had a criminal record and that I had to attend probation regularly and that I had a bit of a troubled past, but he saw a good thing in me, gave me full time employment, I’ve got four different certificates for handling equipment, forklifts and such, he’s put me on a City & Guilds course, and I’ve turned my life around really. I was really into drugs and alcohol, and now I’ve come here I actually feel important.”</i></p>	<p>Client – Logistics, UK</p>
<p>Empowering clients</p> <p>Creating confidence, self-esteem, dignity</p>	<p><i>“The thing that I loved about a social enterprise from day one, is that rather than delivering a service to people in need, I would employ them. That changed the dynamic very much. They ceased to become beneficiaries or service users, but they become employees, they become staff, they become your colleagues. That fundamentally changes the relationship and it makes it a far more empowering and equal relationship. And of course all of the courses that you can give to people in poor communities about empowerment, or self-confidence or self-esteem, you know, they are irrelevant compared to the impact of giving someone a job, the dignity of giving someone a job.”</i></p>	<p>Sector expert, UK</p>
<p>Contradiction:</p> <p><i>It’s about generating income in order to achieve social objectives</i></p>	<p><i>“I don’t think social enterprise means that you have to pay for services. So I think it’s a common mistake or a misunderstanding that emerges. Social enterprise does not mean that all of a sudden we’re charging for services that people access. So for example if I wanted to sell bottles of water as a way of funding my free domestic violence drop-in centre then that’s completely appropriate. So this notion that if you go down the social enterprise route then all of a sudden those services you start charging for is a myth that I’m very keen to bust. I think where social enterprise can add much greater value is about changing the relationship between a service-user.”</i></p>	<p>Sector expert, UK</p>

Table 6: Illustration coding data UK

From the initial codes, focused codes were identified selecting the most significant and frequent codes. Tentative categories were raised reflecting key patterns and relationships. As the categories were developed the conceptual level of the analysis was raised from description to a more abstract level (Bryant, 2017). To illustrate, the tentative category raised based on UK data in relation to the social impact on clients is visualised in figure 8:

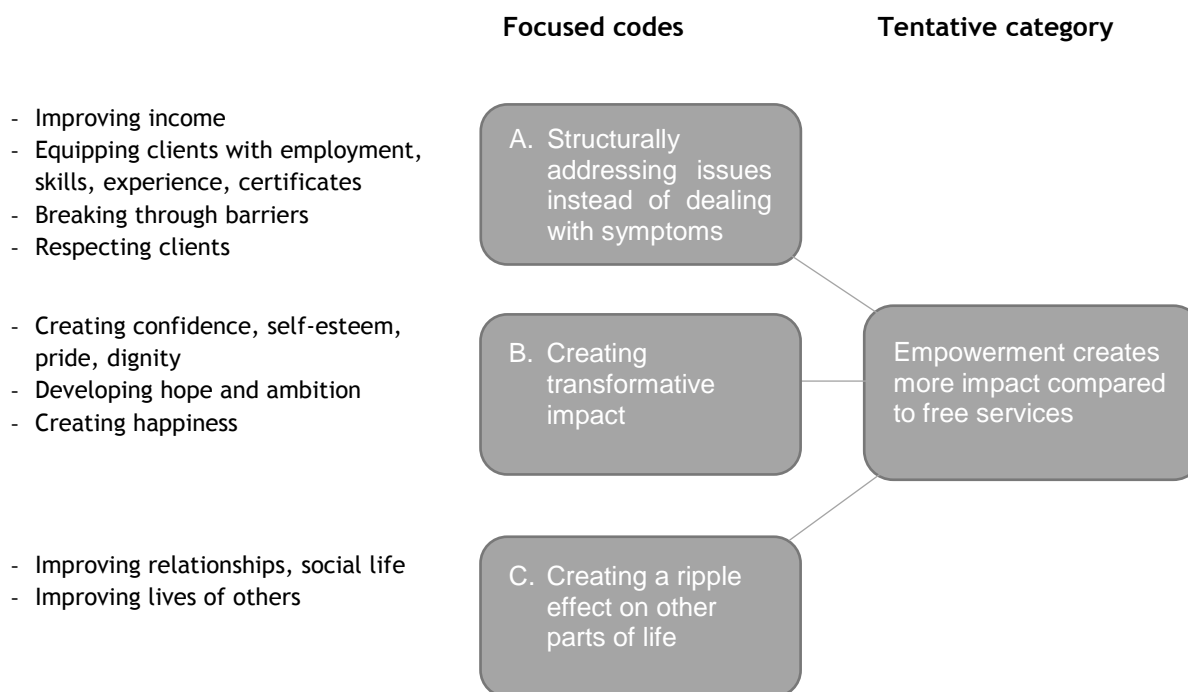


Figure 8: Illustration raising tentative category based on UK data

The most significant and relevant theoretical categories were developed into the key proposed concepts of the developed theory (Charmaz, 2014, Suddaby, 2006). Memos were kept for each category summarising codes, data and notes. Where findings different from the emerging patterns were observed, notes were made in memos to question the validity and limitations of the properties of the category and applicability to certain contexts. Once tentative categories and focused codes were raised based on UK data, further interview responses reflecting a wider context were compared against the tentative categories expediting the inquiry by using these categories to sort large batches of data and simultaneously evaluating relative usefulness of the tentative categories (Charmaz, 2014).

3.4.2 Developing full and robust categories

To refine the properties of the category, its relation to other categories, and to assess robustness of the findings to apply in different contexts (Bryant, 2017, Charmaz, 2014), further data were gathered in different countries examining different types of social

enterprises. The case studies in this wider context include a ‘dining in the dark’ restaurant and coaching and recruitment company in The Netherlands providing opportunities to visually impaired and other disabled people; a chocolate company based in The Netherlands aiming to eradicate child slavery by direct ethical supplier relationships with poor farming communities in Ghana and Ivory Coast; an electric taxi company in The Netherlands providing opportunities to the unemployed over fifty year olds; an authentic tourism company improving livelihoods of poor tribal villages in India; and an apparel company in the US and Ecuador, raising awareness of the environment, and sourcing organic cotton made by single mothers in Peru. Relevant similarities or differences observed in the remaining interviews were added to the memos including notes to capture ideas around deeper meanings behind patterns, and or questions or possible explanations of findings different from the main patterns observed.

To illustrate, for the tentative category ‘empowerment creates more impact compared to free services’ data gathered in a wider context increased robustness of the concepts and additional attributes were added to reflect any significant and relevant additional patterns observed. Table 7 illustrates some of the data gathered in a wider context related to this tentative category confirming robustness of its properties and additional attributes. A table with a full list of narratives and codes related to this tentative category is included in appendix 9. In this example comparison of data gathered in a wider context against the tentative categories provided the following insights. First, the category gained robustness by observing similar patterns in these different contexts. Secondly, an attribute was added to reflect the importance of ‘being part of society’ as part of the focused code ‘creating transformational impact’. Thirdly an attribute was added to the focused code ‘creating a ripple effect on other parts of life’, namely ‘enabling villagers to remain with family’ to reflect the importance of the impact on clients in tribal communities in India to remain with their families, and not having to move to city slums or to other villages further afield to find work.

‘Theoretical sufficiency’ of a key emerging concept was reached after comparing categories to more data from additional interviews and data sources until a category was found to be ‘complete and strong’. Theoretical sufficiency does not mean seeing a pattern a certain number of times, but it is achieved when comparison of further incidents does not lead to any new properties of the pattern. The proposed concepts were reviewed throughout the analysis to adhere to criteria for grounded theory including a close fit with the data, and usefulness (Glaser, 1992, 1978, Glaser and Strauss, 1967).

Tentative category ‘Empowerment creates more impact compared to free services’ <ul style="list-style-type: none"> - Structurally addressing issues compared to dealing with symptoms - Creating transformative impact on individual - Creating a ripple effect on other parts of life 		
Focused codes	Narrative	Participant
Creating pride – B	<i>“In The Netherlands there are only a few people that are proud to tell that they are a taxi driver. And most of them work at ‘Taxis’.”</i>	Client – Taxis, The Netherlands
Being part of society, amongst people – ADDITIOINAL TO B	<i>“What I enjoy very much is to be amongst people again. You are daily busy with something useful. And that's very important to me. When you have nothing to do then it stops, I am not happy anymore. And this a terrific thing to do. I am glad I can do some useful work again and not to stand by the side line.”</i>	Client – Taxis, The Netherlands
Breaking through barriers - A Being part of society – ADDITIONAL TO B	<i>“What I really like about this work too is to give young students with a visual handicap from the age of 16 - 20 the opportunity to have a nice challenging part-time job just like their peers and classmates. And to take away some of the insecurity and embarrassment and to make them enthusiastic for working and actively taking part in society instead of sitting at home.”</i>	Client – Dining in the Dark, The Netherlands
Empowering and equipping people - A Generating income – A Being part of society – ADDITIONAL TO B	<i>“I know much better what my talents are, and also my weaknesses, by having the opportunity to develop my potential, and discover new things, and to get the space to grow. Society wise I enjoy it that I have a permanent job, to be involved with something and to see it grow, and to have an income and to be more a part of your social environment, that feeling has given me definitely a boost.. “In that sense my self-esteem has increased a lot, you see yourself more as part of society and contribute to a very cool concept. You're no longer an outsider, that is what struck me very much (laughs).”</i>	Client – Dining in the Dark, The Netherlands

Improving happiness, friends and family – C	<i>“My parents feel very happy to see that people are seeing talents in me that they also see. And my friends, you know how friends are, they are making jokes about “I want to apply too, I am going to pretend I am deaf so I can get a job too”. That’s funny but I know they are really happy for me (smile).”</i>	Client – Coaching and Recruitment, The Netherlands
Empowering clients - A Being with family – ADDITIONAL TO C	<i>“When they [Authentic Travel] came in the village. They made work opportunities available for us. We don’t have to search for labour work anymore. We now work here in with our families in our very own village. We serve our guests and tell them about the Culture & Biodiversity of our Village.”</i>	Client – Authentic Travel, India
Creating happiness - B Enabling villagers to remain with their family – ADDITIONAL TO C	<i>“So they work as daily wage labourers. If they do get that work for the day they might not get any means to get any food and they’re slogging in the sun, so they get very tired, and it’s a pittance, the money that they get is a pittance. This kind of a program which has been happening for the past few years has helped them to do what they are doing. They’re very, very happy because they don’t have to move away from their house, they are with their children, they can plan their schedule, they are with their cattle, they know the cattle is going out grazing but it will come back. So they are there in the house but they’re earning as well.”</i>	Senior manager – Authentic Travel, India
Structurally addressing environmental issues instead of dealing with symptoms - A	<i>“In the end, you need to understand, or it’s great once you understand that the biggest drawback for conservation is the community itself. And it’s not just foreign NGOs coming and supporting save a specific animal, or save a specific tree, it’s the community understanding why it’s important to change it, and the work we’re doing, hopefully these kids will become that new paradigm, they’ll become head of these institutions, and they will drive this change, because the biggest drawback in the end for conservation is the community itself. They need to feel they are part of it. And with all the right, because this is their community as well.”</i>	Senior manager – Apparel, Ecuador, Peru, US

Table 7: Illustration comparison wider context with tentative categories

3.4.3 Cross-case study comparison

To gain further insights into some of the key concepts derived from analysis across all interviews, cross-case tables (Miles and Huberman, 1994, Yin, 2014) allowed comparison between the five case studies in the UK, each providing training and employment opportunities to clients from economically deprived backgrounds. The cross-case tables highlighted valuable insights related to two overarching dimensions. First, the comparison provided further clarity around the impact of prioritising commercial versus social logics to effectively achieve financial and social aims. A strong pattern across all 93 interviews indicated the importance for social enterprises to ‘lead with the business’. Analysis of related categories indicated that commercial and social logic should be emphasised differently, depending on each business model area. To further explore the categories case studies were compared using the business model framework by Osterwalder and Pigneur (2010) covering five main areas of what they call a ‘social mission business model’, namely: the offering; customers; infrastructure; financial outcomes; and social outcomes. By comparing the responses related to the different business model areas of each case study valuable insights were gained into key drivers contributing to more effective strategies towards achieving financial and social outcomes as will be discussed in Chapter four.

Secondly, social outcomes related to key categories were compared between case studies, underlining key factors in achieving social impact on their clients, as presented in Chapter five. For example, case studies achieving a higher success rate of their clients gaining employment show more alignment of their product or service offering with market demand. Case studies based in a wider setting were excluded from the cross-case analysis as the different types of activities and clients do not enable meaningful comparison between financial and social outcomes. All cross-case analytical tables and data are discussed in the findings chapters four, five, and six.

3.4.4 Literature review

Finally, the proposed categories were compared to extant literature and relevant sector reports as will be discussed in the findings chapters. In the example of the proposition ‘empowerment creates more impact compared to free services’ comparisons are drawn to publications such as the criticisms of the ‘buy one, give one’ models such as Toms Shoes (Herrera, 2013) for not addressing the root cause of poverty, the discussion of ‘justice versus charity’, and different dimensions of poverty such as social exclusion, self-esteem and the ability to develop individual capabilities (Sen 1999, Nussbaum 2000) that may be more

effectively addressed through empowerment compared to charitable support. The discussion questions definitions in academic literature and policies that fail to recognise the importance of the empowering nature of social enterprise opportunities to more effectively address issues such as long term poverty compared to charitable support.

3.4.5 Presentation of data and independent review

To summarise the analysis underpinning each of the proposed theories in the findings chapters, each of the key categories is summarised in a diagram highlighting related focused codes, and a table including representative data, notes and limitations, as table 8 illustrates. To reduce the impact of personal interpretation of data, and review the representation of the summaries presented, two independent observers were asked to review the main themes and illustrative data. Both observers deemed the interview statements to match against the proposed themes. Their confirmation adds robustness to the proposed concepts based on the abstraction process independent of my interpretation.

Category: 'Empowerment creates more impact compared to free services'	
Focused codes	Illustrative data
A. Structurally addressing issues instead of dealing with symptoms	<p>A1. <i>"[Logistics] gave me full time employment, I've got four different certificates for handling equipment, forklifts and such, and I've turned my life around really. I was really into drugs and alcohol."</i> Client Logistics, UK</p> <p>A2. <i>"If you constantly treat somebody as blind, he will never go beyond that and he will always feel blind and different.. What I really like about this work is to give young students with a visual handicap from the age of 16 - 20 the opportunity to take away some of the insecurity and embarrassment and to make them enthusiastic for working and actively taking part in society."</i> Client Dining in the Dark, The Netherlands</p> <p>A3. <i>"Oh, it's made a big, a big impact on my life. Obviously the money."</i> Client Sandwiches, UK</p> <p>A4. <i>"When you're trying to not deal with the immediate symptoms of a problem, or an emergency, when you're trying to actually structurally challenge people that are marginalised or are not being given the opportunity to succeed, that's when social enterprise can play a longer term role, in resolving a whole myriad of complex circumstance that can keep people in poverty."</i> Sector expert, UK</p>
B. Creating transformative impact	<p>B1. <i>"I was sent to jail three years ago and I didn't think that I'd be able to be working in The Savoy, from the day I got sent to jail to three years from then."</i> Client, Bistro, UK</p> <p>B2. <i>"Giving them jobs and employment opportunities and careers, and thereby giving them hope and some sort of ambition for the future, had a far more profound and transformative effect than simply giving them free services."</i> Sector expert, UK</p> <p>B3. <i>"We used go 70 to 80 kms away and search for farmlands.. Work for 10-15 days as labourers and come back..... I came back to village and joined Authentic Travel as a guide. My life is much better now."</i> Client Authentic Travel, India</p>

C. Creating a ripple effect on other parts of life	<p>C1. <i>“What do my children think about me being here? They absolutely love it, they're proud, they're excited. Their lives changed too. They have extra-curricular activities now which they didn't have before. Their lives are opening up and expanding and their social lives expanding also. Their whole lives changed. It just had a massive huge positive knock on effect on all of our lives”</i> Client Bistro, UK</p> <p>C2. <i>“[The training and employment opportunity] made me feel a lot better also about myself and my visual handicap which resulted in me being a lot more positive about life compared to seven years ago. This also had a number of positive consequences, that it goes a lot better in terms of my social life, and that I now have a stable steady relationship, that colours the image of the future a lot more.”</i> Client Dining in the Dark, The Netherlands</p> <p>C3. <i>“They [tribal villagers] are very happy because they don't have to move away, they are with their children”</i> Senior Manager, Authentic Travel, India</p>
<p>Notes/ limitations:</p> <ol style="list-style-type: none"> 1. The proposition ‘Empowerment creates more impact compared to free services’ applies to the type of social enterprises providing opportunities, not the ‘BOP’ or public service, or charitable type social enterprises providing services to clients such as medical care, housing, or water filters. 2. There are limitations to creating empowerment opportunities as a solution to address issues, for example in the case of emergencies or severe disabilities charitable support is a more appropriate solution. 	

Table 8: Illustration summary category, focused codes, illustrative data

3.5 Conclusions

This chapter provided an overview of the grounded research methodology, and the pragmatist interpretivist perspective as philosophical underpinning. The research approach and analysis process were outlined and illustrated with a detailed step by step example, to provide transparency around the methods used to develop the proposed concepts and robustness of the findings. To put the study and proposed concepts in context, it is important to highlight that the main focus of the research is social enterprises that provide opportunities to people from disadvantaged backgrounds to improve their livelihoods, for example training and employment social enterprises or fair trade organisations. Some of the findings and discussion may therefore not be applicable to other types of social enterprises, such as those selling products and services to people in marginalised situations like water filters or eye care. The scope of social enterprises part of the study provide representative findings, with the majority of social enterprises providing training and employment opportunities (Villeneuve-Smith and Temple, 2016).

The proposed theories are grounded in the studied contexts, and should be seen as provisional and subject to future elaboration (Goulding, 2005). However, the proposed theories based on analysis of extensive data based on 93 interviews and ten case studies are valuable and useful at their level of abstraction across different contexts. Thompson et al. offer the analogy of a melody: *'The perception of a melody does not depend on any specific set of notes. What is critical is the organisation of notes related to each other ... the notes of a song can be transposed into a different octave, yet the same melody will be experienced.'* (Thompson et al., 1990). The next three chapters provide a discussion of the findings and emerging theories, including further explanation of the research and of how conclusions were reached to support the soundness and credibility of the findings.

FILM INTRODUCTION TO CHAPTER FOUR



Villagers at case study Authentic Travel, India

As an introduction to Chapter four the second film can be viewed to bring some of the case studies to life and to illustrate key interview statements used in the chapter:

www.fishclimbingtrees.global FILM 2

CHAPTER FOUR: BALANCING THE SOCIAL ENTERPRISE DUAL MISSION

4.1 Introduction

How should a manager prioritise ‘purpose’ and ‘profits’? When faced with a strategic decision impacting society, the environment, and financial performance, what comes first? For example, in the case of a trade-off between locating premises in a deprived area significantly benefiting the local community, versus an area with better commercial potential, what is more important? Or, when a company recruits new staff, should it aim to recruit people with the best experience and qualifications, or invest in opportunities for disadvantaged members in society, such as disabled, refugees, single mothers, or long-term unemployed? Or, how should a choice be made between low cost materials causing environmental harm, or more environmentally friendly alternatives at higher costs?

Based on shareholder theory such decisions are predominantly made in favour of profit maximisation (Friedman, 2002). Realising the negative consequences on society and the environment such as increasing inequality, social exclusion and climate change, corporations are increasingly rethinking their role in terms of value for society (Porter and Kramer, 2011, Harris-White, 2006, Mintzberg et al., 2002). Theories such as CSR, shared value and stakeholder theory have begun to give ‘purpose’ a role in management decisions, next to ‘profits’. Whilst these theories provide an alternative to shareholder theory, they fail to provide clarity of how to prioritise trade-off decisions between profits and purpose (Melé, 2009, Campbell, 2007, Margolis and Walsh, 2003). With the underlying assumption in these theories that decisions ultimately need to benefit financial performance (Elms et al., 2011), society and planet keep losing out, apart from ‘win-win’ alternatives.

Social enterprises provide an alternative beyond win-win scenarios where creating value for society has priority, and ‘profits’ is a means to an end. However, social enterprises struggle with challenges arising from combining profits and purpose (Doherty et al., 2014, Wilson and Post, 2013, Moizer and Tracey, 2010, Teasdale, 2010, Zahra et al., 2009, Austin et al., 2006, Harjula, 2006). Social enterprises who do not overcome those challenges have shown to adopt ineffective strategies leading to deficient performance or organisational failure (Moizer and Tracey 2010). This chapter explores how to overcome such challenges. Section 4.2 highlights the importance of ‘leading with the business’, as a means to achieve value for people and planet. In 4.3 key drivers as part of the business model are explored that enable better social and financial outcomes. Finally, 4.4 concludes with a summary of the chapter and the main contributions to theory, practice and policy makers.

4.2 'Leading with the business'

Contrary to some of the 'over optimistic publications about the premise of social enterprises' (Bruneel et al, 2016) many social enterprises fail, or 'are not real social enterprises' operating predominantly as a charitable model. Sector expert Liam Black, previous CEO of Jamie Oliver's social enterprise 'Fifteen' illustrates:

"I think there are some fantastic social enterprises, capital S, capital E, there are a lot of crap ones as well. And there are a lot of people pretending they have an enterprise when they don't"
Liam Black, Impact investor, UK

Several authors highlight that social enterprises adopt ineffective strategies as they struggle to overcome challenges arising from combining profits and purpose (Doherty et al., 2014, Wilson and Post, 2013, Moizer and Tracey, 2010, Teasdale, 2010, Zahra et al., 2009, Austin et al., 2006, Harjula, 2006). Interviewees echo this with their experience of such challenges:

"If you're recruiting every year a bunch of young people, who are specifically recruited because they're not chefs, and you're going to train them up, that's extra cost, it's extra management time. All of that. So, yeah, it is more difficult."
Liam Black, Impact investor, UK

"Well, they [social and commercial aims] are constant in conflict because being sustainable and being social costs money."
Founder Taxis, The Netherlands

How to overcome challenges arising from combining profits and purpose has been understudied (Battilana and Lee, 2014), especially in the field of business strategy, whilst it is the design of business model enabling the achievement of commercial and social aims (Wilson and Post 2013). Muhammad Yunus highlights during his interview:

"It all depends on the design of the social business, how quickly they are successful, how much impact they have."
Professor Muhammad Yunus, Nobel Peace Prize Laureate, Bangladesh

This study provides valuable insights into key factors as part of the social enterprise business model to help overcome typical errors leading to deficient performance or failures. First, patterns across the 93 interviews emphasise that social enterprises are more successful in achieving both social and commercial aims when they 'lead with the business'. Founder of case study Bistro illustrates:

“Social enterprises have that tough balancing act. Do you lead with the business, do you lead with the social mission and the impact. I would say each and every time it has to be with the business. I have done it both ways. So I can tell you, I have got the scars to prove it. Ultimately, if the business isn't here, we can't help anybody anyway.”

Founder Bistro, UK

Figure 9 provides an overview of key patterns in the data related to the category ‘leading with the business leads to better social and financial outcomes’. In table 9 representative data is illustrated for each of the key drivers related to this category. Each of the proposed key drivers will be further outlined in section 4.4.

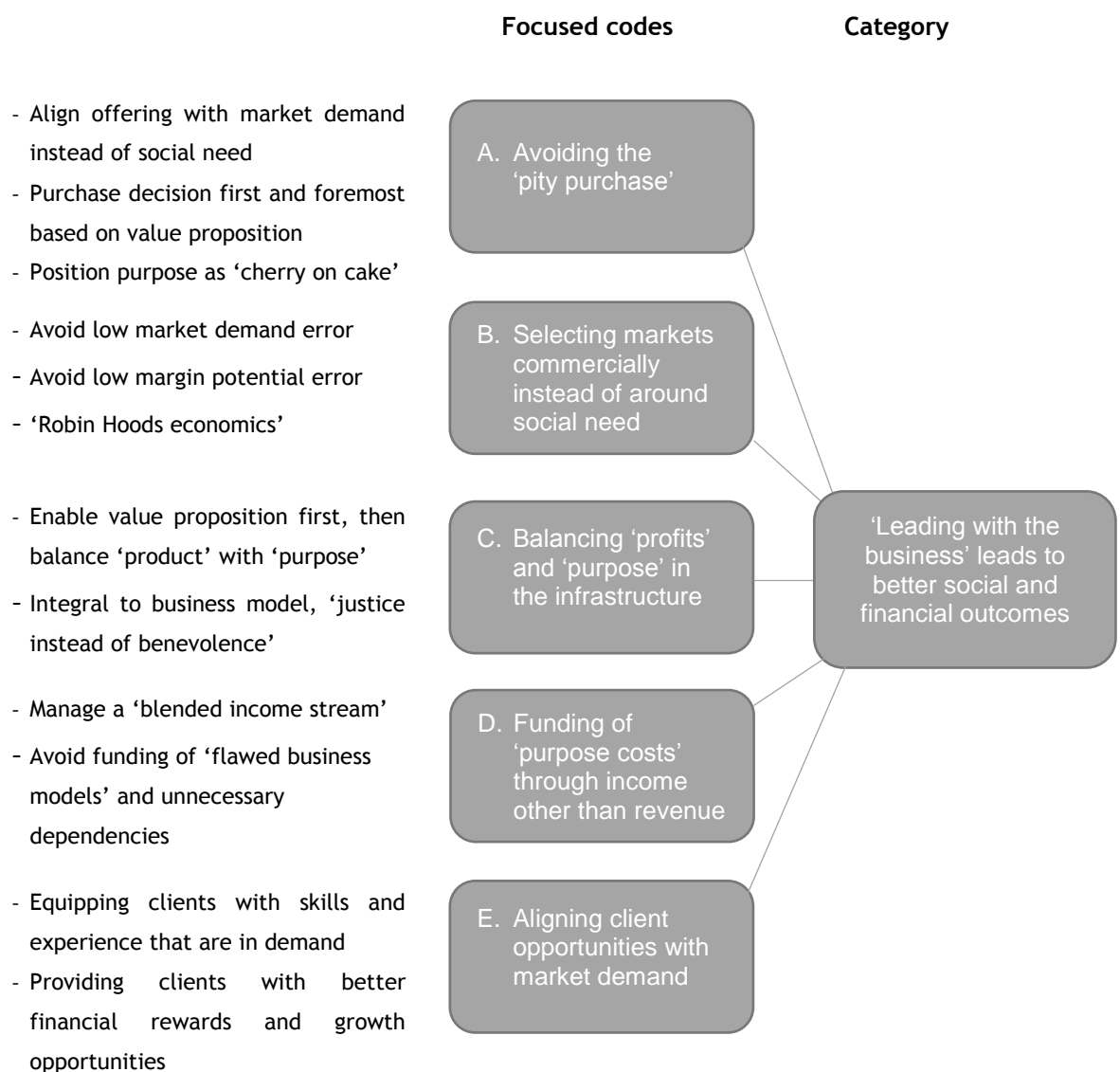


Figure 9: Overview focused codes ‘Leading with the business’

Category: 'Leading with the business leads to better social and financial outcomes'	
Focused codes	Illustrative data
<p>A. Avoiding the 'pity purchase'</p> <ul style="list-style-type: none"> - Align offering with market demand instead of social need - Purchase decision first and foremost based on value proposition - Position purpose as 'cherry on cake' 	<p>A1. <i>"You might get the sympathy purchase once, but you won't get it twice. And any business needs customers that keep coming back."</i> CEO Youth Support and Go Karting, UK</p> <p>A2. <i>"I feel that the purpose and the story is important, but the quality, if it's a fine t-shirt I will take it, but if it's a lower quality probably not. But it's definitely a higher quality t-shirt that I will keep wearing and since they are both there, it's worth buying."</i> Customer Apparel, Ecuador & US</p> <p>A3. <i>"Although the storytelling is extremely important.. The marketing of your social mission should be the 'cherry on the cake'."</i> Willemijn Verloop, Director Social Enterprise NL, The Netherlands</p>
<p>B. Selecting markets commercially instead of around social need</p> <ul style="list-style-type: none"> - Avoid low market demand - Avoid low margin potential - 'Robin Hood economics' 	<p>B1. <i>"Community cafés often sell cheap coffee, in poor communities and don't make any money, and they wonder why. Actually sell coffee in areas where people are willing to pay £3 for a coffee. Not only in an area where people can only afford 50p."</i> CEO Social Enterprise UK</p> <p>B2. <i>"Now these artisans sell the same jackets across Europe, the US and in Australia, the same creations at 10,000 Rupees, which is almost three times more than selling the same products in India."</i> Darren Lobo, Impact Investor, India</p> <p>B3. <i>"If you trade on being the cheapest in the marketplace then by default your margins are going to be very low. I think it would be very difficult to have that model in our environment because we wouldn't be generating sufficient surpluses to invest in the social side."</i> Director of Operations, Logistics, UK</p>

<p>C. Balancing ‘product and purpose’ in infrastructure</p> <ul style="list-style-type: none"> - Enable value proposition first and foremost, then balance ‘product’ with ‘purpose’ - Integral to business model, ‘justice instead of benevolence’ 	<p>C1. <i>“The mix between the full timers and the apprentices is really important.. From a social point of view, just take your time. You don't have to be helping people on day one. Sometimes it is better to get the business up and running, make sure it is strong, it's robust.. Then introduce the social work.”</i> Founder Bistro, UK</p> <p>C2. <i>“You really must be outspoken about your goals of not only the following years but also the big picture and the DNA of your financing partner must suit that as well. Or not only your financing partner, but also your suppliers, your customers, everyone is a part of your business.”</i> Founder Dining in the Dark and Coaching and Recruitment, The Netherlands</p>
<p>D. Funding ‘purpose costs’ through income other than revenue</p> <ul style="list-style-type: none"> - Manage a ‘blended income stream’ - Avoid funding of ‘flawed business models’ 	<p>D1. <i>“We have this blended income stream model.. We will be running this on a mix of income from sales, philanthropy, grants, there is also training allowances for youngsters who have been out of work. This idea of blending your income, is often what makes or breaks a successful social enterprise.”</i> CEO Youth Support and Go Karting, UK</p> <p>D2. <i>“At that time there was lots of regeneration money around, and there was great naivety about social need and market demand.”</i> Liam Black, Impact investor, UK</p>
<p>E. Aligning client opportunities with market demand</p> <ul style="list-style-type: none"> - Equipping clients with skills and experience in demand 	<p>E1. <i>By developing their offering based on social need instead of market demand, such social enterprises tend to create training unrelated to the mainstream labour market, offering limited future opportunities (Hudson, 2009).</i></p> <p>E2. <i>Cross-case comparison shows better social outcomes when client opportunities are aligned with market demand (70 and 72 percent success rate getting clients employed at Logistics and Bistro, versus 25 and 23 percent at Youth Support and Janitors).</i></p>

Table 9: Illustrative data ‘Leading with the business’

4.2.1 Criticising the emphasis on ‘mission drift’

The importance for a social enterprise to first and foremost design their business model around their commercial offering contradicts the majority of articles in social enterprise discourse highlighting the risk of ‘mission drift’ (Santos et al., 2015, Young and Kim, 2015, Cornforth, 2014, Ebrahim et al., 2014, Mason and Doherty, 2014, Smith et al., 2013, Brandsen and Karre, 2011, Mersland and Strom, 2010, Yunus et al., 2010). Mission drift in the literature mostly implies a loss of focus on social purpose over time, for example when external investors come on board that are looking for a financial return. Some research points to social enterprise failures due to too much focus on their social mission (Bruneel et al., 2016, Tracey and Jarvis, 2006). However, the emphasis in the literature on mission drift creates a perception that social enterprises tend to get the balance wrong in favour of commercial aims. Whilst recognising the importance of safeguarding the social mission, this study criticises this emphasis on ‘mission drift’ as misleading for (aspiring) social entrepreneurs to prioritise social aims too much too soon. By designing their business models too much around social need instead of a commercial offering many social enterprises develop fragile business models leading to ineffective performance or failure.

4.2.2 Providing clarity around the ‘hybrid paradox’

Recent literature on social enterprises as exemplars of hybrid business models has begun to explore how prioritising competing logics impacts on achieving their dual mission. Scholars propose a ‘hybrid paradox’ referring to a phenomenon that prioritising social logic can impact social performance both positively and negatively (Battilana et al., 2015). Similarly, studies indicate that prioritising commercial logic can strengthen social performance but can also lead to the social mission to drift (Santos et al., 2015, Ebrahim et al., 2014, Mason and Doherty, 2014).

By seeking further insights into what is meant with ‘leading with the business’, this study contributes clarity around this apparent paradox, by proposing a different need to emphasise commercial or social logic, depending on different business model areas. Osterwalder and Pigneur (2010) describe a business model through nine basic building blocks, covering five main areas of what they call a ‘social mission business’, namely: offering, customers, infrastructure, financial outcomes, and social outcomes. The framework is outlined in figure 10, with ‘additional income’ added to the financial outcomes area to account for income other than revenue such as donations, grants and subsidies.

Offering/ Value proposition	Customers <ul style="list-style-type: none"> - Customer segments - Customer relationships - Channels 	Infrastructure <ul style="list-style-type: none"> - Key partners - Key activities - Key resources
Financial outcomes <ul style="list-style-type: none"> - Cost structure - Social costs 		Social outcomes <ul style="list-style-type: none"> - Revenue - Additional income (e.g. donations/ grants)

Figure 10: Business model framework (Osterwalder and Pigneur, 2010)

To gain further insights into key drivers as part of the social enterprise business model leading to better financial and social outcomes, a cross-case comparison is discussed next.

4.3 Cross-case comparison

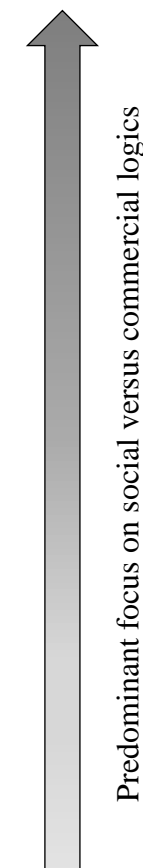
A cross-case comparison of financial and social outcomes of each of the case studies in the UK is summarised in table 10. Turnover and profit are used as indicators to compare relative financial performance, taking the number of years the social enterprise is in operation into consideration. It can be hard to compare the social outcomes of social enterprises due to varying aims and non-standardised metrics (Arena et al., 2015, Stevens et al., 2015, Luke et al., 2013, Millar and Hall, 2013, Smith et al., 2013). Each of the case studies in the UK provides training and employment opportunities to clients mostly from economically deprived backgrounds. A meaningful comparison was made based on indicators including the percentage of getting and retaining people in employment, skill development, accreditations, interview responses and observations in relation to the impact on clients.

The comparison shows that Bistro and Logistics achieve better financial outcomes in terms of turnover and profits compared to the other case studies, and also achieve better social impact. For example Bistro and Logistics subsequently have a 72 and 70 percent success rate of getting and retaining clients in employment, versus 25 percent at Youth Support, and 23 percent at Janitors. In table 11 the case studies are further compared in terms of their emphasis on commercial versus social logic in each area of the business model. The comparison provides further insights into key drivers to avoid deficient performance or failures as discussed in the following sections. A pseudonym has been used for each of the social enterprises as well as the case study interviewees to maintain confidentiality.

Pseudonym	Founding year	Financial outcomes (2015)	Social outcomes
Bistro	2011	Turnover £1.8M Profit £0.7M	<ul style="list-style-type: none"> - Inspire people at risk of, or have experienced, homelessness to gain meaningful employment - Worked with over 500 homeless people, employed 70 as apprentices in 3 years - 72 percent success rate of keeping people in employment or training - NVQ Level 2 Diploma in Professional Cookery - On the job training, personal mentoring and employability coaching to future employment - Contributions to charities
Logistics	2008	Turnover £5.8M Profit £0.3M	<ul style="list-style-type: none"> - Vocational logistics training giving ex-offenders, homeless people and disadvantaged youths the opportunity to train for employment in the logistics sector - Currently employs around 40 people - 70 per cent success rate of keeping people in employment - Forklift license - Contributions to charities
Sandwiches	2012	Turnover £1M Profit £0.05M	<ul style="list-style-type: none"> - Sandwich chain and corporate catering providing employment opportunities to homeless people - Currently employs around 10 homeless people working in kitchens - Contributions to charities
Youth Support (excluding Go Karting)	2004 2010	Turnover £0.1M Loss £6,409	<ul style="list-style-type: none"> - Up to 25 training and employment places per year across all Youth Support social enterprises including community garden, picture framing, gardening, catering, lawnmower repair, design and printing, vehicle repair and maintenance, and construction (excluding Go Karting) - Around 25 percent find employment
Janitors	2013	No turnover, fully reliant on funding	<ul style="list-style-type: none"> - Around 250 trainee placements a year - Around 23 percent find employment

Table 10: Cross-case comparison financial and social outcomes

Pseudonym	Value proposition	Customers	Infrastructure	Financial outcomes	Social outcomes
Bistro	<ul style="list-style-type: none"> - Based on service value - Based on market demand 	<ul style="list-style-type: none"> - Positioning around service value, little or no focus on social impact story - Markets selected based on commercial logic 	<ul style="list-style-type: none"> - Focus on balancing logics in operations, leadership, team, governance, partners, culture and values 	<ul style="list-style-type: none"> - Strong focus on 'numbers' - Main focus on income and independence through trade 	<ul style="list-style-type: none"> - Strong focus on social mission and supportive environment - Balancing 'product and purpose'
Logistics	<ul style="list-style-type: none"> - Based on service value - Based on market demand 	<ul style="list-style-type: none"> - Positioning around service value, little or no focus on social impact story - Markets selected based on commercial logic 	<ul style="list-style-type: none"> - Focus on balancing logics in operations, leadership, team, governance, partners, culture and values 	<ul style="list-style-type: none"> - Strong focus on 'numbers' - Main focus on income and independence through trade 	<ul style="list-style-type: none"> - Strong focus on social mission and supportive environment - Balancing 'product and purpose'
Sandwiches	<ul style="list-style-type: none"> - Based on service value - Based on market demand 	<ul style="list-style-type: none"> - Positioning around service value, strong focus on social impact story - Markets selected based on commercial logic 	<ul style="list-style-type: none"> - Focus on balancing logics in operations, leadership, team, governance, partners, culture and values 	<ul style="list-style-type: none"> - Strong focus on 'numbers' - Focus on earned income, but also on donations 	<ul style="list-style-type: none"> - Strong focus on social mission and supportive environment - Balancing 'product and purpose'
Youth support, excluding Go Karting	<ul style="list-style-type: none"> - Based on social need 	<ul style="list-style-type: none"> - Positioning somewhat around service value - Markets selected based on proximity social need 	<ul style="list-style-type: none"> - Focus mostly on social logic in operations, leadership, team, governance, partners, culture and values 	<ul style="list-style-type: none"> - Blended income stream but mostly reliant on funding 	<ul style="list-style-type: none"> - Strong focus on social mission and supportive environment
Janitors	<ul style="list-style-type: none"> - Based on social need 	<ul style="list-style-type: none"> - Positioning somewhat around service value - Markets selected based on proximity social need 	<ul style="list-style-type: none"> - Focus mostly on social logic in operations, leadership, team, governance, partners, culture and values 	<ul style="list-style-type: none"> - Fully dependent on funding 	<ul style="list-style-type: none"> - Strong focus on social mission and supportive environment



Predominant focus on social versus commercial logics

Table 11: Cross-case comparison commercial and social logics

4.3.1 Bistro

Bistro, is a restaurant and bar based in a prime commercial district in London, currently operating as a Community Interest Company (CIC). The mission of Bistro is to inspire people who are at risk of, or have experienced homelessness to gain meaningful employment. To Bistro, ‘meaningful employment’ is ‘emotionally, economically and intellectually fulfilling to the individual, as well as beneficial to society’. They provide a fully certified training program where apprentices study towards an NVQ Level 2 Diploma in Professional Cookery as well as receiving on the job training in the kitchens. In addition, apprentices receive personal mentoring and employability coaching to future employment. Bistro also invests its profits into other social enterprises and charities.

Since opening in 2011, Bistro has worked with over 500 vulnerable people and has employed more than 70 as apprentices. Of the people they have worked with, some were sleeping rough when they joined the programme. Most were living in hostels and a large number were ex-offenders or had issues with substance abuse. Bistro was recommended as an exemplar social enterprise by several experts in the sector, seen to be one of the best in the UK in terms of both financial and social performance.

As summarised in table 10 Bistro has achieved financial sustainability and has a high level of transformative impact on the people it supports. To demonstrate the type of social impact Mark, a former Bistro apprentice, explains how he became an apprentice at Bistro following his time in prison, and now has a promising future working as a chef at a high end establishment in London:

“I’ve never really had a proper job, something that I like doing. And I started drinking a lot, and got in trouble with the police... I ended up going to prison for one year, and I started working in the kitchen there, watching a lot of cooking programs, and I really enjoy cooking.”

The observations of the apprentices gave an impression of high appreciation and enthusiasm about their opportunity at Bistro and future opportunities, and the impact on their lives in terms of improved confidence, future ambitions, and a ripple effect on other areas in their lives such as relationships with friends and family. Interview responses illustrate:

“My whole outlook on life has completely changed”

“What do my children think about me being here? They think it’s great, they absolutely love it, they’re proud, they’re excited, they love it... It just had a massive huge positive knock on effect on all of our lives”

An evaluation report by PwC reviewing the first three years of Bistro after it was founded shows a significant impact on the apprentices in terms of skills, job readiness, confidence, motivation, and happiness. The report indicates that from the 60 people who started an apprenticeship during the first three years 53 percent completed the course. Of those who completed their apprenticeship 72 percent were found to remain in employment or training. Following improvements based on lessons learned during their first three years Bistro expects the percentage of people who complete the course and to remain in employment to increase. PwC estimates the social return on investment of Bistro to be 1:57, which means that every £1 invested in Bistro has generated an estimated £1.57 for society. Benefits included in the calculation are savings in welfare benefits and the criminal justice system, economic benefits and health savings. Whilst the accuracy of measurements such as social return on investment can be debated, the overall picture of the impact on Bistro's clients based on the interviews, observations, and social impact figures is ranked high in comparison to other case studies as further explained in the following sections.

A comparison of key themes clarifies how Bistro prioritises commercial and social logic in each of the five business model areas to enable their dual mission. By applying predominantly commercial logic in the 'value proposition', 'customer' and 'financial outcomes' areas of the business model, Bistro achieves positive financial outcomes. At the same time Bistro has a strong commitment to its social aim to inspire and support vulnerable people into meaningful employment. To achieve this purpose they balance social and commercial logic in the infrastructure area of the business model. Figure 11 summarises key concepts driving the successful dual outcomes of Bistro in each of the business model areas:

Offering/ Value proposition - Strong focus on providing quality food and a high end service and experience to customers	Customers - Positioning focused on food, service and experience, initially very little communication about social impact story - Targeting wealthy customers in commercial district in London	Infrastructure - Partners, leadership and team balanced between social impact expertise and business expertise - Operations balancing social impact and commercial performance
Financial outcomes - Strong focus on 'numbers' - Main focus on income and sustainability through trade	Social outcomes - Strong commitment to social mission and providing a supportive environment - Balancing 'product and purpose'	

Note: shading indicates predominant commercial logic (dark grey) versus social logic (light grey)

Figure 11: Key drivers business model Bistro

Samuel, Founder of Bistro emphasises the importance of ‘leading with the business’ to achieve financial outcomes as means to deliver their social purpose:

“Making sure we were in profit was the first hurdle, once we had that it was about making sure we were sustainable, now we're sustainable and we're in profit, now it's about doing the right thing and telling people about the work that we do because it is really good and hopefully it will lead to new opportunities. It's very simple for us. Be a good business, strive to be the best you can. Meanwhile do the [social] stuff on the side. And then at one point they will equally balance out, and that's the position we are in now.”

The comparison of Bistro with other social enterprises illustrates how applying commercial logic in certain business model areas can help overcome some of the main challenges arising from pursuing a social purpose. Most social enterprises in the UK are located in deprived areas, to address a social need, often targeting local market segments with low potential for high margins and turnover (Villeneuve-Smith and Temple, 2016). On the contrary, Bistro is located in a prime commercial district in London targeting wealthy customers enabling better margins and turnover, as demonstrated by their financial outcomes. Whilst the premises are located in an area based on commercial potential instead of social need, the enterprise supports clients from deprived areas who use public transportation to commute to the restaurant. Bistro places a strong focus on ‘the numbers’ as Samuel illustrates:

“Understanding who your market is, is essential, and most social entrepreneurs forget about that, and they forget about cash flows and the fact that they need to look at their P&Ls on a daily basis to make sure they are making money, and if they are not making money where they are not making it and to solve that issue.”

Whilst Bistro aims to ‘lead with the business’, there is a strong commitment to its social aim providing opportunities to vulnerable people as its primary purpose. The balancing act between ‘profits and purpose’ manifests itself mostly in the ‘infrastructure area’ of the business model including ‘partners’, ‘resources’ and ‘activities’. Samuel highlights how they balance their social and commercial aims in their core activities:

“The mix between the full timers and the apprentices is really important... because on the one hand we are trying to run a business, and it's a busy business, it's a 100 covers restaurant, a cookery school and five private dining rooms. The ratio in the kitchen is one apprentice to one full timer. That's essential, because at the start of the cohort they don't know what they're doing so you need the full timers to make sure the standard in the kitchen remains.”

The following sections highlight relevant similarities and differences for the other case studies in the UK, further illustrating key drivers enabling ‘profits and purpose’.

4.3.2 Logistics

Logistics, an award winning social enterprise, was founded by Martin in 2008 and provides furniture logistics services to corporate clients such as Asda, Sainsbury's, Shop Direct and WorldStores. The company acts as a 'middle man' to the market, offering overseas manufacturers a place to store their product in the UK, closer to its eventual market. Logistics operates as a Community Interest Company (CIC) and aims to help the local community by running projects such as the ‘Back to Work programme’, giving ex-offenders, homeless people and disadvantaged youths the opportunity to train for employment in the logistics sector. Jason, one of Logistics clients explains the impact the programme has on his life:

“Martin knew that I had a criminal record and that I had to attend probation regularly, but he saw a good thing in me, put me on, gave me full time employment, I’ve got four different certificates for handling equipment, forklifts and such, yeah I’ve turned my life around really...

I’m happy I’ve gone from being the very bottom of the barrel, I get to help other people rehabilitate after rehabilitating myself.. So I feel amazing for that, it’s really helped me out. Everyone around me is actually really proud of me. There was a time before when my own family sort of shunned me, they didn’t want to know me, I was in a bad place and I was not being very good to society. I didn’t speak to my mum for about four years straight, and lost contact with my dad. But recently I’ve been in contact with them both. I live back at my mum’s house, and putting money in there because she is a struggling single parent.”

Logistics currently employs around 40 people. It has a 70 percent success rate of keeping people in employment. In 2015 Logistics turned over £5.8 million, creating £160,000 of social spend and a further £100,000 of profits. Close to Bistro, Logistics is ranked second best in terms of social and financial performance compared to the other social enterprises studied in the UK as summarised in table 10. Similar to Bistro, Logistics has a strong focus on ‘leading with the business’. Martin, the founder, describes:

“One of the most challenging things of running a social business is you’re actually running two businesses at once. One is the commercial business and one is the social enterprise output. There’s never an easy answer to which comes first. One thing I will say, if a sustainable business exists then it will be delivering social output for years to come. If the business is unsustainable it won’t. You have to be sustainable and you can only be sustainable by having a robust business model.”

Similar to Bistro, Logistics predominantly prioritises commercial logic in terms of the ‘value proposition’, ‘customer’, and ‘financial outcomes’ areas of their business model, as summarised in table 11. Martin emphasises the importance of developing their business model around a market opportunity instead of a social need:

“What I have found is most social enterprises find a social cause and try to create a business out of them. What we decided to do was create a business that drove social change, and that’s a whole different mind-set. Had peeling oranges been more lucrative and more beneficial towards the community than doing logistics we’d have been peeling oranges today. We created a business that was needed, that then gave us the opportunity to use the infrastructure and the profits for social change.”

Similar to the case of Bistro, the approach by Logistics to prioritise commercial logic in some of their business model areas has led not only to better financial outcomes, but also to better social outcomes. An interesting concept emerges as a consequence of their strong financial platform in that it enables them to work with the more difficult clients, often referred to as ‘high hanging fruits’. Martin explains:

“The clients who come through our training program, can be from ex-offending backgrounds, ex-military, learning difficulties, mental health recovery, and a whole variety of disadvantaged backgrounds...With regards to the offenders they can often be at the extreme range of offending. And therefore they’re more disadvantaged to get back into the work area. They’re the ones we focus on... The client group that we deal with we’ve sort of inherited because these are the people that most other people don’t really want to help because getting funding to support these types of change is difficult. Therefore other organisations tend to cherry-pick off the low fruits and take the easy wins, pardon my puns.”

Martin’s explanation illustrates how prioritising commercial logic to achieve better financial outcomes enables them to focus on more disadvantaged clients, and achieve more depth in terms of social outcomes. Social enterprises operating with less commercial logic in the right business model areas, often struggle to achieve financial self-sustainability, and therefore have to rely more on other types of funding such as grants and subsidies. To qualify for funding they tend to take on less disadvantaged clients in order to demonstrate their ‘successful outcomes’. By applying too much social logic in the ‘wrong parts of the business model’ these social enterprises achieve less social impact by comparison.

Similar to Bistro, Logistics applies balanced commercial and social logics when it comes to the infrastructure area of their business model. For example they operate a work environment

with a strong focus on supporting its clients, and that at the same time enables their commercial aims. Jason, one of Logistics clients describes the balanced culture:

“Martin is one of the reasons why it’s doing so well just because he puts in time for everyone. Our social impact manager as well, his door is always open. And they treat everyone as humans here... You have to appreciate that people might have been in jail for years, or out of work for years so you have to break people in, you can’t just have them in on their second week with a quota, “I want you to pick sixty boxes an hour.” That’s impossible. You need to nurture with a soft hand, but be firm at the same time.”

4.3.3 Sandwiches

Sandwiches is a sandwich chain founded in 2012, operating as a limited company investing 100 percent of their profits in social causes. At least 25 percent of their employees were previously homeless. In 2015 the people supported into employment from a homeless background accounted for around ten staff members, mostly working in the kitchens. Sandwiches turnover in 2015 was estimated at one million, generating profits estimated at £4000 on average per month.

Compared to Bistro and Logistics the social impact of Sandwiches is ranked less high as there are fewer people supported towards employment and it achieves less depth in terms of social impact. Sandwiches provides less training, skills development, accreditation and support into employment compared to Bistro and Logistics. With lesser support towards future opportunities outside Sandwiches, the social enterprise also relatively opens up fewer opportunities to other homeless people.

In their positioning Sandwiches places a stronger emphasis on their social impact story compared to Bistro and Logistics. Similar to Bistro and Logistics, Sandwiches prioritises commercial logic in developing their ‘value proposition’, ‘customer’ and ‘financial area’ of their business model. Tony, the main investor in Sandwiches makes the following observation:

“First of all it’s really important in this business that there is no compromise on the quality or the price or the environment.. We’re not asking someone “shop with us through sympathy.”

Similar to Bistro and Logistics, Sandwiches highlights the importance of balancing their partners as part of their infrastructure area in the business model, with a bit more emphasis on the social mission in comparison. John, one of the founders comments:

“I think in terms of balancing the business, if we had people that were incentivised by making profit then suddenly your decision making would become diluted and we might think “let’s not employ that person because it will be costly and it won’t contribute to making lots of money.” So I think it’s important in a social business to have 100% social motivation, and that keeps your decision making pure. Having said that we can’t exist and do the work that we do unless we’re sustainable and we make profit. So I think you have to be very, very focused on what you need to do to get the business profitable and sustainable, and that’s crucial as well.”

4.3.4 Youth Support and Go Karting

Youth Support, founded in 2004, is a collective of social enterprises providing training and employment to young people. The range of initiatives include a community garden, picture framing, gardening and landscaping, catering, lawnmower repair business, re-use and recycling service, design and printing, vehicle repair and maintenance. Together, these organisations provide up to 25 training places per year. In 2015, Youth Support launched a new social enterprise Go Karting, providing employment opportunities to young people including an electric go-karting track, restaurant, and conference facilities.

Excluding the new social enterprise venture, Youth Support is ranked fourth in terms of social impact and financial performance, compared to the other case studies as outlined in table 10. Whilst Youth Support is very passionate about supporting young people and contributes a positive impact on their lives, their social impact is ranked relatively lower to Bistro and Logistics. Around 25 percent of their clients find employment, compared to subsequently 72 and 70 percent in Bistro and Logistics. Youth Support achieves less impact in terms of skills development, accreditation and support into employment. The social enterprises remain reliant on external funding. Leane, Funding, Marketing and Communications manager explains:

“In our current [Youth Support] program the income stream is subsidised... we did get this bit slightly wrong when we were doing our business planning. We thought the revenue would have been slightly higher. But we hadn’t quite factored in having a youngster who is really not productive, working with one adult, you know how that can be a drain on the business.”

Youth Support predominantly prioritise social logic in each of their business model areas. The social enterprises are based in a deprived area and the range of products and services have mostly been developed to providing training opportunities, fulfilling a social need, instead of meeting a market demand.

Following lessons learned around their initial social enterprise initiatives Youth Support extensively researched social enterprises elsewhere, including visits to different initiatives in different countries that are perceived to be successful. Since then Youth Support has launched their new social enterprise with the aim to develop a different model with a stronger focus on ‘leading with the business’. Leane explains:

“.. At [Go Karting] we are using a very different model.. We appreciate that this absolutely has to generate enough income to make it completely self-sustaining... the young people who will be coming here for training and employment are being supported by lottery funded staff. But our core staff group their job is to run a social enterprise, generate income and that income will then support all the social programs.”

George, CEO of Youth Support describes how he wants Go Karting to operate as a business:

“We want to combine business and social aims as we have a lot of bills to pay to give youngsters the experience. It has to be quality, and a great experience for the customer. Good business principles, with a good business model and the ability to adjust your business model when things don’t go so well. Our goal is to make it financially sustainable and profitable and generate a surplus that goes back into paying for the place and develop a bit more.”

Following lessons learned with their initial social enterprises initiatives Go Karting is applying more commercial logic in developing their value proposition, positioning to customers, and financial outcomes as the following quotes illustrate:

“We wouldn’t be aiming to sell this on the sympathy purchase, we want to sell this on the quality purchase. So we’ve got to be good, if not better than mainstream business.”

“We are building up our core staff before we bring in the young people.”

“We are not hiding the fact that we’re part of [Youth Support], we are very proud to be part of [Youth Support] and that’s the reason why we are here in the first place, as an extension to their services. However we are having our own standalone brand. If you check our website and promotional material we are not shouting that we are a social enterprise but neither are we hiding the fact. It’s just the commercial side of things comes first.”

In summary, the range of social enterprises at Youth Support are relatively less successful when it comes to financial performance and social impact compared to Bistro, Logistics, and Sandwiches, as summarised in table 10. Excluding the launch of their new social enterprise Go Karting, Youth Support predominantly applies social logic in their business model areas

as visualised in table 11. With their new social enterprise Go Karting Youth Support has a stronger focus on commercial logic. The comparison of case studies confirms the emerging pattern that social enterprises that ‘lead with the business’, and prioritise commercial logic particularly in the ‘value proposition’, ‘customer’, and ‘financial outcomes’ area of their business model tend to be more successful in achieving their dual mission.

4.3.5 Janitors

Janitors is a trainee placement program in some of the most deprived areas in the UK as part of a large social enterprise operating as a social landlord. The program provides around 250 trainee placements a year, with the main aim to support long-term unemployed people get back into work. The initial program manager describes the objective of the program:

“We wanted to work with those in our community to change the track record of being long-term unemployed and increase their CV to secure employment elsewhere.”

Whilst the program has a positive impact on a large number of clients, it is ranked relatively lower in terms of financial and social impact compared to the other case studies in the UK. The program is financially fully dependent on its’ umbrella organisation. As with other social enterprises that are not financially sustainable through trade, there is a high vulnerability in case funding stops. At the time of the research, a discussion was ongoing within the organisation as to whether to sustain the program because of the financial burden. 23 percent of Janitors’ clients find employment following the program, compared to around 70 percent in Bistro and Logistics. Interview responses and observations indicate a lower level of impact in terms of skills development, accreditation, and support to secure future opportunities. Clients at Janitors illustrate:

“I know if I was to go for another job my supervisor, my team leader, would give me a good reference for another job. But it would maybe just be good if we could maybe get a bit more training on the course, more training on the Scags, more training on the machines, so then if we do go to apply for another job then we’ve brought more certificates and training in machinery, grass cutting, to go for other jobs.”

“Well, I think you get a couple of certificates... One, maybe two, at the end of your course. But I think it’s just a standard kind of cleaning certificate”

Figure 12 visualises a relative comparison of each of the case studies in terms of financial outcomes and social outcomes.

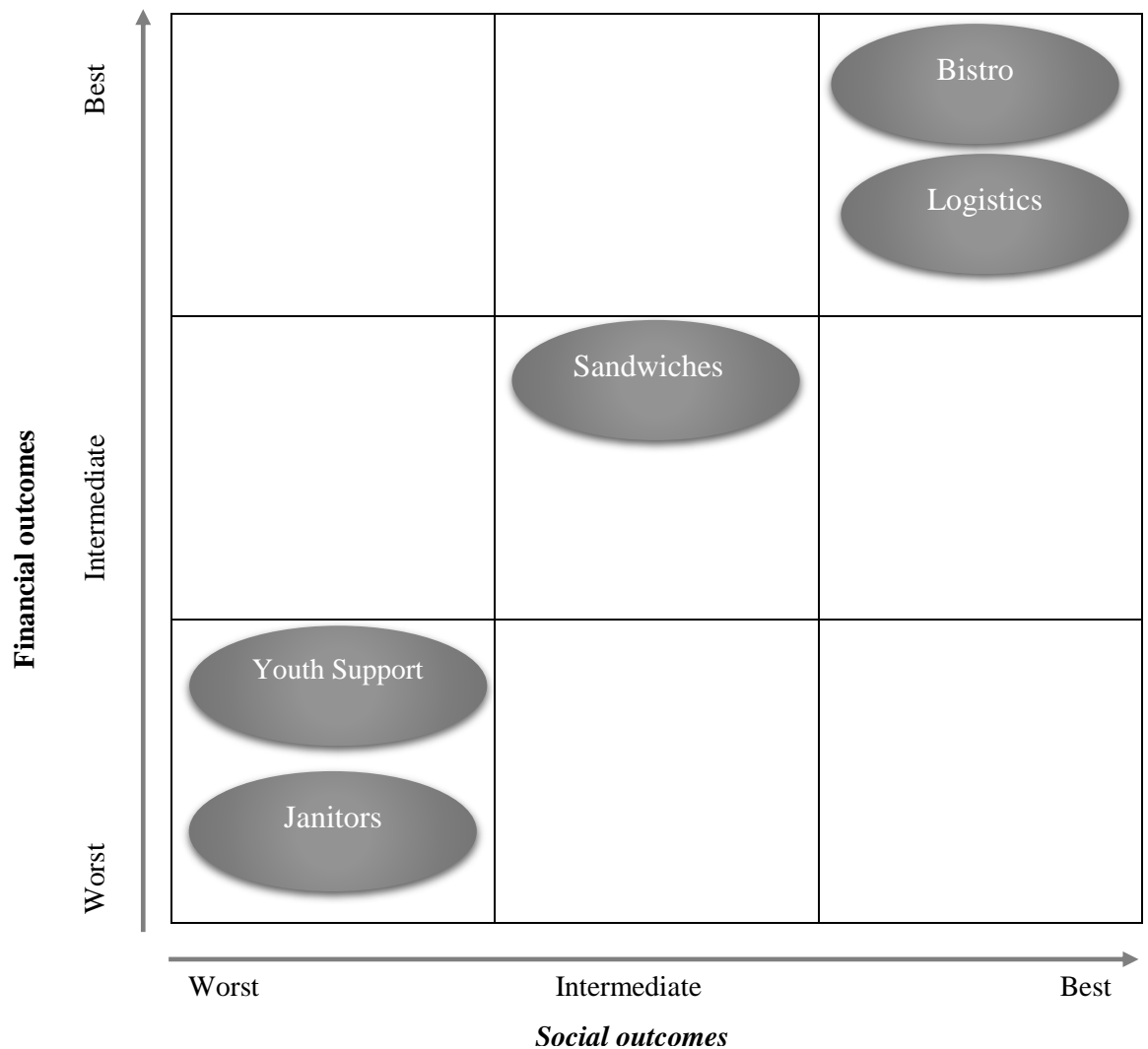


Figure 12: Cross-case comparison financial and social outcomes

It is interesting that the case studies achieving better financial outcomes also achieve better social impact. A plausible explanation in some cases may be that social enterprises that align their products and services better with market demand, achieve more commercial success, and equip their clients with skills and experience that are in demand in the market place. On the contrary, social enterprises that develop their offering around a social need instead of market demand, struggle more commercially and provide their clients with skills and experience that are less in demand. Research shows that social enterprises providing training and employment opportunities often saturate a local market with similar offerings such as furniture exchanges, carpentry workshops or landscaping (Hudson, 2009). By developing their offering based on social need instead of market demand, such social enterprises tend to create training unrelated to the mainstream labour market, offering limited future opportunities. Other possible explanations may be that social enterprises that have learned how to perform well financially, have also learned how to take individuals further on their

journey. Another contributing factor might be that clients indicate they are proud to be part of delivering a product or service that people really want to buy and value, contributing to their confidence and self-esteem. Chapter five provides further insights into some of the key drivers contributing to better social outcomes.

Figure 13 shows the key drivers identified across the 93 interviews and cross-case comparison leading to more or less successful dual outcomes, divided into the five business model areas. Areas in the business model requiring more emphasis on commercial logic are accentuated in a darker grey, with those areas requiring more balance with social logic coloured lighter grey. The next section further outlines each of the proposed concepts leading to more effective business models enabling both profits and purpose.

4.4 Business model drivers enabling purpose and profits

This section elaborates on each of the key drivers identified in different areas of the social enterprise business model leading to better financial and social outcomes as summarised in figure 13. In proposing these concepts the thesis contributes to the gap in our understanding of how to balance and prioritise commercial and social logic in the social enterprise business model to effectively combine ‘profits and purpose’. Recent studies have begun to explore mechanisms to maintain a certain balance of commercial and social logic in social enterprises as exemplars of hybrid organisations, such as balancing the culture and workforce composition through recruitment and socialisation policies, legal frameworks, governance and external relationships (Besley and Ghatak, 2017, Lee et al., 2016, Battilana and Lee, 2014, Ebrahim et al., 2014, Battilana and Dorado, 2010). Whilst these studies provide valuable insights into maintaining a certain balance, there is a gap in our understanding of *how* prioritising commercial or social logic in certain strategic decisions more likely enable a social enterprise to achieve ‘profits’ as well as ‘purpose’. A social enterprise may have a balanced workforce in place considering both commercial and social aims, but when faced with a decision as to whether to provide a service around a social need or market demand what should they prioritise? Or, in deciding where to locate a social enterprise and select market segments, should the enterprise develop their strategy based on social need and locate their premises in deprived areas like the majority of social enterprises in the UK (Villeneuve-Smith and Temple, 2016), or should it select markets based on commercial opportunities?

Offering/ Value proposition <ul style="list-style-type: none"> - Define value proposition based on product or service value instead of relying on ‘the pity purchase’ - Build value proposition around market demand, not social need 	Customers <ul style="list-style-type: none"> - Position the offering around product or service value instead of the ‘pity purchase - by promoting, pricing and building customer relationships based on the offering with the social mission as ‘cherry on the cake’ - Selecting markets based on potential to generate margins, instead of ‘proximity to social need’, for example apply ‘Robin Hood economics’ 	Infrastructure <ul style="list-style-type: none"> - Ensure activities/ operations enable balance ‘product and purpose’ (i.e. mix beneficiaries and experienced work force) - Ensure and maintain balance - Leadership, team, and governance - Align partners and investors with dual mission - Level of returns on investments and legal structure - Balanced work environment, culture, values - Balanced division of rewards
Financial outcomes <ul style="list-style-type: none"> - Focusing on numbers - Overcoming the ‘social impact costs’ - Value proposition and markets enabling higher margins - Blended income streams - (Slightly) increased pricing due to social mission - Lesser requirement to generate ‘wealth for a few’ (i.e. shareholder return, high wages and bonuses) - Advantages social mission e.g. customer loyalty, PR, increased pricing 	Social outcomes <ul style="list-style-type: none"> - Clear parameters, authenticity, transparency for social aims and outcomes (i.e. balancing ‘low vs high hanging fruits’); - Align social aims with other business model areas - Enabling social aims and ‘balancing product and purpose’ - Providing the right type of work environment 	
Commercial logic		Social logic

Figure 13: Key business model drivers balancing ‘purpose and profits’

This section aims to contribute valuable insights into how to address some of the main complexities and root causes of the fragile nature of many social enterprises arising from their dual mission. In doing so, a further contribution is made in proposing concepts of how to effectively combine profits and purpose as part of mainstream business beyond ‘win-win solutions’ to create value for society and planet, with profits as a means to an end.

4.4.1 Avoiding the ‘pity purchase’

A business pursuing both social and commercial aims has a choice in positioning the organisation with more or less emphasis on ‘product’, the value provided through their products or services, versus ‘purpose’, the social mission of the organisation. Positioning, the creation of an organisation’s identity in the minds of a target audience (Pride and Ferrell, 2007) is an important part of the social enterprise strategy (Bagnoli and Megali, 2009, Chew, 2006). Positioning occurs at three levels namely organisational, product or service, and brand (Shuayto and Miklovich, 2014). A leading sector expert emphasises the importance of balancing ‘product’ versus ‘purpose’ as part of a social enterprise marketing model:

“I believe how social enterprises market their product is extremely important. How you balance the quality of your product and the pricing, but also how do you balance the social mission and how you sell this to the public, finding a good balance in bringing it to customers.”

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

Whilst the findings provide no ‘one size fits all’ solution, this section highlights important considerations in positioning ‘product’ and ‘purpose’ summarised in table 12.

Category: ‘Leading with the business leads to better social and financial outcomes’	
Focused codes	Illustrative data
<p>A. Avoiding the ‘pity purchase’</p> <ul style="list-style-type: none"> - Align offering with market demand instead of social need - Purchase decision first and foremost based on value proposition - Position purpose as ‘cherry on cake’ 	<p>A1. <i>“You might get the sympathy purchase once, but you won’t get it twice. And any business needs customers that keep coming back.”</i> CEO Youth Support and Go Karting, UK</p> <p>A2. <i>“I feel that the purpose and the story is important, but the quality, if it’s a fine t-shirt I will take it, but if it’s a lower quality probably not. But it’s definitely a higher quality t-shirt that I will keep wearing and since they are both there, it’s worth buying.”</i> Customer Apparel, Ecuador & US</p> <p>A3. <i>“Although the storytelling is extremely important.. The marketing of your social mission should be the ‘cherry on the cake’.</i> Willemijn Verloop, Director Social Enterprise NL, The Netherlands</p>

Table 12: Avoiding the ‘pity purchase’

Figure 14 proposes a matrix with four different types of positioning strategies. Positioning strategies on the right hand side of the matrix first and foremost emphasise the value of their products or services, with purpose as ‘cherry on the cake’ by aligning their offering with market demand. Strategies on the left hand side of the matrix primarily emphasise the social mission as part of their positioning. Secondly, the categories are divided from top, with a strong interest by the market and other stakeholders to support the social purpose, to bottom, with a low interest by the market to support the social outcomes of the organisation.

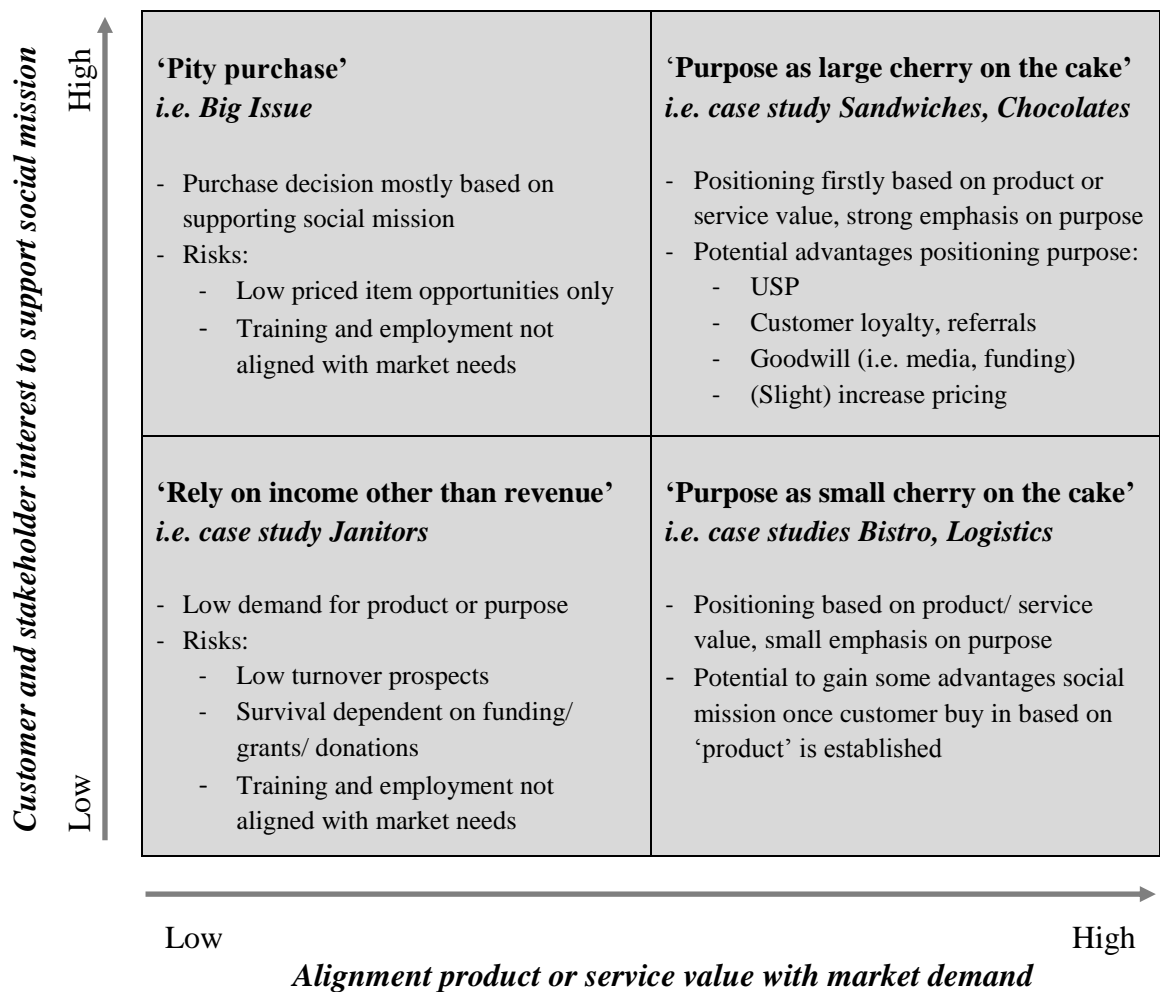


Figure 14: Positioning strategy emphasising ‘product versus purpose’

Purpose as ‘cherry on the cake’

The findings highlight that a social enterprise can achieve better financial and social outcomes by positioning a social enterprise at the right hand side of the matrix by relying first and foremost on a strong value proposition. A strong value proposition is achieved by making sure that products and services meet the needs of its customers, distinguishing itself

from its competitors (Pigneur et al., 2010). Whilst there can be benefits in positioning the social mission, findings across the interviews and case study comparison show that social enterprises positioning their offering first and foremost based on commercial logic are more effective in achieving profits as well as their social purpose. Interviewees comment:

“If you’re setting up a social business, look at your industry and look at your competitors, and first and foremost try and be better than them.”

Co-founder Sandwiches, UK

“We’re not asking someone “shop with us through sympathy.” We’re saying “shop with us, it’s the same quality if not better than Pret, and you’re helping others.” .. It’s really important there’s no compromise. The staff have got to be better. The quality has got to be better. There can be no compromise in that.”

Investor and board member Sandwiches, UK

“If you are saying, you are a café for example and you give them a lousy cup of coffee and then you are saying you help to train somebody to be a barista, that is no use to the customer”

Founder Bistro, UK

“People buy your product because it’s a good product. And that should be your aim. But in addition you say not only it’s a good product it’s also a social business. That should be an additional thing... I sell a crappy product, but I say please help us, because we are a social business. That will be a very sloppy social business.”

Professor Muhammad Yunus, Nobel Peace Prize Laureate, Bangladesh

“If you start a social enterprise because you have charity feelings or you just want to do good, you’re not going to make it only with that. Because if you’re not looking to the numbers and have a focus on the market and the market demands, the market needs, you won’t be able to make it. Because of the customer, whatever you’re selling, your product or your service, needs to be as good as any other, preferably better, and have a great story.”

Founder Dining in the Dark and Coaching and Recruitment, The Netherlands

Interviews with social enterprise customers show that ‘purpose’ can influence their loyalty, and willingness to pay a (slightly) higher price. However, customers across the case studies emphasise that their purchase decision is first and foremost based on the value proposition:

“What attracts people is that people love chocolate... That fair trade also appeals to some, but that doesn’t mean that people buy it because it is fair. Number one is that it is delicious.”

Distributor Chocolates, The Netherlands, Ghana, Ivory Coast

“What comes first for me is, of course, service. Because we want to help our guests with an outstanding service as a hotel, so also we request that from our suppliers. But the combination with Taxi Electric is the service is very good, but also their policy and their environmental policy and their good causes policy.. The combination is very important for us.”

Corporate customer Taxis, General Manager Hotel, The Netherlands

With certain benefits to be gained by communicating the social mission this study proposes to position purpose as ‘cherry on the cake’, secondary to product or service value. Willemijn Verloop comments:

“Trying to market a product of a social enterprise on the social value is quite risky. Many young social entrepreneurs feel that if they can show their product is really doing good for society the consumers will come, and they forget the consumers will first rate you on quality and price. That is something that is crucial.

Although the storytelling about your product and the transparency is extremely important from the start, and the impact that you’re trying to achieve, trying to market the product purely on that, in my experience, will not help you grow. The marketing of your social mission should be the ‘cherry on the cake’.

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

Positioning purpose as ‘a small or large cherry on the cake’

Whilst the findings highlight the importance to position ‘purpose’ secondary to the product or service value as ‘cherry on the cake’, it is not clear how ‘big the cherry should be’, to what extent to emphasise the social mission. Interview responses highlight potential benefits as well as risks in communicating their purpose as part of their positioning strategy. The main themes and illustrative data in table 13 indicate that communicating the social mission can lead to benefits such as a unique selling proposition (USP), increased customer loyalty, referrals to friends and family, increased employee motivation, willingness of customers to pay a (slight) increase in price, and goodwill such as funding and media attention:

Potential benefits	Illustrative quotes
USP	<p><i>“Price and quality still play an important role [when buying from a social enterprise] as just doing normal business. But social impact is a differentiator, definitely. And sometimes it needs convincing and inspiring, but it is a differentiator. And that means, when you can bring along the differentiator, it could mean that your price could be slightly higher.</i></p> <p><i>Customer Coaching and Recruitment, The Netherlands</i></p>

Customer loyalty	<p><i>“That it is fair, that people in Ghana, is where I believe ‘Chocolates’ cocoa comes from, get a fair price is extra, and that works in a certain way also that people want to keep using it.”</i></p> <p>Distributor Chocolates, The Netherlands, Ivory Coast, Ghana</p> <p><i>“We did several research, and actually it’s always really, really small, that they come because it is a social enterprise. That’s more like nice to have, but not a need to have... But we have a big, big database of ambassadors and fans, and that’s just because we are a social enterprise. It’s not the reason that they come, but it is a reason they become a fan.”</i></p> <p>Founder Dining in the Dark and Coaching and Recruitment, The Netherlands</p>
Referrals	<p><i>“I would definitely feel that something that has some meaning behind it, and a reason to buy their clothing and a good reason for the money to go towards something is definitely a reason I would suggest it to a friend.”</i></p> <p>Customer Ethical clothing, Ecuador & US</p>
Employee motivation	<p><i>“I think what makes us also successful is that our employees are very motivated because we are a social enterprise. They are very proud of their work. In The Netherlands there are only a few people to tell that they are a taxi driver. And most of them work at ‘Taxis’. And for a taxi company, which is a service company, it’s really important that you have motivated people. So being a social enterprise also gives you, as a company, a lot back.”</i></p> <p>Founder Taxis, The Netherlands</p>
(Slight) price increase opportunity	<p><i>“If I know that the money I’m spending is going into a social mission as well I’m definitely up for paying a little bit extra. I’m kind of talking a couple of pounds.”</i></p> <p>Customer Bistro, UK</p>
Goodwill/ social capital	<p><i>“Goodwill, sometimes called social capital, is priceless. Think about the goodwill the media can generate for you, the free advertising. And it’s not just goodwill from your customers, but from staff, neighbours, suppliers, lawyers.”</i></p> <p>CEO Social Enterprise UK</p>

Table 13: Potential benefits of positioning ‘purpose’

Next to potential benefits, communicating the social purpose of a social enterprise can lead to adverse consequences. As the quotes below illustrate, there can be a perception that products and services delivered by a social enterprise are inferior to commercial ventures.

“The day before yesterday I went out, I took somebody out for dinner [at Bistro]. I didn’t tell them it was a social enterprise, we had dinner and then I told them, it was like a big reveal, ‘and this is a social enterprise’. It blew all of their preconceptions out of the water. They were like, ‘it can’t be, this is just too good’.”

Customer Bistro, UK

“If they [customers] hear about the social purpose, they might come, almost thinking well it’s not going to be as good as going to a mainstream business. So sometimes it feels like you’ve got to be that bit better.”

CEO Youth Support and Go Karting, UK

“On the commercial side people believe that social businesses are more expensive and less reliable than commercial businesses.”

Director of Operations at Logistics, UK

The reason for negative perceptions might be that there are still relatively few social enterprises that deliver a high standard of products and services. As the sector evolves and improves standards perceptions might change for the better. It seems unfair that companies less committed to social outcomes mostly gain benefits from incorporating social responsibility, and social enterprises more committed to their social mission risk relatively more adverse consequences. The study proposes that it is therefore even more important for a social enterprise to deliver and emphasise a high standard of products and services and help develop a positive perception of social enterprises. Taxis Founder illustrates:

“What I see a lot is that people set a really ambitious sustainable goal, or a really ambitious social goal, and then they go to the press and they go to tell everyone about it, and then they fail. And this is, I think, really bad marketing for, we call it the bright side of the economy. Because people stop believing these stories, of course.”

Founder Taxis, The Netherlands

It is important for a social enterprise to be aware of the risk around negative perceptions, and take this into account when deciding if and how to emphasise the social mission compared to their value proposition. With no ‘one size fits all solution’ how much to emphasise the social mission it is important for a social enterprise to understand their individual context. Case studies Bistro and Logistics in the UK, both emphasise their social mission very little in their positioning with customers often not aware that they are a social enterprise. Other case studies such as Sandwiches in the UK, Chocolates in The Netherlands, and Apparel in Ecuador and the US, use their social mission to a larger extent in their positioning. The study highlights the importance of understanding the type of customers and their interest in the social ‘purpose’ versus ‘product’. Market research is highlighted as a tool to help understand the customer purchase motivations, or testing different positioning strategies.

In certain markets, such as ethical consumer markets, emphasising the social mission to a larger extent can lead to high growth opportunities. A good example is Chocolates:

“If you look at one of the big success models in The Netherlands would be ‘Chocolates’.. If you’re able to convince consumers that it’s important, that the products that they are buying are actually creating a real wrong doing, like slavery in this instance, if you can really convince the consumers with an easy to buy product I can see you’d grow fast. For ‘Chocolates’ they now have seven percent of the market here and they’ve only been into existence less than ten years, which is quite an accomplishment for a social enterprise .. I think that these fastest growing social enterprises are linked with this conscious consumer group that has money to spend and that will help grow your enterprise faster.”

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

The quote indicates how a stronger emphasis on the social mission can lead to an advantage such as high growth, depending on context such as the type of product and the type of customer. In this particular example the type of customer has a high level of interest in the social mission of Chocolates to ‘eradicate child slavery in the cocoa industry’. The product is referred to by Willemijn as ‘easy to buy’. Comparing an ‘easy to buy product’ such as chocolate with a corporate customer buying a service such as their warehousing and logistics highlights that the type of product can make a difference when it comes to the extent of emphasising ‘purpose’ versus ‘product’. For example for case study Logistics Sam, Director of Operations, explains that their customers firstly want to ensure that the products and services they procure are of a certain standard as it can impact on the level of quality they provide to their customers:

“We feel we need to impress them [customers] with our commercial side first, impress them with our ability to meet their requirements from a service point of view, and then add the social side as icing on the cake...Because as businesses with customers their first focus is on their business and satisfying their customers. They need to be very careful before they engage us because if we didn’t do the job properly there could be damage to their brand as well.”

Director of Operations Logistics, UK

Sam continues how the social outcomes can be an advantage when communicated at a later stage once a customer has developed trust in the standard of their service:

“We found if we didn’t tell customers we were a social business and just dealt with them on commercial terms, after we created a successful relationship with them allowed them to discover we’re a social business, then they could see the benefits. For example, they could enter part of their corporate social responsibility report as working with a social business.”

The following quotes illustrate similar experiences by case studies with corporate customers:

“Service for the hotel is very important. So we also require service from our suppliers like ‘Taxis’. I think their service is outstanding. It’s much better than other taxi companies which we worked with... for us it’s very important that we have good reputation for the taxis which helps us with good reputation for the hotel”

Corporate customer Taxis, General Manager Hotel, The Netherlands

“We’re always focusing on the service or the added value we can deliver, hence that is having a great new colleague on your team with special talent. It’s not “hire a disabled person because then you’re so responsible within your team.” No, nobody’s getting that... Then on a second step, we engage them more into the vision and the mission and the story behind it. But the reason you pick a new colleague is because you have a lot of work to be done and you need a talented person, a talented colleague to do that.”

Founder Dining in the Dark and Coaching and Recruitment, The Netherlands

Another contextual factor that can influence the benefits of emphasising the social mission is legislation incentivising businesses and the public sector to purchase from social enterprises such as the Social Value Act in the UK, and the Participatiewet (‘participation law’) in The Netherlands.

In summary, a key driver for a social enterprise to achieve financial and social outcomes is to position the business model first and foremost around their commercial offering with a strong value proposition, and to position the social purpose as ‘cherry on the cake’. Contextual factors such as the type of customers and their interest in the social mission, or legislation influence the potential risks and advantages of emphasising purpose as a ‘small or large cherry on the cake’ as part of their positioning. By avoiding positioning at the left hand side of the proposed matrix in figure 14 certain risks can be avoided as discussed next.

‘Pity purchase’ positioning strategy

Several interviewees refer to the tendency of social enterprises to develop their products or services around a social need, instead of market demand:

“Sometimes I get worried that people think that because they’re doing something for a good cause that that’s somehow enough to be a substitute for quality, it isn’t.”

CEO Youth Support and Go Karting, UK

“You do see a lot of people developing products that no one wants. So get the product right. You’ve got to have a product that people want at a price that people want to pay for it.”

Liam Black, Impact investor, UK

An example of a social enterprise positioned at the ‘pity purchase’ end of the spectrum, albeit against its own intentions, is the Big Issue, a homeless street magazine in the UK. Research shows that customers mainly purchase the magazine for empathy related reasons (Hibbert et al., 2005). The Big Issue is not one of the case studies directly part of this research project, but data were gathered via clients at Sandwiches, who were previously selling the Big Issue. The Big Issue example shows that how the social enterprise is perceived by customers is not only about delivering a quality product or service but also about the type of product, where and how it is sold, and how it is promoted. It can be argued that the Big Issue is a good quality product, but that the type of magazine, and how it is sold positions the product more towards an empathy purchase (Hibbert et al., 2005, 2002). The Big Issue is currently investing significant resources into marketing efforts to change the customer perception towards it being seen as less of a ‘pity purchase’ but is struggling to do so. This example highlights that it is important for a social enterprise to consciously decide from the start how to position their social purpose and possible consequences.

This study suggests that by relying on the interest of customers and other stakeholders to support their social mission, instead of meeting a market demand a social enterprise faces several risks. Firstly, patterns in the data highlight that customers tend to want to buy such products mostly if they are low priced items. A customer at one of the case studies illustrates:

“When we engage with social entrepreneurs as our supplier, social impact is important provided that you can tell the story in a very inspiring way. Quality and price is as important, and of course a sort of added value of your product or service has to be explained. Of course, sometimes just to help we buy certain products, it could be a gadget or something like that.”

Robert van der Laan, PwC Corporate Responsibility Leader EMEA region, The Netherlands

Secondly, by not providing products and services customers want to buy regardless of the social mission are that training and employment opportunities are often not aligned with market needs. Finally, if the social enterprise cannot rely on income through sales, their survival depends on other types of income streams such as funding and grants, such as case study Janitors. This dependency can lead to organisational failure when funding is pulled.

The findings contribute to a lack of research around the impact of positioning a social enterprise more or less based on ‘product versus purpose’. In summary, social enterprises positioned first and foremost around a strong value proposition, develop a stronger platform to achieve better financial and social outcomes.

4.4.2 Selecting target markets commercially

The study highlights the importance of selecting markets based on commercial logic as another key factor to overcome some of the typical challenges arising from the social enterprise dual mission. Table 14 summarises the related focused codes identified across the interviews and cross-case study comparison and illustrative data as further discussed below.

Category: ‘Leading with the business leads to better social and financial outcomes’	
Focused codes	Illustrative data
<p>B. Select target markets based on commercial opportunities</p> <ul style="list-style-type: none"> - Avoid low market demand error - Avoid low margin potential error - ‘Robin Hood economics’ 	<p>B1. <i>“Community cafés often sell cheap coffee, in poor communities and don’t make any money, and they wonder why. Actually sell coffee in areas where people are willing to pay £3 for a coffee. Not only in an area where people can only afford 50p.”</i> CEO Social Enterprise UK</p> <p>B2. <i>“Now these artisans sell the same jackets across Europe, the US and in Australia, the same creations at 10,000 Rupees, which is almost three times more than selling the same products in India.”</i> Darren Lobo, Impact investor, India</p> <p>B3. <i>“If you trade on being the cheapest in the marketplace then by default your margins are going to be very low.. I think it would be very difficult to have that model in our environment because we wouldn’t be generating sufficient surpluses to reinvest in the social side.”</i> Director of Operations, Logistics, UK</p>

Table 14: Selecting target markets commercially

When a social enterprise selects market segments around a social need instead of commercial opportunities it will likely face substantial challenges in achieving financial and social outcomes. Liam Black, impact investor, mentor and previous social entrepreneur illustrates an interesting example highlighting the importance of selecting markets based on market demand instead of social needs:

“ I think ones [social enterprises] who do well don’t confuse social need and market demand... when I was working in Liverpool we got contacted by an organisation somewhere in the north who wanted to open a community café, got a load of regeneration money. We went to visit it and it was this massive café with about forty of fifty covers, and right beside it was a Greggs with about five covers.

I walked in and spoke to the manager of the Greggs store and said “why have you not got fifty covers?” He went “well, fifty covers won’t come in, that’s never going to work.” So was there a need in that community for places for people to come together? Yes, there was. Was there a market demand for people to come in and pay X amount for their coffee and butties? No, there wasn’t. And the fact that the private business next door, if there had been a demand for forty or fifty, they would have bloody opened a café that had a demand for forty or fifty. But at that time there was a lot of regeneration money around, and there was a great naivety about social need and market demand”.

Liam Black, Impact investor, UK

If the Greggs manager was right and there was no sufficient market demand for forty or fifty covers in the area, the community café would likely be running a business model with an overhead they are not able to sustain with their level of revenue. As a consequence the social enterprise has developed a fragile business model, unnecessarily relying on regeneration money, leading to failure in case funding stops.

In addition to creating a weak financial platform a social enterprise developing their value proposition around social need instead of market demand also negatively impacts on their social outcomes. Questions can be raised in terms of the opportunities provided by a social enterprise that does not meet a market demand in terms of their ability to reward their staff and provide opportunities for growth. In case of the community café in the example illustrated above, it can be argued that if it was supplying a market with more demand for their services it would likely be in a better position to provide financial rewards for staff, as well as achieve other advantages such as more effectively equipping staff with experience, skills, and confidence.

The recent social enterprise survey in the UK reported that the majority of social enterprises operate in the most deprived communities in the UK (Villeneuve-Smith and Temple, 2016). By operating in low end markets a social enterprise likely faces more challenges to provide high impact opportunities for their clients. In the case of a community café with low revenue and high overheads, opportunities are often offered on a voluntary basis, contributing little to improving income, or the experience, skills, and confidence to equip people for other

future opportunities. By supplying higher end markets social enterprises can achieve better financial performance and better opportunities for clients such as disadvantaged staff in work integration social enterprises or cocoa producers in poorer countries. A leading sector expert in the UK illustrates this ‘Robin Hood economics’ concept:

“Social enterprises shouldn’t be scared about creating luxury goods. For example community cafés often sell cheap coffee, in poor communities and don’t make any money, and they wonder why. Actually sell coffee in areas where people are willing to pay £3 for a coffee. Not only in an area where people can only afford 50p. So you know there is what I call ‘Robin Hood economics’, that can really work well for social enterprise... It is much more interesting to go to a really wealthy community, take their money, and bring it back to your community, ..., rather than recycling existing money in a poor community... it doesn’t always need to happen like that, but successful social enterprises that are making good margins, good profits and good social impact are using that model.

And that is exactly the model that I arrived at when I was running my social enterprise. I had five cafes at one point, but those 5 cafes over the course of a week, would generate the same amount of money as one evening selling posh canapés and wine to a rich group of individuals in the city of London.. And all of a sudden what I found was that brought the revenue and money back into my community, but it also gave the staff the experience and the skills development opportunities to build their confidence, experience, CVs, and employability.”

Peter Holbrook, CEO Social Enterprise UK

An industry expert based in India, working as a financial advisor for a leading impact investment firm in Asia and Africa illustrates a similar example in a different context:

“I’ve seen this first hand in India as well as in Nairobi, both slum communities.. Recently I worked with an enterprise that’s working with leather artisans in Nairobi which is one of Asia’s largest slums, and these artisans were able to make some of the most fabulous jackets, bags, and purses that you get out there in the market. Selling the same products in India would fetch them something like 300 Rupees until this enterprise came on board and actually decided to put all of this inventory online and they sell it in markets across Europe, across the US, and in Australia as well. And now these artisans sell the same jackets, the same creations at 1,000 Rupees, which is almost three times more than what they sell to Indians.”

Darren Lobo, Impact investor, India

Sam, Director of Operations at Logistics touches on the importance of selecting market segments that enable sufficient margins to cover their costs of operations, as well as investing in their social purpose:

My view is that if you go into town or you trade on being the cheapest in the marketplace then by default your margins are going to be very low.. So I think it would be very difficult to have that model to work in our environment because we wouldn't be generating sufficient surpluses to reinvest in the social side."

Director of Operations, Logistics, UK

In summary, when social enterprises select market segments based on their commercial potential, instead of proximity to a social need they can develop stronger business models to achieve financial and social outcomes.

4.4.3 Balancing product and purpose in infrastructure

The analysis of interview data and cross-case comparison shows that by leading with commercial logic in the 'offering' and 'customer area' in the business model a social enterprise achieves better financial and social outcomes. The study highlights that the infrastructure area of the business model, consisting of 'partners', 'resources' and 'activities' requires more of a balancing act between social and commercial logic. Table 15 summarises the key patterns in the data and illustrative quotes as further discussed below.

Category: 'Leading with the business leads to better social and financial outcomes'	
Focused codes	Illustrative data
<p>C. Balancing 'product and purpose' in infrastructure</p> <ul style="list-style-type: none"> - Enable value proposition, then balance 'product' with 'purpose' - Integral to business model, 'justice instead of benevolence' 	<p>C1. <i>"The mix between the full timers and the apprentices is really important.. From a social point of view, just take your time. You don't have to be helping people on day one. Sometimes it is better to get the business up and running, make sure it is strong, it's robust.. Then introduce the social work."</i> Founder Bistro, UK</p> <p>C2. <i>"You really must be outspoken about your goals of not only the following years but also the big picture and the DNA of your financing partner must suit that as well. Or not only your financing partner, but also your suppliers, your customers, everyone is a part of your business."</i> Founder Dining in the Dark and Coaching and Recruitment, The Netherlands</p>

Table 15: Balancing 'product and purpose' in infrastructure

Case study Bistro illustrates the importance of balancing 'product and purpose' in their operations to firstly enable a high quality service, which then is balanced with their social aim to provide training and employment opportunities to previously homeless. Founder Samuel explains that his previous social enterprise failed because he fell in the trap of losing sight of commercial requirements, prioritising social logic too much too soon throughout the

business model. He emphasises the importance of integrating the social aims when the business is ready to absorb these:

“From a social point of view, just take your time. You don't have to be helping people on day one. Sometimes it is better to get the business up and running, make sure it is strong, it's robust.. Then introduce the social work... And I say that and I am sure there will be a few raised eye brows but that's through experience. Day one of opening we had 16 apprentices in there, and actually you know what 16 was too many, and if we had just left it three or six months we would have learned that and it would have been a bit easier.”

Founder Bistro, UK

Case study Sandwiches highlights the importance of balancing their partners as part of their infrastructure area in the business model. Similarly, Founder of Dining in the Dark explains how they learned the importance of aligning partners and stakeholders with their parameters, especially when it comes to selecting investors:

“We have some experience with investors who had a different aim for the future, who wanted to make a quick exit, or were purely financially focused. I think we ended the relationship already within a year. So I think a good learning there is that you really must be outspoken about your goals of not only the following years but also the big picture and the DNA of your financing partner must suit that as well. Or not only your financing partner, but also your suppliers, your customers, everyone is a part of your business.

Founder Dining in the Dark and Coaching and Recruitment, The Netherlands

Compared to other areas in other parts of the business model, such as the ‘offering’ and ‘customer’ area, where there is a predominant need for commercial logic, the requirement for both commercial and social logic in the infrastructure area is where a social enterprise faces tension between conflicting logics. In order to manage the ‘balancing act’, the study highlights the importance of leadership, and aligning the working culture with parameters around the commercial and social aims of the enterprise, as the following quotes illustrate:

“I can see a lot of social entrepreneurs struggling with this balance. Especially when they go through tough times. I believe a crucial success factor for social enterprise is building a network of people around you. And when I talk about people I talk about investors, employees, all stakeholders, clients, that are strong but are motivated by the same theory of change.”

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

“It just comes back to leadership, leadership, leadership, and having board members and senior leaders who are grown up and smart enough to have those conversations regularly about the balance between product and purpose. And I see too many social enterprises in the UK that have, I think, a pretty amateurish hit and miss culture when it comes to how they articulate the product-purpose dilemma let alone have mechanisms for dealing with it.”

Liam Black, Impact investor, UK

In recent years authors have begun to investigate the balancing act around leadership, governance, culture, team and partners in the social enterprise (Battilana et al., 2015, Santos et al., 2015, Battilana and Lee, 2014, Doherty et al., 2014, Ebrahim et al., 2014, Mason and Doherty, 2014). These studies highlight the need to balance product and purpose through mechanisms such as hiring and socialisation policies. However, they lack any guidance as to how emphasising ‘purpose or product’ impacts financial and social outcomes. This section contributes to the limited research around the challenges related to the dual mission, by outlining more clearly that the infrastructure area requires more of a balancing act compared to other business model areas such as the ‘offering’, and ‘customer’ area.

4.4.4 Funding ‘purpose costs’ through income other than revenue

Several interviewees refer to additional costs incurred by pursuing ‘purpose and profits’:

“If you’re recruiting every year a bunch of young people who are specifically recruited because they’re not chefs and you’re going to train them up, that’s extra cost. It’s extra management time. All of that. So, yeah, it is more difficult. Much more difficult to run Fifteen than to run one of Michel Roux’s restaurants.”

Liam Black, Impact investor, UK

“Being sustainable and being social costs money.”

Founder Taxis, The Netherlands

Table 16 summarises the focused codes and illustrative quotes highlighting key patterns across the interviews and cross-case comparison to manage additional costs incurred due to pursuing a social mission.

Category: ‘Leading with the business leads to better social and financial outcomes’	
Focused codes	Illustrative data
<p>D. Funding ‘purpose costs’ through income other than revenue</p> <ul style="list-style-type: none"> - Manage a ‘blended income stream’ - Avoid funding ‘flawed business models’ and unnecessary dependencies 	<p>D1. <i>“We will be running this on a mix of income from sales, philanthropy, grants, there is also training allowances for youngsters who have been out of work..”</i> CEO Youth Support and Go Karting, UK</p> <p>D2. <i>“At that time there was a lot of regeneration money around, and there was a great naivety about social need and market demand.”</i> Liam Black, Impact investor, UK</p>

Table 16: Funding ‘purpose costs’ through income other than revenue

Firstly, the findings highlight the importance of managing a ‘blended income stream’ as the quote below illustrates:

“We know that some social enterprises are always going to have higher costs and lower productivity and so we have to factor that in. So we have this blended income stream model. And that’s a mix, we will be running this on a mix of income from sales, philanthropy, grants, there is also training allowances for youngsters who have been out of work. This idea of blending your income together, is often what makes or breaks a successful social enterprise.”
CEO Youth Support and Go Karting, UK

Views on the extent to which social enterprises should rely on income through trade versus other forms of income vary. Some suggest that social enterprises should aim to solely earn income through revenue from trade (Yunus, 2007, Boschee and McClurg, 2003). Others argue that some dependency on other income streams such as grants or subsidies is acceptable (Nicholls, 2006). It is proposed that funding for additional costs incurred due to the social mission is justified and important towards a sustainable business model. As some of the interviewees indicate customers should not indirectly have to pay for training costs of people from disadvantaged backgrounds through increased pricing, but that such additional costs should be covered by alternative income streams such as subsidies or grants. However, the example of regeneration money used for a community café to sustain overheads with no matching market demand highlights that it is important that funding is not used to encourage ineffective business models and unnecessary dependencies. In the example of the community café, developing a smaller café tailored to the relatively small demand in the area, or by targeting a larger demand elsewhere would be a more effective use of resources and more likely lead to better financial and social outcomes.

4.4.5 Aligning client opportunities with market demand

The cross-case comparison highlights that case studies developing their offering around market demand versus social need not only achieve better financial outcomes, but also generate more social impact as reflected by code E summarised in table 17.

Category: 'Leading with the business leads to better social and financial outcomes'	
Focused codes	Illustrative data
E. Aligning client opportunities with market demand	<p><i>E1. Cross-case comparison shows better social outcomes when client opportunities are aligned with market demand with a 70 and 72 percent success rate of getting clients employed at Logistics and Bistro, versus 25 and 23 percent at Youth Support and Janitors.</i></p> <p><i>E2. I think the reason for the success of the organisation is we look at not vocational employment, we look at actually how to get people into employment at the end of the program and then put the vocational training package together to meet the needs of the employer that we're targeting."</i></p> <p>Founder Logistics, UK</p>

Table 17: Aligning client opportunities with market demand

Case studies Logistics and Bistro achieve a success rate of 70 and 72 percent of getting clients employed, versus a success rate of 23 and 35 percent at Janitors and Youth Support. Bistro and Logistics have developed their offering around a market opportunity instead of a social need. Martin, Founder at Logistics highlights:

"What I have found is most social enterprises find a social cause and try to create a business out of them. What we decided to do was create a business that drove social change, and that's a whole different mind-set. Had peeling oranges been more lucrative and more beneficial towards the community than doing logistics we'd have been peeling oranges today."

Founder Logistics, UK

Martin explains how they align the opportunities they provide to clients with market demand:

"Rather than just go through vocational training cycles, we actually look at the job we're trying to get people into and how we can best prepare them for that job. I think the reason for the success of the organisation is we look at not vocational employment, we look at actually how to get people into employment at the end of the program and then put the vocational training package together to meet the needs of the employer that we're targeting..."

There's no point in me training 1000 people a year if I can only create 100 jobs. Because I don't want to build up hope and not fulfil that hope... It's a program to fulfil people's hopes of changing their lives by getting them into employment, and if we're not doing that then what are we doing? Not here to train people, I'm here to get people employed."

By comparison, case studies Janitors and Youth Support developed their offering such as cleaning, gardening and furniture recycling around a social need providing opportunities requiring less training for people coming from disadvantaged backgrounds. By developing their offering based on social need, such social enterprises tend to create training unrelated to the mainstream labour market, offering limited future opportunities (Hudson, 2009).

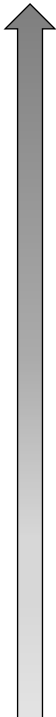
4.5 Conclusions

This chapter explored how to prioritise commercial and social logic in different parts of the business model to effectively combine ‘profits and purpose’. Key concepts are proposed related to the importance for a social enterprise to ‘lead with the business’ including: ‘avoiding the pity purchase’ by ‘positioning purpose as cherry on the cake’; ‘selecting markets commercially’; ‘balancing purpose and product in infrastructure’; ‘funding ‘purpose costs’ through income other than revenue’; and ‘aligning client opportunities with market demand’.

By clarifying the importance of ‘leading with the business’ this study criticises the focus in the literature on ‘mission drift’, mostly referred to as prioritising commercial aims over time to the detriment of the social mission (Santos et al., 2015, Young and Kim, 2015, Cornforth, 2014, Ebrahim et al., 2014, Mason and Doherty, 2014, Smith et al., 2013, Brandsen and Karre, 2011, Mersland and Strom, 2010, Yunus et al., 2010). Whilst maintaining the right balance between social and financial aims in different business model areas is important, the predominant focus in the literature can be misleading for (aspiring) social entrepreneurs to prioritise social logic overall, leading to ineffective business models.

Patterns across the 93 interviews and a cross-case comparison between the different case studies in the UK shows how prioritising both logics in different areas of the business model impacts the social enterprise dual mission, as summarised in table 18. By clarifying the need for emphasising commercial and social logic more or less depending on each area of the business model this study contributes to an important gap in the literature. The proposed balance throughout the business model areas helps unravel the hybrid paradox as suggested in recent articles referring to negative and positive consequences of prioritising either logic on commercial and social outcomes (Battilana et al., 2015, Santos et al., 2015, Mason and Doherty, 2014, Ebrahim et al., 2014).

	Value proposition	Customers	Infrastructure	Financial outcomes	Social outcomes
Bistro	Commercial logic	Commercial logic	Balancing Logics	Commercial logic	Social logic
Logistics	Commercial logic	Commercial logic	Balancing logics	Commercial logic	Social logic
Sandwiches	Commercial logic	Commercial logic	Balancing logics	Commercial logic	Social logic
Youth Support	Social logic	Social logic	Social logic	Social logic	Social logic
Janitors	Social logic	Social logic	Social logic	Social logic	Social logic



Relative worst versus best financial and social outcomes

Table 18: Cross-case comparison predominant logics and outcomes

The findings provide a valuable contribution to the limited discourse of how social enterprises can overcome challenges related to their dual mission (Battilana and Lee, 2014), especially in the field of business strategy (Wilson and Post, 2013). Developing an understanding of how to overcome such challenges is important, as social enterprises who struggle to do so have shown to adopt ineffective strategies leading to deficient performance or organisational failure (Moizer and Tracey 2010). The proposed theory provides guidance to practitioners as to how to prioritise ‘profits and purpose’ throughout the business model for better financial and social outcomes. By clarifying how to balance ‘purpose’ as the ultimate aim of the social enterprise and ‘profits’ a means to an end, an alternative theory is provided beyond the limited scope of win-win solutions provided by theories such as CSR, shared value and stakeholder theory as will be further discussed in Chapter six. Finally, a contribution is made to policy makers and funders by highlighting the importance to clarify and allocate funding specifically to costs related to ‘purpose’ instead of encouraging flawed business models to prevent the creation of unnecessary dependencies and to achieve better social return on their investment.

The proposed concepts in this chapter provide perhaps more clarity around what Adam Smith proposed by pursuing self-interest in business, often misinterpreted as the excuse for profit maximisation and selfish conduct:

'Give me that what I want, and you shall have this which you want, ..., is how we obtain from one another the far greater part of those good offices which we stand in need of. It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest... By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good' (Smith, 1776, p. 19)

In highlighting the importance of tailoring the offering and market selection around market demand instead of social need, an enterprise more likely contributes what is valued by other members in society, and will more likely establish a stronger financial platform to maintain and develop their operations and social purpose. By developing the *'what'*, the offering, and the *'whom'*, which markets, based on the profit motive, as opposed to benevolence, therefore has important benefits. By pursuing a profit motive in a free market, market dynamics ensure that resources are allocated efficiently, according to what is valued by customers. However by clarifying that the *'why'*, the purpose of business is to ultimately provide value for society and planet, and that *'how'* the services are produced require a balance between commercial and social logic, fits with the notion of Adam Smith that free market principles can only operate with strong justice principles. The next chapter provides further discussion of the importance of justice versus benevolence as part of the proposed *'profits for purpose'* concepts, and key drivers contributing to better social outcomes.

FILM INTRODUCTION TO CHAPTER FIVE



A sign at case study Sandwiches displaying: "Keep your coins, I WANT CHANGE"

As an introduction to Chapter five the third film can be viewed for an illustration of key interview statements used in the chapter bringing some of the case studies to life:

www.fishclimbingtrees.global FILM 3

CHAPTER FIVE: KEY DRIVERS SOCIAL OUTCOMES

“I say poor people are bonsai people, there is nothing wrong with the seed. If you planted it in the right place it would be as tall as anybody else. The society, the theory didn’t give them the space.”

Muhammad Yunus, Nobel Peace Prize Laureate

5.1 Introduction

During his interview Muhammad Yunus referred to his famous quote that poor people are ‘bonsai people’, symbolic for not having been given the freedom and space to develop and contribute their potential. This chapter elaborates how empowering individuals and communities to contribute their potential, and to be fairly rewarded for their contribution can be an effective solution to structurally address major issues in society such as poverty, inequality, and social exclusion. Section 5.2 explores why some social enterprises achieve more impact on their clients than others. Patterns across the 93 interviews and a cross-case comparison between training and employment case studies in the UK show a number of key drivers contributing to better social outcomes. The findings highlight the importance of the empowering nature of solutions offered by social enterprises compared to charitable solutions in 5.3. Section 5.4 concludes with a summary of the findings and contributions of this chapter to scholars, practitioners and policy makers.

5.2 Key drivers social impact

“Everybody is a genius.

*But if you judge a fish by its ability to climb a tree,
it will live its whole life believing it’s stupid.”*

Founder Dining in the Dark and Coaching and Recruitment, The Netherlands

During her interview Founder of Dining in the Dark and Coaching and Recruitment mentioned how the quote above, which is debatably attributed to Einstein, has inspired her to set up her social enterprises to enable unemployed people with visual impairments and other disabilities to find their talents and develop their potential. The cross-case comparison in the previous chapter shows that social outcomes vary between different social enterprises. Whilst social enterprise discourse has focused on ways to measure social impact, there is an important gap in the literature on social outcomes of social enterprises (Teasdale, 2010). Furthermore, there appears to be no research into factors that drive more or less social outcomes. One of the reasons why few studies have explored the actual impact by social enterprises is that it can be challenging to measure social outcomes due to varying aims and non-standardised metrics (Arena et al., 2015, Stevens et al., 2015, Luke et al., 2013, Millar

and Hall, 2013, Smith et al., 2013). This section aims to contribute to this gap in the literature by proposing contributing factors to more effectively deliver social outcomes. To develop understanding of how to effectively support marginalised people and communities is firstly valuable for practitioners to achieve more impact on their clients. Furthermore, being able to demonstrate how effective a social enterprise is in delivering social outcomes is increasingly important to secure investment and funding. Whilst interest in the level of social outcomes varies between different funders and impact investors the study points to an increased requirement for social enterprises to demonstrate their social return on investment. Interviewees comment:

“Those that are giving people some basic support but actually when the outcomes are shown that there is a lot of regression, or people don’t progress onwards, that’s unlikely to be supported in the long term, so there is a business case for social enterprises to continue to look at good practice and to take individuals we support as far as possible on their journey.”

Gerry Higgins, CEO Community Enterprise in Scotland

“One of the things that strikes us about 90 percent of social entrepreneurs that sit across the table from us looking for money is how ill-defined their social enterprise is. I think social enterprises, for profit and non-profit, will get a level of scrutiny they haven’t had so far.”

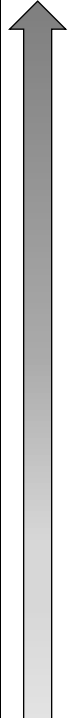
Liam Black, Impact investor, UK

“We’re not just looking for that financial return. We’re looking for evidence that they’re doing a good job in society, that they’re delivering a social return too.”

Mark Parsons, Head of Community Finance and Social Enterprise, RBS & Natwest, UK

A cross-case comparison is summarised in table 19, highlighting key drivers contributing to more or less impact provided by the training and employment social enterprises on their clients from marginalised backgrounds. The case studies are ordered from top to bottom indicating relatively best to worse social impact such as percentage of getting and retaining clients in employment. The comparison shows how the impact created by the different case studies varies in terms of how clients are equipped with skills, experience, accreditation, and support to find employment. Other factors contributing to the social outcomes are a ‘balanced work environment’, and the extent to which the opportunities provided are aligned with market demand, and the interest and potential of clients. The key drivers contributing to social outcomes are further discussed below.

Case study	Social outcomes	Equipping people for improved livelihoods			Balanced work environment	Aligning opportunities with interest and potential
		Opportunities aligned with market demand	Skills, experience, accreditation	Support to find employment		
Bistro	<ul style="list-style-type: none"> - 70 Apprentices in 3 years - 72% remain in employment - NVQ Level 2 Diploma Cookery - Employability coaching - Contributions to charities 	High	High	High	High	High
Logistics	<ul style="list-style-type: none"> - Currently employs 40 people - 70 remain in employment - Forklift license - Contributions to charities 	High	High	Medium	High	Medium
Sandwiches	<ul style="list-style-type: none"> - Employs 10 homeless people - Free meals and support for homeless - Contributions to charities 	Medium	Low	Low	High	Low
Youth Support	<ul style="list-style-type: none"> - Up to 25 training and employment places per year - Around 25% find employment 	Low	Low	Low	Medium	Medium
Janitors	<ul style="list-style-type: none"> - 250 trainee placements a year - Around 23% find employment 	Low	Low	Low	Medium	Low



Relative worst versus best social outcomes

Table 19: Cross-case comparison key drivers social outcomes

5.2.1 Effectively equipping people towards improved livelihoods

The cross-case comparison in table 19 shows that case studies Bistro and Logistics are ranked relatively highest in terms of their social impact compared to the other case studies. Both social enterprises have achieved high success rates of 72 and 70 percent of keeping people in employment, compared to 23 and 25 percent by Youth Support, and Janitors. Bistro and Logistics not only achieve a higher success rate of keeping people in employment, but interview responses and observations highlight a more significant impact on their clients' lives. The following comments illustrate the transformational impact created by the training and employment opportunities at Bistro and Logistics:

"I was sent to jail three years ago and I didn't think that I'd be able to be working in The Savoy, from the day I got sent to jail to three years from then."

"A former apprentice who is now a sous chef in a restaurant, and had been in prison a number of times had a number of children he had not been looking after, and now he is holding down a job and taking his career forward, in a really good restaurant in London and really adding value to society. And that's when you go, that's why we do this."

"I was unfortunate to be in trouble as well when I was younger.. I just needed a chance. I started a six months apprenticeship.. I was offered another job with a contract caterer.. they made me head chef of that restaurant... In that time we cooked for every politician you can imagine; David Cameron, I cooked for The Queen on top of The Gherkin, I met Gordon Brown, sat around the round table with Hazel Blair, Boris Johnson came for breakfast."

"You feel more confident, and more valued in what you're doing day to day you know."

"What do my children think about me being here? They think it's great, they absolutely love it. It just had a massive huge positive knock on effect throughout all of our lives."

The other case studies are ranked relatively lower in terms of social outcomes compared to Bistro and Logistics. The social impact by the case studies Youth Support, and Janitors are rated on the other side of the spectrum as 'low', because of their lower success rate keeping people in employment and less contribution to developing skills, certificates and accreditation, confidence, experience, and support into employment. The level of social impact by Sandwiches is rated as 'intermediate' in comparison to the other case studies. Whilst Sandwiches offers employment opportunities to previously homeless people to work in the kitchen of the sandwich chain, interview responses and observations indicate a lower level of outcomes compared to Bistro and Logistics in terms of skills, certificates and accreditation, and confidence.

Based on the cross-case analysis and patterns across the 93 interviews a number of factors were identified contributing to more effective opportunities enabling clients to improve their lives. Firstly, better outcomes are generated when the type of training and employment opportunities are aligned with market demand. Founder of Logistics illustrates:

“During 2014, 68 percent of the people that finished the courses ended up in paid work within a few weeks of having completed our course. I think the reason for the success in achieving that level of performance is we do not look at vocational employment, we look at actually how to get people into employment at the end of the program and then put the vocational training package together to meet the needs of the employer that we’re targeting.”

Founder Logistics, UK

As previously discussed social enterprises that align their business around a social need instead of market demand, or a type of activity requiring skills that are saturated in the market tend to achieve a lower level of impact on the clients it aims to support. Case studies Youth Support and Janitors fall in the categories highlighted by Hudson with typical ‘social enterprise activities’ such as gardening and furniture recycling supporting people with skills that are saturated in the market (Hudson, 2009). With little demand in the market for these types of skills, such social enterprises provide their clients with less chances of employment opportunities and self-sustainability for the individual compared to skill development related to products and services that are in more demand.

A second differentiating factor contributing to better social outcomes is the extent to which clients are provided with the skills and experience required by the market place, for example by professional certificates, accreditation, and placements. Interviewees at the case studies Bistro and Logistics highlight:

“Mike knew that I had a criminal record and that I had to attend probation regularly, but he saw a good thing in me, put me on, gave me full time employment, I’ve got four different certificates for handling equipment, forklifts and such, yeah I’ve turned my life around really.”

Client Logistics, UK

“We do a lot of training. We constantly look at what they do and why they are doing it. They do their level 2 professional cookery qualification while they’re here. We’re inspiring them constantly during inspirational days once a month, we have classroom days once a month.”

Founder Bistro, UK

The following quote by one of the clients at case study Janitors indicates a different level of support in terms of skills and experience:

“I know if I was to go for a job my supervisor, my team leader, would give me a good reference. But it would maybe just be good if we could get a bit more training on the course, more training on the Scags, more training on the machines, so then if we do go to apply for another job then we’ve brought more certificates and training in machinery, grass cutting, to go for other jobs.”

Client Janitors, UK

A third factor differentiating social enterprises that deliver better social outcomes compared to others is the level of support to clients to manage the transformation process coming from difficult situations to steady employment. Interviewees at Bistro and Logistics illustrate the importance of this type of support such as help in finding accommodation, or with their application process to find employment:

“The best things about being here, is the support that you get.”

“I visit other programs, and they’re all brilliant, but I think what makes us work is the support. We’re a close-knit little group of people that are passionate about what we do, and I think the support that they get from all of us is very important. I don’t know what it is that’s missing from some things I visit. It’s almost like we’re a family here.”

“For people who are struggling, they need some one-to-one support. That can be anything from getting them out of temporary accommodation to a professional skill they are then going to put on their CV, and actually help them get a job and promote themselves. At every level we will help them.”

“They’re given sheets of various employers that are looking for people with whatever talent that they’ve picked up here which enables them to go on and find a job elsewhere, if not here. So I would say I think it’s the hands-on care more than anything else.”

By providing the type of opportunities, skills and experience required by the market, and the right type of support into finding employment, clients can build a better future for themselves, and are not necessarily reliant on the sustainability of the social enterprise. An additional advantage of enabling clients to find employment out with the social enterprise is that it enables the venture to free up spaces to provide training and employment opportunities to other people in disadvantaged situations, contributing to a higher ‘throughput’ of clients.

5.2.2 Balancing the work environment

A second theme highlights the importance of providing a work environment that balances commercial and social logic to effectively deliver social impact. The study indicates that by providing a ‘real professional work environment’ on the one hand, balanced with a

‘supportive work culture’ effectively enables social outcomes. Founder at Bistro highlights the importance of a professional work environment:

“When you get someone in a live working environment you can challenge them a lot more, and tell them to get their head stuck in and come to work on time and we can patch through some of that and they listen. And I have seen people having conversations with key workers and job centre advisors and they don’t listen.”

Similarly, a senior manager at Bistro emphasises the professional ‘real life’ environment:

“I think the difference that we offer, the opportunity that we offer here to some of the other projects that are going on out there is that it’s a very professional environment. I’ve seen lots and lots of great community centres that offer really good programs, teaching people how to cook, teaching people how to manage life skills, all the things that go round, or IT skills, there’s so much that goes on out there. I think what makes this different is that they actually get the opportunity to do the work while they’re here.”

By developing an environment that operates commercially to deliver high standard products and services that are in demand by the market the analysis indicates that a social enterprise not only enables a stronger financial platform, but also better social outcomes. The following quote illustrates that a social enterprise needs to balance a commercial work environment with a supportive, understanding culture factoring in the situation and background of clients:

“Like obviously a lot of people are rehabilitating here, either coming out of prison or out of periods of long work, and they’re quite fair with absences. Because when you first start coming back to work a lot of places say if you have three absences within a six month period that’s the end of your contract. Whereas here they say “just phone in about an hour beforehand, just let us know.” So they’re quite lenient in the fact that when you first come back to work and you’ve got low energy, you might have difficulties at home, depression, anything. If you don’t feel like coming in for the day you can just sort of say “I’m having a bad time at home, I’m not doing well.” And they’re caring and understanding about your situation.”

The emerging theme is a good example of the balancing act manifesting itself in the ‘infrastructure area’ of the business model, as discussed in the previous chapter. Compared to other areas in other parts of the business model, such as the ‘offering’ and ‘customer’ area, where there is a predominant need for commercial logic, the requirement for both commercial and social logic in the infrastructure area is where a social enterprise faces most tension between conflicting logics. Interviewees highlight examples of tensions such as

deciding to let people go in order to sustain the social enterprise, even though this is in conflict with their social aims. Founder of Dining in the Dark in The Netherlands explains:

“We had to make really tough choices to say goodbye to people, actually to save the whole company. Because your service focus must be really, really good.”

Founder Dining in the Dark and Coaching and Recruitment, The Netherlands

A sector expert highlights a similar example when asked about his views what differentiates social enterprises that manage to achieve both social impact and financial sustainability compared to those who struggle to do so based on his experience in the sector:

“Those that get it right are usually those who have a really good focus on what it needs to create a stable financial platform, who are prepared to take some hard medicine when the financial circumstances determine it”.

Gerry Higgins, CEO Community Enterprise in Scotland

In order to manage the ‘balancing act’, the data highlight the importance of leadership, partners, and working culture aligned with the parameters around the commercial and social aims of the enterprise:

“I can see a lot of social entrepreneurs struggling with this balance. Especially when they go through tough times. I believe a crucial success factor for social enterprise is building a network of people around you. And when I talk about people I talk about investors, employees, all stakeholders, clients, that are strong but are motivated by the same theory of change.”

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

The findings contribute to the limited research around the challenges related to combining profits and purpose, by outlining more clearly that there is a need to balance commercial and social logic in the infrastructure area, compared to other areas in the business model.

5.2.3 Enabling individuals to develop their potential

Another differentiating factor towards delivering better social outcomes, is aligning opportunities with people’s potential and interests. As Amartya Sen, economist-philosopher and Nobel Prize Laureate argues, poverty is not just a lack of money but it is not having the capability to realise one’s full potential as a human being (Sen, 1999). Case study Bistro has a strong focus on providing ‘meaningful employment’. Their selection process focuses on the interests and potential of their clients to maximise the impact they can make:

“It is very emotional. During the interview, when you are saying to somebody who has been previously homeless, why should we take you? We are quite choosy, we need to be. There are a lot of people who would like the position and we have only so many kitchen positions. But they can be very emotional times. And people are desperate to get an opportunity and we have got to make sure we choose right.”

Founder Bistro, UK

To enable people to develop their potential the data highlights the importance of adopting a culture that focuses on people’s potential versus a ‘supporting victims’ paradigm. Case study Dining in the Dark, and its sister organisation Coaching and Recruitment provides a great example in their approach with their clients with a visual impairment and other types of disabilities. Founder of both social enterprises explains:

“‘Dining in the Dark’ is a restaurant in the dark where all employees are true ‘experts of the dark’. Our main aim, our mission, is to diminish the 70 percent of unemployment of blind and deaf people in The Netherlands. We believe it’s really weird to have such a talented group that’s not working while companies can really make use of their talents.

One quote to summarise it, which really stuck by me is ‘if you judge a fish by its ability to climb a tree it will spend its whole life thinking it is stupid’. And that’s exactly what we’re doing, we ‘let the fish swim again’. While society, and everyone has made people believe and point out what they weren’t able to do. For me it’s very logical that people with an impairment can do other things much better than other people, or me.

For example people who are blind are true customer-focused persons. They are used to really hearing the message. In ‘Dining in the Dark’, our average grade on service is 8.9 out of 10, which is really high in The Netherlands. With deaf people, you can see that they are really good in their eye for detail. And eye for detail can be used in searching for fraud, or in administration. There are so many possibilities, but you just have to see what they can do.”

Founder Dining in the Dark and Coaching and Recruitment, The Netherlands

The example highlights how by adopting a strong focus on the potential of clients to contribute value, they challenge the ‘victim’ role they have often been used to by well-meaning friends and family. One of the waiters at Dining in the Dark with a visual impairment explains the importance of going beyond the ‘victim paradigm’ as follows:

“If you constantly treat somebody as blind, he will never go beyond that and he will always feel blind and different. I am convinced that is the same for people with all types of handicap.”

“It has really helped me in that sense that I wasn’t treated with preconceived ideas about what I couldn’t do but to have the opportunity to explore yourself what you can do, what costs a lot of energy but gives a lot of energy back.”

“It is also pleasant when that has become a given and you feel more confident, not just me but also the others. That’s also how the guys in the crew have started to develop themselves way beyond expectation and that is why we have become very successful.”

Client Dining in the Dark, The Netherlands

He continues to explain the impact of the opportunity not only in terms of his livelihood and ability to tap into his potential but also regarding other parts of his life:

“Since I work here a few things in my life have changed. I know much better what my talents are, and also my weaknesses, by having the opportunity to develop my potential, and discover new things, and to get the space to grow.. My self-esteem has increased a lot, you see yourself more as part of society and contribute to a very cool concept. You’re no longer an outsider, that is what struck me very much... Which made me feel a lot better also about myself and my visual handicap which resulted in me being a lot more positive about life. This also had a number of positive consequences, that it goes a lot better in terms of my social life, and that I now have a stable steady relationship, that colours the image of the future a lot more.”

A client with a hearing disability at Coaching and Recruitment describes her experience of being supported by the social enterprise to gain employment as a forensics consultant:

“When I was at ‘Coaching and Recruitment’ they told me I could do everything I wanted and encouraged me to feel more confident and I felt appreciated. Because I felt appreciated, I became happy and because I became happy I wanted to do more things, learn more things, I was in an upward spiral.. At ‘Coaching and Recruitment’ I am very proud how I have to proof myself. They don’t pamper me. I still have to proof myself like everyone else.”

Client Coaching and Recruitment, The Netherlands

Founder of Dining in the Dark and Coaching and Recruitment explains how avoiding the ‘victim paradigm’ is an important factor contributing to their success:

“It’s always hard to say what is the exact key success factor, but I think there are a few elements which really help. I think the most important one is that we take people serious, and we treat people, all people, like normal people. So we have expectations, we give them responsibility, and we reward them according to that. And that’s really helping.”

The findings illustrated above highlight how focusing on talents and potential versus a paradigm to ‘help a victim’ can help create better social outcomes. This is an important factor to help break through barriers that can keep people trapped in disadvantaged situations. By empowering people and communities with opportunities to improve their livelihoods a positive development spiral is created in which social and economic aspects reinforce each other, as opposed to the dependency on charitable support that can lead to dampening entrepreneurial spirit (Rangan et al., 2007). The importance of the empowering nature of solutions provided is further discussed next.

5.3 Empowerment versus free services

One of the main strengths of opportunities provided by a social enterprise is the empowering nature of the opportunities, compared to giving a free service. A sector expert, previous CEO of a social enterprise explains how changing their charitable organisation to a social enterprise led to creating more impact for their clients:

“For many years we operated as a charity, and we were allocating lottery money and other grant funding to try and support people that were marginalised or in difficult circumstances.

Actually switching the model on its head and giving employment opportunities and careers, and thereby giving hope and ambition for the future, had a far more profound and transformative effect than simply giving free services. Most importantly it was about empowering and equipping the people within my community with the skills that meant that they could work and become independent within society, rather than dependent on charity.”

Peter Holbrook, CEO Social Enterprise UK

Similarly, empowering communities in developing countries to generate income can lead to more sustainable impact compared to depending on charities. Peter Holbrook illustrates:

“Divine Chocolate had an incredible impact on cocoa farmers across Ghana for well over ten years now. The traditional charitable model is that you give food and you provide aid and you provide that kind of emergency assistance. Giving cocoa farmers the power of owning their own brand that’s sold in eleven countries around the world is much more enriching. There’s much more pride and honour and dignity through making your own money in the world and then determining how it’s going to be spent, rather than waiting for charities from white countries to appear in your country and help you build a school.”

5.3.1 Tentative category ‘Empowerment’

The theoretical construct ‘empowerment creates more impact compared to free services’ was derived as follows. First, a tentative category and focused codes were raised based on UK data reflecting key patterns in relation to the impact on clients as visualised in figure 15:

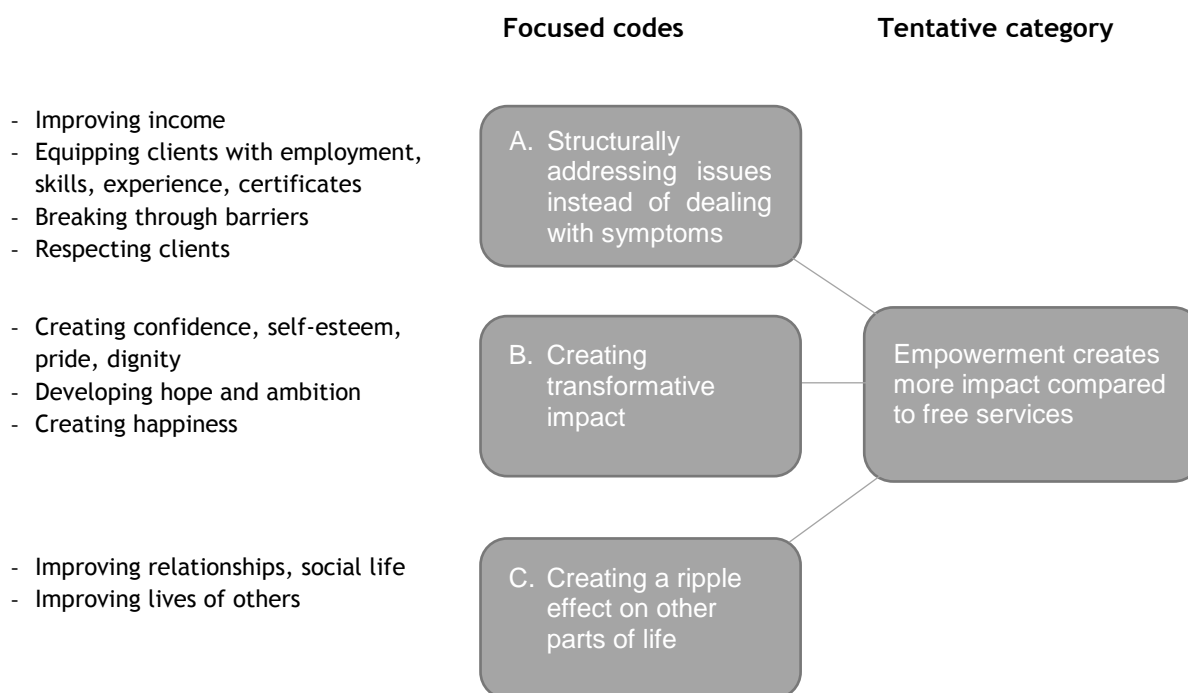


Figure 15: Tentative category based on UK data

Factors underpinning the ‘positive development spiral’, as opposed to dampening entrepreneurial spirit (Rangan et al., 2007) include empowerment of people by equipping them with the skills, accreditation, and experience to develop their own income. Interviewees emphasise how developing their potential not only contributes to improved livelihoods but importantly also to their confidence, self-esteem, pride and dignity fitting with a more holistic approach to lift people out of poverty (Sen, 1999):

“Since I’ve started working here, one of the biggest things I find is I’ve got a new found respect for myself, because before I felt like I was... I can’t swear, can I? Like I was terrible. I was stuck in a rut of just getting my Job Seeker’s Allowance, get drugs, get drunk, maybe I might steal something if I didn’t feel like I had enough money. Whereas now I actually feel proud of myself. Instead of getting up into the mid-afternoon, I get up at seven every morning, I keep myself clean, keep my room straight, all my clothes straight, I enjoy coming to work.”

Client Logistics, UK

“You feel more confident, and more valued in what you’re doing day to day you know... And I was apprentice of the month last month so I am over the moon”

Client Bistro, UK

By empowering individuals and communities with opportunities to create a positive spiral of improved confidence, skills, and experience to improve their own livelihoods, the root cause of issues such as poverty is addressed instead of dealing with symptoms, generating transformative impact on the clients' lives, and a ripple effect on other parts of their life such as relationships with family and friends. The proposed concept reflects the most significant and relevant themes emerging across the data (Charmaz, 2014, Suddaby, 2006). Where findings different from the emerging patterns were observed, notes were made to question the validity and limitations of the properties of the category and applicability to certain contexts. For example, the following response by a sector expert appeared contradictory:

"I don't think social enterprise means that you have to pay for services. So I think it's a common mistake or a misunderstanding that emerges. Social enterprise does not mean that all of a sudden we're charging for services that people access. It's about generating income in order to achieve social objectives. So for example if I wanted to sell bottles of water as a way of funding my free domestic violence drop-in centre then that's completely appropriate."

Peter Holbrook, CEO Social Enterprise UK

At first this narrative was puzzling, especially considering that at several other points during the same interview Peter emphasises that providing empowerment opportunities to improve livelihoods generates more impact, and creates more pride, hope and dignity compared to free charitable support. Further consideration of his response and other parts of the interview clarifies the importance of recognising different contexts requiring different types of solutions. At a different point in the interview Peter highlights:

"There are examples where charities have a critical role to play. But when you're trying to not deal with the immediate symptoms of a problem, or an emergency, when you're trying to actually structurally challenge people that are marginalised or are not being given the opportunity to succeed, that's when social enterprise can play a much longer term role, in resolving a whole myriad of complex circumstance that can keep people in poverty."

Peter Holbrook, CEO Social Enterprise UK

In the case of domestic violence free services to clients are appropriate and important, and providing training and employment opportunities is not the right solution, at least not in the first instance. However, providing free support to victims of domestic violence should arguably be classed as charitable support, not social entrepreneurship. Generating revenue from selling drinks to fund charitable activities does not necessarily change the organisation into a social enterprise as will be discussed in Chapter six. After the tentative category was raised based on UK data, further interview responses reflecting a wider context were studied.

5.3.2 Full and robust category ‘Empowerment’

To refine the properties of the tentative category, and to assess robustness of the findings to apply in different contexts (Bryant, 2017, Charmaz, 2014), further data were gathered in different countries examining different types of social enterprises. The case studies in this wider context include a ‘dining in the dark’ restaurant and a coaching and recruitment company in The Netherlands providing opportunities to visually impaired and other disabled people; a chocolate company based in The Netherlands aiming to eradicate child slavery by direct ethical supplier relationships with poor farming communities in Ghana and Ivory Coast; an electric taxi company in The Netherlands providing opportunities to the unemployed over fifty year olds; an authentic tourism company improving livelihoods of poor tribal villages in India; and an apparel company in the US and Ecuador, raising awareness of the environment, and sourcing organic cotton made by single mothers in Peru.

Comparison of data gathered in a wider context against the tentative categories provided the following insights. First, the category gained robustness by observing similar patterns in these different contexts. Secondly, the category was changed to reflect the wider context of opportunities provided by social enterprises to farming communities and tribal villages by rewording the category to ‘providing opportunities to improve *livelihoods* creates more impact compared to charitable support’, instead of referring to training and employment opportunities to individuals only. Thirdly, an additional attribute ‘Enabling villagers to remain with family’ was added as part of the focused code ‘Ripple effect on other parts of life’ to reflect the importance of the impact on clients in tribal communities in India to remain with their families, and not having to move to city slums or villages further afield to find work. To illustrate, a villager comments:

“We used go 70-80 kms away from Purushwadi and search for farmlands. Work in those farms for 10-15 days as labourers and come back.... They [Authentic Travel] made work opportunities available for us. We don’t have to search for labour work anymore. We now work here with our families in our very own village”

Client, Authentic Travel, India

And finally, the attribute ‘Being part of society’ was added to the focused code ‘Creating transformative impact on clients’. Perhaps with less poverty and inequality in The Netherlands compared to the other contexts such as the UK and India, the attribute ‘being part of society’ gained more prevalence compared to the other attributes reflecting the impact on clients’ lives. A client with a visual impairment at Dining in the Dark comments:

“In that sense my self-esteem has increased a lot, you see yourself more as part of society and contribute to a very cool concept. You're no longer an outsider, that is what struck me very much (laughs).”

Client, Dining in the Dark, The Netherlands

Following analysis of the similarities and differences observed in the interviews reflecting wider contexts ‘theoretical saturation’ was reached. The proposed concept ‘empowerment creates more impact compared to free services’ was found to be complete and strong with further comparison of data not leading to any new properties of the pattern and adhere to the main criteria for grounded theory including a close fit with the data, and usefulness (Glaser, 1992, 1978; Glaser and Strauss, 1967). Figure 16 summarises the key findings related to this proposition indicating that empowerment opportunities ‘structurally address issues instead of dealing with symptoms’; ‘create transformative impact on clients’; and ‘create a ripple effect on other parts of their life’ as further discussed below. Data illustrating the related findings are summarised in table 20.

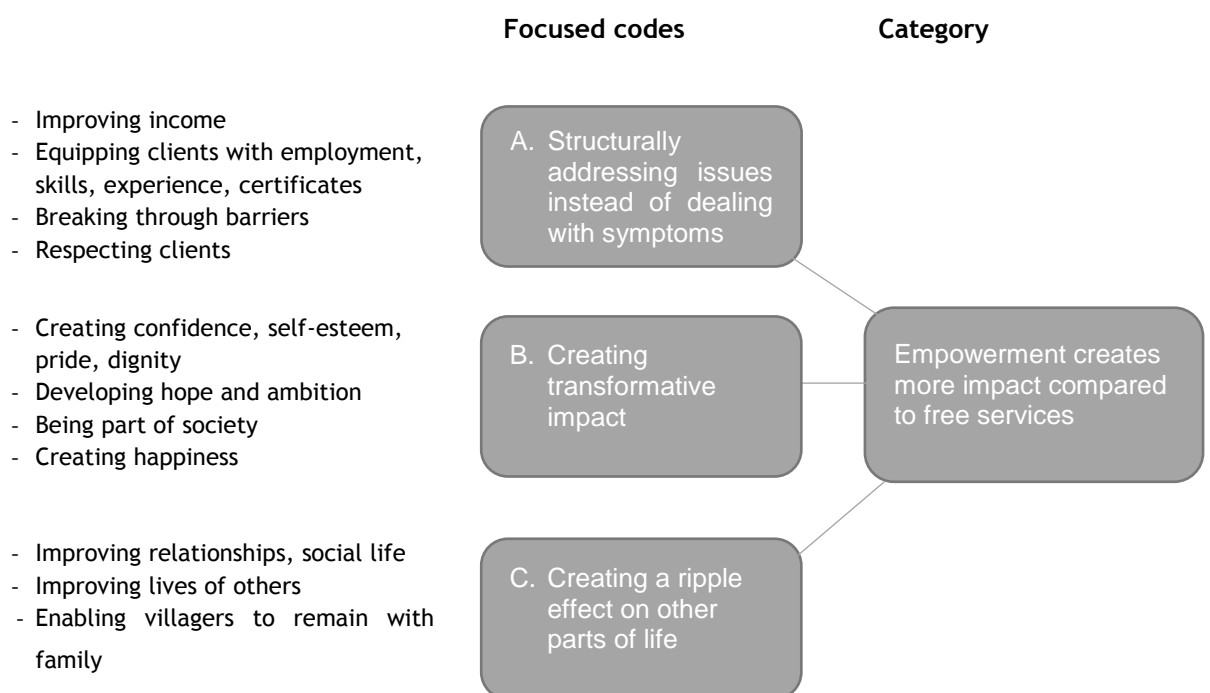


Figure 16: Empowerment creates more impact compared to free services

Category: 'Empowerment can create more impact compared to free services'	
Focused codes	Illustrative data
<p>A. Structurally addressing issues instead of dealing with symptoms</p> <ol style="list-style-type: none"> 1. Improving income 2. Equipping clients with employment, skills, experience, certificates 3. Breaking through barriers 4. Respecting clients 	<p>A1 <i>"Oh, it's made a big, a big impact on my life. Obviously the money."</i> Client Sandwiches, UK</p> <p>A2. <i>"[Logistics] gave me full time employment, I've got four different certificates for handling equipment, forklifts and such, and I've turned my life around really. I was really into drugs and alcohol."</i> Client Logistics, UK</p> <p>A3. <i>"If you constantly treat somebody as blind, he will never go beyond that and he will always feel blind and different.. What I really like about this work is to give young students with a visual handicap from the age of 16 - 20 the opportunity to take away some of the insecurity and embarrassment and to make them enthusiastic for working and actively taking part in society."</i> Client Dining in the dark, The Netherlands</p> <p>A4. <i>"It adds structure to my life, but I also feel respected. Like when I do something right I get praise for it. When I pass my tests, when we do 100% accuracy for the week, I feel really good. So I feel like I've bettered myself quite a lot."</i> Client Logistics, UK</p>
<p>B. Creating transformative impact</p> <ol style="list-style-type: none"> 1. Creating confidence, self-esteem, pride, dignity 2. Developing hope and ambition 3. Being part of society 4. Creating happiness 	<p>B1. <i>"Self-worth. Biggest one of all. I mean, you think about it, I've never been a person that would want benefits... Because I don't believe I should have to go cap in hand to anybody."</i> Client Logistics, UK</p> <p>B2. <i>"Giving them jobs and employment opportunities and careers, and thereby giving them hope and some sort of ambition for the future, had a far more profound and transformative effect than simply giving them free services."</i> Sector expert, UK</p> <p>B3. <i>"What I enjoy very much is to be amongst people again. You are daily busy with something useful. And that's very important to me. When you have nothing to do, I am not happy anymore. I am glad I can do some useful work and not stand by the side line."</i> Client Taxis, The Netherlands</p> <p>B4. <i>"Here I really have a feeling I can achieve anything if I work really hard for it. And believing this I just feel more happy."</i> Client Coaching and Recruitment, The Netherlands</p>

<p>C. Creating a ripple effect on other parts of life</p> <ol style="list-style-type: none"> 1. Improving relationships and social life 2. Improving lives of others 3. Enabling villagers to remain with family 	<p>C1. “[The training and employment opportunity] made me feel a lot better also about myself and my visual handicap which resulted in me being a lot more positive about life compared to seven years ago. This also had a number of positive consequences, that it goes a lot better in terms of my social life, and that I now have a stable steady relationship, that colours the image of the future a lot more.”</p> <p>Client Dining in the Dark, The Netherlands</p> <p>C2. “What do my children think about me being here? They absolutely love it, they're proud, they're excited. Their lives changed too. They have extra-curricular activities now which they didn't have before. Their lives are opening up and expanding and their social lives expanding also. Their whole lives changed. It just had a massive huge positive knock on effect on all of our lives”</p> <p>Client Bistro, UK</p> <p>C3. “They [tribal villagers] are very happy because they don't have to move away, they are with their children”</p> <p>Senior Manager, Authentic Travel, India</p>
<p>Notes/ limitations:</p> <ol style="list-style-type: none"> 1. The proposition ‘Empowerment can create more impact compared to free services’ applies to the type of social enterprises providing opportunities, not the ‘BOP’ or public service, or charitable type social enterprises providing services to clients such as medical care, housing, or water filters. 2. There are limitations to creating opportunities to improve livelihoods as a solution to address issues, for example in the case of emergencies or severe disabilities charitable is a more appropriate solution. 	

Table 20: Summary focused codes and illustrative data ‘empowerment ‘

5.4 Conclusions

This chapter explored key drivers why some social enterprises achieve more impact on their clients than others, contributing to a lack of research on social outcomes of social enterprises (Teasdale, 2010). The main factors identified contributing to better social outcomes are equipping clients with skills, experience, accreditation and support to find employment, a professional and supportive work environment, and the extent to which the opportunities provided are aligned with market demand, and the interest and potential of clients. Aside from contributing to the gap in academic research comparing social outcomes, developing understanding of how to achieve better social outcomes is valuable for (aspiring) social entrepreneurs in developing models to effectively support their clients, as well as for funders to allocate funds towards generating a better social return on their investment.

An overarching dimension related to the key drivers leading to better social outcomes is empowering individuals and communities to contribute their potential, and to be fairly rewarded for their contribution. Essentially, by enabling people to contribute their potential versus providing free services a positive development spiral is created to improve people's livelihoods, as well as other important dimensions of poverty such as confidence, self-esteem, social status, health, family stability, subjective well-being, and future prospects (Smith et al., 2013, Rangan et al., 2007, Shikwati, 2005, Sen, 1999).

FILM INTRODUCTION TO CHAPTER SIX



Film still of case study Taxis in the Netherlands

As an introduction to Chapter six the first film can be viewed which illustrates key interview statements used in the chapter bringing some of the proposed concepts to life:

www.fishclimbingtrees.global FILM 1

CHAPTER SIX: 'PROFITS FOR PURPOSE'

'The world would be a lot better off if people did things because they were just and morally good rather than because it helps grow economies'

Sir Harry Burns, previous Chief Medical Officer for Scotland (Christie, 2014, p.2)

6.1 Introduction

In Chapters four and five key factors were proposed on how social enterprises can effectively achieve better financial and social outcomes. This chapter highlights how some of the concepts proposed in the previous chapters play an important role not just for social enterprises, but for the wider mainstream economy. Social entrepreneurship is seen as a potential vehicle to address major issues in society such as poverty, inequality and climate change. However, to address such issues at sufficient scale requires the combination of profits and purpose not just as part of a small group of 'social enterprises', but as a paradigm shift in mainstream business delivering value to society beyond shareholder return.

Business has brought many benefits to society by developing products and services that have improved the quality of life, health and economic situations for many people and nations. However, by solely pursuing profit maximisation businesses have used resources and distributed wealth to achieve short-term gains at the expense of the long-term health of our planet and societies. We use the equivalent of 1.6 planets for our overall consumption and it is estimated that if everyone consumed like the average US citizen we would need 5 planets (Network, 2012). By comparison, 1 billion people live in conditions of extreme poverty on less than 2 US dollars per day and 738 million people have no access to clean water (UNESCO, 2017). In 2012, over 800,000 deaths worldwide were caused by contaminated drinking water, inadequate hand washing facilities and inappropriate sanitation services. The United Nations report that water pollution in rivers across the globe is worsening. If no action is taken to successfully curb climate change scientists predict an increase in temperature of 4.5 degrees Celsius by the end of the century creating serious damage that is irreversible (Pachauri and Meyer, 2014). To structurally address these issues requires business to play a critical role by adopting a paradigm shift around their role in society (Szekely and Dossa, 2017, Hollender, 2010, Harris-White, 2006, Kelly, 2003, Mintzberg et al., 2002).

The aim of this chapter is not to make a case why businesses should become more sustainable, but to highlight key concepts to effectively combine profits and purpose. Companies increasingly adopt a social purpose to a different extent and in a variety of ways next to their profit motive. Social responsibility initiatives often focus on ‘win-win’ solutions benefiting both profits and purpose, such as energy savings that are beneficial for the environment and financial performance. However, profit and purpose are often in conflict. For example, paying producers fairer prices creates additional costs that cannot always be recuperated (Szekely and Dossa, 2017). A question arises as to how businesses can effectively combine these often conflicting objectives. Building on the findings in Chapter four and five, section 6.2 proposes overriding principles that are important for social enterprises and mainstream business in combining profits and purpose towards a better society and planet. The proposed factors highlight shortcomings in current theories about the combination of profits and purpose such as CSR, shared value and stakeholder theory. Section 6.3 argues that social entrepreneurship is not a separate phenomenon, but a continuum as part of mainstream businesses with a varying emphasis on purpose versus profits. The clarification contradicts the majority of current definitions and policies around social entrepreneurship. Some of the implications and stifling nature of viewing social enterprises as a separate phenomenon are discussed.

The overriding principles to effectively combine profits and purpose proposed in section 6.2 shine a clarifying light on some of the main discussion points in the ongoing definition debate around social entrepreneurship. In 6.4 key defining criteria of social entrepreneurship are proposed based on key drivers leading to better dual outcomes. It is not the aim of this section to define social entrepreneurship. However, the argument is that by recognising important defining criteria that contribute to better social impact and financial performance, the phenomenon can be encouraged and steered more effectively towards better outcomes. By viewing social entrepreneurship as a continuum, questions arise where on the spectrum a business aims to be in terms of their emphasis on creating value for society versus generating private wealth. Section 6.5 highlights the importance of defining clear parameters and transparency around the emphasis on value creation for society versus private wealth creation. Finally, section 6.6 concludes with a summary of the key propositions and contributions of the chapter.

6.2 Overriding principles to combining profits and purpose

“Problems cannot be solved at the same level of awareness that created them”

Albert Einstein (Smith, 2009, p.111)

The narrow concept of viewing the role of business to maximise shareholder return has been criticised for numerous negative implications for stakeholders such as consumers, employees and the environment, because they were not a priority (Szekely and Dossa, 2017). Increasingly, companies are moving beyond shareholder return as their overriding purpose and incorporate value creation for society to a certain extent next to their profit motive. A question arises as to what the role of a business is and how it can effectively combine profits and purpose? David Packard once said to staff at Hewlett-Packard: “I want to discuss why a company exists in the first place. In other words, why are we here? I think many people assume, wrongly, that a company exists simply to make money. While this is an important result of a company’s existence, we have to go deeper and find the real reasons for our being.” (Jordi, 2010, p.199).

Discourse on CSR, shared value, and stakeholder theory explore different ways of business incorporating value creation beyond maximising shareholder return. Whilst these initiatives have shifted the view on the role of a business to consider the interests of a wider group of stakeholders beyond shareholders, a few important issues remain. First, each of these theories still assumes financial performance as the final aim of business, with value creation for society not as main priority. This means that the predominant focus of ‘social responsibility’, or ‘sustainability initiatives’ in mainstream business tends to be on ‘win-win’ initiatives leading to both social as well as commercial benefits such as cost savings. An example that is probably familiar to many is the policy of some hotels asking guests not to wash their towels or bedding each day for environmental benefits, benefiting the hotel with cost savings. Such ‘win-win’ initiatives are criticised for being the ‘low hanging fruits’, as the majority of strategic decisions that implicate society and the environment do not result in a positive business case (Szekely and Dossa, 2017, Elms et al., 2011). Therefore, how can business justify initiatives that lead to positive impact for society, such as paying fairer prices to producers with little power in the supply chain, but that do not positively contribute to financial performance? The first overriding principle underpinned by the interviews and case study analysis highlights how a paradigm shift of viewing the role of business to create value for society, and profit as a means to an end, enables management with the legitimacy to make strategic decisions leading to better outcomes for society.

6.2.1 Paradigm shift viewing profits as ‘a means to an end’

“Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it’s the only thing that ever has.”

Margaret Mead (Werhane, 2007, p. XX)

One of the main propositions in Chapter four was that social enterprises can achieve better social and financial outcomes by ‘leading with the business’. The findings in the chapter indicated how the profit motive plays an important role in allocating resources efficiently in line with market demand. However, whilst the profit motive has an important role to play, the findings emphasise how social enterprises are able to make strategic decisions that enable value creation for society by viewing profits as a ‘means to an end’. This highlights a paradigm shift in short term profit thinking to long-term value thinking compared to a traditional business model based on shareholder theory. The following quote by Founder of case study Taxis illustrates his view on the role of business:

“I started working for a private equity firm. And basically what I saw, and what we learned at school was that everyone has to follow his own interests and try to maximise his profits, and then they said “that’s good for everyone”. I did this for four years but I could only conclude that this was of course not the case. And that’s why we started ‘Taxis’, to prove that you can do business in a different way...

..No one can be proud when he is overfishing the seas. No one can be proud when he is working proactively in deforestation. No one can be proud working at Shell. Yet, most of us do this kind of job. We know it’s wrong, still we are doing it. I think it’s a waste of our time and our lives...

...There are more and more companies thinking about what is our role and our ‘value add’ to society? Not only making money for ourselves, but how does society benefit from us?”

Founder Taxis, The Netherlands

By viewing the creation of value for society and planet as the main purpose of a company, and profits as a ‘means to an end’, strategic decisions can be made differently, leading to different outcomes in favour of people and planet versus creating private wealth for a few. Founder of Taxis uses the company Shell as an example where pursuing profit maximisation instead of value for society creates negative impact. Whilst Shell has an extensive range of sustainability initiatives (Shell, 2017), it is criticised for unfair practices in Nigeria (Szekely and Dossa, 2017, Okonta and Douglas, 2003, Frynas, 2001). Shell is accused of working with a corrupt government to get oil from the Niger Delta, returning royalties to the

government but distributing little to the local population impacted by the frequent oil spills and severe environmental impacts. Shell is accused of contributing to the disintegration and deaths of the Movement for the Survival of the Ogoni people in 1993 when they protested against Shell and the Nigerian government (Szekely and Dossa, 2017, Okonta and Douglas, 2003, Frynas, 2001). Shell reports that they have procedures in place to prevent operational spills, but that spills occur for reasons such as operational failure, accidents or unusual corrosion. In 2016 there were 71 operational spills with a volume of 0.7 thousand tons of oil, an estimated reduction of 11 percent compared to 2015. Shell has started clean-up activities in the Niger Delta in 2015. Whilst Shell is taking action to reduce their negative impact, also called ‘externalities’, this is a different paradigm from pursuing value creation for society as main purpose of the business. A less extreme example arising from a profit maximisation paradigm, is the variety of compatibility of phone chargers and mobile phones. The variety in compatibility leads to customers buying more chargers, leading to an increase in revenue, but also an increase in waste. If phone companies were pursuing value creation for society with profits as a means to an end, they would more likely work together to design phones that are compatible with the same type of chargers to reduce unnecessary waste.

Social enterprises, or ‘sustainable businesses’ (Szekely and Dossa, 2017) pursue profits as a means to an end to create value for society as their main purpose. Table 21 illustrates how a paradigm shift of viewing profits as a means to an end enables each of the case studies to make strategic decisions creating value for society beyond ‘win-win’ scenarios. The decisions illustrated are not based on a positive business case and are therefore not justifiable based on a traditional business model aiming to maximise profits. For example, in the case of Bistro or Logistics, additional costs incurred to train and employ people from disadvantaged backgrounds such as homelessness would be hard to justify based on a traditional model. If Bistro’s main aim was to maximise profits employment policies would favour skilled and experienced chefs to avoid additional training costs and complexities involved with training staff from homeless backgrounds. Similarly, in the case of Chocolates, if profit maximisation was their end goal, it would be hard to justify 25 percent additional pricing paid to their suppliers in Ghana and Ivory Coast compared to the industry norm. With profit as end goal, it would be logical for management to minimise purchase costs or consider fair trade pricing if benefits such as public perception would weigh up against additional costs. For management to justify considerable additional purchase costs would be hard without reconsidering their overriding purpose.

Case study	Countries	Activity	Decisions justified by viewing value creation for society as end goal
Bistro	UK	A high end bistro	Training and employment of previously homeless or ex-offenders
Logistics	UK	Logistics and warehousing	Training and employment of previously homeless or ex-offenders
Youth Support and Go Karting	UK	An electric go carting track, and restaurant	Training and employment of disadvantaged youth
Sandwiches	UK	A sandwich chain	Employment of previously homeless, provision of free meals to homeless
Janitors	UK	Social landlord, cleaning and gardening services	Training and employment of disadvantaged long term unemployed
Dining in the dark; Coaching and Recruitment	The Netherlands	A dining in the dark restaurant, coaching and recruitment company	Training and employment of young professionals with disabilities
Taxis	The Netherlands	The first fully electric cab company in Europe	Investment in electric cars for cleaner energy, training and employment of unemployed over 50 year olds
Chocolates	The Netherlands, Ghana, Ivory Coast	Chocolate manufacturer and distributor	Direct supplier relationships paying 25 percent more compared to industry norm
Authentic Travel	India	Travel experience in local tribes and hamlets in India	Working with travel destinations where it is relatively hard to attract tourists, and keeping tourist numbers to ethical standards
Apparel	US, Ecuador, Peru	Ethical apparel company	Sourcing organic cotton produced by single mothers. Investing profits in environmental awareness and improvement programs

Table 21: Illustration strategic decisions 'profits as means to an end'

Case study Chocolates is a good example to illustrate how a viewpoint of profits as a means to an end leads to better outcomes for society. The main purpose of case study Chocolates is to create value for society by aiming to eradicate child labour in the chocolate industry. The majority of the world's cocoa is produced in Ghana and Ivory Coast (Nkamleu and Kielland, 2006), where children working on the cocoa farms have found themselves in the media spotlight for working in adverse conditions and related issues such as child trafficking (Nelson and Phillips, 2018, Noble, 2017, Edmonds and Schady, 2012). By developing direct relationships, increased pricing, and inspection chocolate manufacturers can help address the issue of child labour in the cocoa industry and empower farmers to improve their livelihoods (Cho et al., 2017). Chocolates has established direct relationships with their suppliers in Ghana and Ivory Coast and pays them 25 percent higher prices compared to the industry norm. This decision is not based on a business case considering the power of their suppliers to impact on Chocolates financial performance, or negative public perception, but it is justified based on their main emphasis on their social mission versus profits. This contrasts with paying as little as possible to suppliers to maximise profits, or to comply with fair trade regulations. By comparison, producers are estimated to receive 1.6 percent additional pricing based on fair trade certification (Mendoza and Bastiaensen, 2003) compared to the 25 percent premium by Chocolates. Chief Chocolate Officer highlights:

“Today you cannot be proud of eating chocolate. One of the ingredients of a chocolate bar is cocoa. Around 60% of all the cocoa comes from Western Africa. In Western Africa you have two million farmers, and 1.6 million children working on these farms. There are 1.6 million children working in these farms, of which five hundred thousand people are illegally working. We call them slaves, and the world calls them worst forms of child labour.

You want to be proud of the product that you make. And if you want to be proud you have to look at yourself in the mirror, am I really happy with the product that we develop?

What we do is we work with 2000 farmers, it might be a little bit more, in three cooperatives, and we buy the cocoa direct. We have long term relationships with them and we pay 25% over the farm gate price for a long period of time, and the impact on that is huge.”

Chief Chocolate Officer Chocolates, The Netherlands, Ghana, Ivory Coast

Another example illustrated in table 21 is case study Authentic Travel providing rural travel experiences in remote tribal villages in India. The social mission of Authentic Travel is to increase the livelihoods of the farming tribes through tourism, and to prevent migration to

city slums. With their social purpose as the overriding aim, they restrict the number of travellers to their travel destinations in order to prevent possible negative impact on the tribal communities. With profit maximisation as end goal instead, this decision would be harder to justify. Case study Taxis illustrates their prioritisation of environmental benefits compared to pursuing short term profitability:

“Well, they [social and financial aims] are constant in conflict because being sustainable and being social costs money.. But I think this is important to mention that when you try to be a social entrepreneur you have to realise that it sometimes takes longer before you will make money because you have to do a lot more investment. So when you look at an electric car it’s very expensive in the beginning. When you look at charging infrastructure, also very expensive. But then when you’re driving electric it’s actually quite cheap.”

Founder Taxis, The Netherlands

Impact investor Margaret also emphasises the requirement for a long term outlook compared to short term profitability to enable strategic decisions benefiting value creation for society:

Largely social businesses take longer than normal venture capital.. So long term outlook is a really good thing to have. You need to have patience, basically, with these companies.

Margaret McGovern, CEO PYMWYMIC, European Impact Investment Fund

Social enterprises are referred to as potential drivers towards a more balanced economy, and address issues such as poverty, inequality and environmental problems (Santos et al., 2015, Smith et al., 2013, Wilson and Post, 2013, Bloom, 2012, Porter and Kramer, 2011). Sector experts highlight how social enterprises can influence mainstream businesses by setting an example in pioneering a paradigm shift:

“Social entrepreneurs are showing us a new economy. For me, it’s an economy that’s about value creation for society. And not just about financial value, which is what we tend to think about when we talk about the economy now.. And I believe we need to go to a system where the economy is about value where we create profit for everyone in that community.”

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

“I think many commercial organisations we are dealing with have gone beyond the traditional CSR which was seen as tokenistic by actually having a company that cares and deals with the environment and with society and communities better. So maybe the significant impact of social enterprises would be to change the way that the commercial sector works.”

Gerry Higgins, CEO Community Enterprise In Scotland

By setting an example in their sector, social enterprises can influence change on a wider scale when competitors copy their approach to pursue a purpose next to their profit motive. Some social enterprises explicitly aim to scale their impact by influencing the way the sector works. Founder of Taxis and Chief Chocolate Officer of Chocolates illustrate:

“So if you want to work at 100% slave free chocolate, communicate the problem, be an example, and act to inspire to make sure the big guys actually take their responsibility to act in a similar way that we do.”

Chief Chocolate Officer Chocolates, The Netherlands, Ghana, Ivory Coast

“We are proactively trying to ‘greenify’ the taxi market. So we are constantly looking what can we do to incentivise others also to become electric taxi drivers. That is sometimes a bit strange because they are also your competitors.”

Founder Taxis, The Netherlands

The findings emphasise how a ‘profits for purpose’ paradigm provides an alternative to CSR, shared value and stakeholder theory to more effectively create better outcomes for society. A comparison with Shell minimising externalities due to oil spills in the Niger Delta and related social unrest highlights a difference between minimising harm and creating positive value for society (Szekely and Dossa, 2017). Moreover the findings highlight how business can create value for society beyond ‘win-win’ scenarios. The strategic decisions illustrated in table 21 demonstrate how resources can be allocated to positively impact society, also when there is no positive business case. In stakeholder theory, the weight of stakeholder interests are considered depending on the impact they have on the financial results of the company (Elms et al., 2011, Melé, 2009). For example, silent stakeholders such as the environment are not given the same weight as primary stakeholders that likely impact the financial bottom line more significantly such as shareholders. Excluded groups in society such as refugees, homeless, or long-term unemployed are not considered as stakeholders at all. With CSR and shared value less powerful stakeholders such as the environment or excluded groups in society may be considered, but the paradigm in these theories remains that profit is the end goal. This implies that strategic decisions that could prevent or address major issues in society require justification ultimately to benefit financial performance. An underlying assumption within the discourse on CSR and shared value is on the benefits of social responsibility initiatives such as customer retention and motivation of staff. With shared value the focus is on ‘win-win’ initiatives (Porter and Kramer, 2011, Campbell, 2007, Margolis and Walsh, 2003), benefiting both social and financial outcomes. These initiatives

have been criticised to have limited scope to address major issues in society because in reality the business case for decisions that implicate society and the environment is often not positive (Szekely and Dossa, 2017). For example, paying producers fair prices based on ‘principles of distributive justice’ (Smith, 1776) adds costs that cannot always be recuperated. A ‘profits for purpose’ paradigm provides an alternative to CSR, shared value and stakeholder theory to enable business to create value for society beyond minimising externalities and ‘win-win’ initiatives. The findings emphasise that by adopting a ‘profit for purpose’ paradigm business can contribute more effectively to a better society and planet for current and future generations. Moreover, building on the findings in Chapter five, this study highlights how by incorporating principles of justice integral to the business model companies can combine profits and purpose more effectively, compared to adopting principles of benevolence or ethics that are separated from the business model.

6.2.2 Principles of justice integral to business model

Table 22 illustrates examples of how each of the case studies incorporates principles of justice as part of their business model, and how this compares against scenarios based on principles of benevolence. The comparison highlights how a business by integrating ‘principles of justice’, can address the root cause of issues more effectively compared to acts of charity. For example, the findings in Chapter five emphasised how empowerment leads to better outcomes in certain contexts compared to providing free services. By equipping people from a disadvantaged background with the skills and opportunities to improve their own livelihoods, the case studies contribute not only to improved income, but also to other poverty related issues such as confidence and social exclusion. For example, case studies Logistics and Bistro illustrate a transformation of apprentices from a previously homeless or incarcerated background to subsequently 70 and 72 percent of their clients gaining and retaining employment. Furthermore, interviews with their clients emphasise other positive outcomes that structurally address issues such as poverty and social exclusion including improved confidence, self-esteem, dignity, and better relationships with friends and family. By comparison, solutions based on principles of benevolence such as provision of free meals provides a less effective solution to structurally address issues such as homelessness, or long-term unemployment. Another example illustrating this principle is case study Authentic Travel in India. By providing opportunities to improve livelihoods in tribal communities they prevent migration to the city slums by 80 percent. By comparison, charitable support such as donation of shoes would address the root cause of poverty in slums less effectively.

Case study	Countries	Activity	Initiatives based on principles of justice	Examples of alternative support based on principles of benevolence
Bistro	UK	A high end bistro	Training and employment of previously homeless	Providing free meals
Logistics	UK	Logistics and warehousing	Training and employment of previously homeless	Providing free meals
Youth Support and Go Karting	UK	An electric go carting track, and restaurant	Training and employment of disadvantaged youth	Welfare
Sandwiches	UK	A sandwich chain	Employment of previously homeless	Providing free meals
Janitors	UK	Social landlord, cleaning and gardening services	Training and employment of disadvantaged long term unemployed	Welfare
Dining in the Dark; Coaching and Recruitment	The Netherlands	Restaurant, coaching and recruitment	Training and employment of young professionals with disabilities	Welfare
Taxis	The Netherlands	The first fully electric cab company in Europe	Investment in electric cars for clean energy	Fundraising for environmental charity
Chocolates	The Netherlands, Ghana, Ivory Coast	Chocolate manufacturer and distributor	Direct supplier relationships paying 25 percent more compared to industry norm	Fundraising for charities providing support to poor communities in developing countries
Authentic Travel	India	Travel experience in local tribes and hamlets in India	Working with travel destinations where it is relatively hard to attract tourists, keeping tourism to ethical standards	Fundraising for charities providing support to people that have migrated to city slums
Apparel	US, Ecuador, Peru	Ethical apparel company	Purchasing organic cotton produced by single mothers in Peru against fair prices	Fundraising for charities supporting poor communities in Peru

Table 22: Illustration principles of 'justice versus benevolence'

Whilst charity or welfare are important in certain contexts, or to provide intermediate solutions, the findings highlight how businesses can more effectively address the root cause of such issues by incorporating principles of justice instead. Historic figures Adam Smith and Henry George both emphasised the importance of principles of justice versus charity:

‘Beneficence,... is less essential to the existence of society than justice’. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it’

(Smith, 1759, p.84)

‘The insidious forces that, producing inequality, destroy Liberty.. It is not enough that men should vote; they must have liberty to avail themselves of the opportunities and means of life. Our primary social adjustment is a denial of justice. It is something grander than Charity – it is Justice herself that demands of us to right this wrong.’

(George, 1912, p.245)

The findings in Chapter five emphasise that in line with Smith and George’s statements, in order to achieve a more just society, individuals and communities ought to be empowered with opportunities to contribute their potential to society. Smith refers to enabling people to contribute their labour as the ‘most sacred property’:

‘The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. To hinder poor man from employing his strength and dexterity in what manner he thinks proper, without injury to his neighbour, is a plain violation of the most sacred property.’

(Smith, 1776, p. 127)

To reduce the growing divide between rich and poor the recent OECD report (OECD, 2016) highlights the importance of employment. A recent survey in the UK indicates that 66 percent of social enterprises aim to create employment opportunities, and 55 percent of social enterprises aim to address social exclusion (Villeneuve-Smith and Chung, 2013). In terms of actual job creation, the survey shows that 41 percent of social enterprises created jobs in the past 12 months compared to 22 percent of SMEs. More than half of social enterprises in the UK (59 percent) employ at least one person who is disadvantaged in the labour market (Villeneuve-Smith and Chung, 2013). For 16 percent of social enterprises, this group forms at least half of all employees (Villeneuve-Smith and Chung, 2013).

By enabling people and communities to contribute their potential, not only would a more just and harmonious society be created, but we can create a more productive society. As a recent OECD report highlights, large amounts of potential human capital are wasted as a consequence of disadvantaged situations. The report refers to the lack of access to opportunities to develop and contribute people's potential as the reason why growing inequality is harmful for long-term economic growth (OECD, 2016). The increase in income inequality between 1985 and 2005 is estimated to have reduced cumulative economic growth between 1990 and 2010 by 4.7 percent. Furthermore, the data show that by providing people with meaningful opportunities, and treating them fairly and with respect, they more likely achieve better productivity through increased commitment and motivation. A client at Dining in the Dark illustrates:

When you have a handicap and you found a base to develop yourself like that you are a lot more loyal than another employee and you will also see that back in input, and sick leave figures and other interesting side advantages like that.

Client Dining in the Dark, The Netherlands

By empowering people and communities to contribute their potential, business can play an important role in addressing such issues in society. To illustrate the difference between adopting social responsibility goals based on principles of charity instead of 'principles of justice' in mainstream business, an interesting example is Coca-Cola. Coca-Cola was criticised for initiating a 20 million pound anti-obesity campaign in the UK in 2014 (Donnelly, 2014). Critics suggested the campaign, providing free fitness classes, was a public relations manoeuvre reducing some of the harm they caused in the first place. As the largest drinks company globally, selling 1.7 billion drinks daily, they are seen to contribute to the rising consumption of sugary drinks which studies indicate are a major contributor to the obesity epidemic (Harvard.edu, 2012). In the US, two out of three adults and one out of three children in the US are overweight or obese, with the nation spending an estimated 190 billion US dollars a year on treating obesity-related health conditions. Moreover, Coca-Cola has been criticised for causing issues for farmers' access to water by intense water use for their production plant in India, resulting in decreased amount of water available to local farmers and a reduction in quality of water due to pollution (Karnani, 2014, Srivastata, 2014). Whilst Coca-Cola has a large portfolio of charitable activities, this illustrates the difference between 'giving back through charity', or by operating with principles of justice towards all stakeholders as an integral part to the business model.

In summary, this section highlights how a paradigm shift of viewing profits as a means to an end to create value for society by applying principles of justice integral to the business model leads to better outcomes for society. Principles of justice include empowerment of individuals and communities to contribute their potential. Furthermore, the findings highlight the importance of rewarding people fairly for their contribution. The case of Chocolates highlights how fairer distribution of the wealth created can lead to positive impact on society. The social enterprise reports how the 25 percent additional purchase prices and direct relationships with farmers in Ghana and Ivory Coast has created a 'living income' for the farmers and their families instead of exploitation and child labour. Chocolates claims that through their improved income the farmers have been able to invest in better production methods, equipment, training, and a water pump. Smith emphasises the importance of 'distributive justice' of wealth to create a flourishing and happy society:

'No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothes and lodged.'

(Smith, 1776, p. 83)

To reduce the growing divide between rich and poor the recent OECD report (OECD, 2016) highlights the importance of not only employment promotion, but also the type of jobs and rewards. Poverty is not necessarily caused by unemployment, but is related to low wages and precarious employment. For example, 66 percent of the 3.9 million children in the UK living in poverty live in working families (McCall, 2016). Whilst a fairer distribution of rewards to those creating the wealth seems just and effective towards reducing the rising poverty and inequality, it is challenging to define what fair distribution entails (Szekely and Dossa, 2017). Interviewees indicate some of the challenges in deciding the level of salary due to conflicting interests between aiming to maintain a small gap between the highest and lowest paid, and offering market rates to attract talented staff:

"One of the things we don't talk enough about in the social entrepreneur movement is money. If we're to get a generation of social business leaders able to take these companies to a massive scale, and I mean a massive scale, millions of customers, billions of pounds of turnover, etc. Then we're really going to have to think about who's going to do that, why would they do it, what's their incentive, and how do they exit?"

Liam Black, Impact investor, UK

“In general, there should be a recognition or a ratio of some sort between the higher payers and the lower payers of a business. But you have to also understand the market. If you want the best people running social businesses you have to offer at least market rate.”

Founder Logistics, UK

“Another big discussion within the social enterprise field is about how much can people be paid, how can you attract talent. I think it’s very difficult, because I think it’s different per sector. If you’re a small local community enterprise I think there’s a different scale of what you would pay people than if you’re a big international company that has a social mission. So I believe that it needs to be clear what your guidelines are, and that you’re ethical about them, and that you’re transparent about them, and that you can explain them.”

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

On average social enterprises have a low pay gap between the highest and lowest paid in the organisation. The average pay ratio between a social enterprise CEO and the lowest paid is 3.6 to 1, compared to FTSE 100 companies where this ratio stands at 150:1 (Villeneuve-Smith and Chung, 2013). A question arises as to whether this is a fair comparison because of the difference in average size between social enterprises and FTSE 100 companies. The majority of social enterprises in the UK (59 percent) employ less than 10 staff, and only 3 percent have more than 250 employees (Villeneuve-Smith and Chung, 2013). To use another indicator, a relatively high number of social enterprises, 24 percent, are accredited as living wage employers (Villeneuve-Smith and Chung, 2013). Whilst social enterprises seem to set a better example in reducing income inequality by adopting principles of ‘distributive justice’ compared to mainstream business, challenges remain in deciding what fair rewards are and how to balance these with market rates. Ownership structures such as cooperatives have been suggested as a potential solution to fair distribution of rewards (Szekely and Dossa, 2017). This study does not investigate how fair rewards can be achieved, but emphasises the importance of distributive justice of wealth to combine profits and purpose.

6.2.3 Conclusions: where CSR, shared value, and stakeholder theory fall short
CSR, shared value and stakeholder theory have added an element of social purpose in addition to the profit maximisation role of business based on shareholder theory. An underlying assumption in shareholder theory is that companies should serve self-interests and operate on the principle to optimise wealth for a few. This often leads to decision making in favour of the most powerful in an organisation or supply chain instead of what is in the best interest of everyone in society and our planet.

Corporations increasingly consider incorporation of social purpose next to profits based on ethical grounds, or in response to market demands. The findings of this study highlight overriding principles in combining profits and purpose to effectively address major issues in society such as poverty, inequality, social exclusion and climate change. Firstly, a paradigm shift is proposed to view the profit motive as a means to create value for society. Secondly, by empowering people and communities to contribute their potential, and fairly reward them for their contribution more positive impact is created compared to providing free services. These concepts highlight shortcomings in existing theories on the combination of profits and purpose in mainstream business.

Whilst CSR, shared value and stakeholder theory make an important contribution in emphasising the role of the corporation to consider interests of stakeholders or society beyond shareholders, their underlying assumption is that profit maximisation remains the end goal of the corporation. This paradigm results in a few important issues. Firstly, with financial performance as the ultimate purpose, social responsibility efforts are mostly focused on ‘win-win’ initiatives benefiting both social and financial performance. Issues arise when decisions have to be made between conflicting social and financial aims. If profit maximisation and cost reduction is the end goal, opportunities that could benefit society or the environment but that would have substantial negative impact on the financial performance of a company are hard to justify to shareholders. For example, if a company has the opportunity to recruit and develop isolated disadvantaged members in society, or well-trained staff, the latter would be a more legitimate choice for management tasked to maximise profits. Secondly, stakeholder theory proposes to consider all stakeholders, but by viewing profits as end purpose of the firm, the economic stakeholders get most attention. For example, when examining the impact of BP’s spill of two hundred million gallons of oil in the Gulf of Mexico in 2010, the business case for sustainability only indicated how much money BP could have saved had it had a sustainability strategy for the Gulf of Mexico. It only focused on the financial cost to BP and its shareholders but failed to assess the significant impact on other key stakeholders such as local residents, including 11 people and animals that were killed during the disaster estimated at 82,000 birds, 6,000 sea turtles, and 26,000 sea mammals including dolphins (Biologicaldiversity.org, 2014).

Providing value for ‘silent stakeholders’ such as the environment, or ‘weak stakeholders’ such as suppliers in developing countries has less priority compared to stakeholder interests that impact financial performance. With the end goal to maximise profits, an opportunity to

empower isolated disadvantaged members in society leading to additional costs would not easily be justified. Another example is a decision to pay suppliers fair prices based on principles of 'distributive justice' (Smith, 1759). With profit maximisation as end goal decisions would likely favour minimisation of purchase prices instead. An example where a company appears to make minimum efforts to gain reputational benefits is the case of Starbucks purchasing one percent of their coffee beans based on fair trade guidelines to use the fair trade label. If the company had a culture of serving societies' best interests at the heart of their decision making, operating with principles such as 'distributive justice' (Smith, 1759), they would more likely be purchasing more or all of their coffee beans based on fair trade guidelines. Whilst stakeholder theory suggests to consider the needs of suppliers as a stakeholder of the company, it would consider these needs based on the level of power and influence the stakeholder has on the financial outcomes of the company. Therefore, based on stakeholder theory, in the case of suppliers with little power principles of fair distribution of rewards would likely be ignored.

Whilst some studies indicate benefits of corporations engaging in social initiatives, there is no conclusive evidence demonstrating that such benefits outweigh the costs involved (Brown and Forster, 2012). As the business case for incorporating social initiatives is not proven, an issue arises around the legitimacy of theories such as CSR, shared value, and stakeholder theory (Elms et al., 2011). With the overriding aim to maximise profits, these theories lack legitimate grounds for incorporating social aims beyond 'win-win' scenarios. CSR, shared value and stakeholder theory lack propositions of how to overcome challenges of conflicting social and financial aims beyond 'win-win' initiatives benefiting both social and financial outcomes (Melé, 2009, Campbell, 2007, Margolis and Walsh, 2003). The findings highlight how business can combine profits and purpose more effectively, by viewing their role to create value for society as their main purpose, and by applying principles of justice integral to the business model. To effectively address major issues we are facing such as poverty, inequality, social exclusion, overconsumption and climate change, a paradigm shift is required from 'quarterly capitalism' to a true longer-term way of thinking, fundamentally renewing the mind-set of business (Barton and Wiseman, 2014). With companies increasingly adopting social initiatives next to their profit motive a question arises as to whether and how they differ from social enterprises as discussed next.

6.3 “Sustainability is a trajectory”

Although some scholars have suggested social entrepreneurship to be a continuum, very few view social entrepreneurship as part of the mainstream economy (Battilana and Lee, 2014, Doherty et al., 2014, Austin et al., 2006). Most current definitions and validation systems such as labels and legal structures have treated the phenomenon social enterprise as a dichotomy, dividing social enterprises and businesses into different categories. A range of systems has been developed in recent years to validate organisations as a social enterprise, in order to qualify for benefits such as funding. Examples are legal structures such as the Community Interest Company in the UK, and the Benefit Corporation in the US. Several labels and marks have been introduced including the Social Enterprise UK Membership Badge, the Buy Social Label initiated by Social Enterprise UK, ‘Buy the good stuff’ label initiated by Social Enterprise Scotland, ‘Positive Luxury’, ‘Social Enterprise Mark’, ‘Business in the Community Mark’, and ‘BCorp’, initiated and gaining momentum in the States, currently being expanded in the UK. The following quotes highlight that the extent to which a business emphasises profit versus purpose can be viewed as a continuum:

Sustainability is not a destination. Sustainability is a trajectory. And you can never say “I made it”. Because you can always improve.

Founder Apparel, Ecuador, US

“Every decision you make within a business has the potential to be socially impactful. So you might run a café and it might all be about Fair Trade and local produce and healthy and sustainable food, but that doesn’t mean that you can’t create a training opportunity to someone with a learning disability or a job for someone that’s coming out of prison.”

Peter Holbrook, CEO Social Enterprise UK

Instead of categorising organisations into a social enterprise or business, a question arises as to whether there are more merits in recognising and encouraging the extent to which they create value for society? An organisation qualifying as a ‘business’ may create social impact more effectively compared to a ‘social enterprise’. Why should some organisations that have better social outcomes not be entitled to benefits such as funding compared to others that are less effective in creating value for society? This section explores how incorporation of ‘purpose’ next to ‘profits’ can be validated and encouraged more effectively.

6.3.1 Differentiating social enterprise and business

The main differentiator currently used between social enterprise and commercial business is the prioritisation of social aims over generating private wealth (Doherty et al., 2014, Santos, 2012, Peattie and Morley, 2008, Mair and Marti, 2006, Peredo and McLean, 2006). A definition often used in the UK for a social enterprise is the government-proposed definition:

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

(DTI, 2002, p.13)

Key themes across the interviews show that views vary as to how to assess whether an organisation sufficiently prioritises social aims in order to qualify as a social enterprise. Table 23 summarises the main debating themes across the interviews: shareholder return, restricting assets to remain in the social enterprise, and the salary gap between the highest and lowest earners. Current policies related to these themes focus on the *intent* of organisations to prioritise social aims, instead of focusing on their social *impact*.

This study suggests that development of a social enterprise can be stifled unnecessarily by current defining criteria and related policies. A first example of how controlling ‘intent’ can stifle growth of social enterprise is the restriction of shareholder return. Criteria as part of qualification systems such as the Community Interest Company (CIC) restrict shareholder return as a way to ensure prioritisation of social and environmental aims over private wealth. By restricting shareholder return it is harder to access investment to support growth. A recent social enterprise survey in the UK shows that access to capital is seen by social enterprises as one of the major barriers to growth (Villeneuve-Smith and Temple, 2016). Willemijn Verloop highlights a similar issue in The Netherlands:

“Access to capital is seen as one of the big barriers for growth for social entrepreneurs... To be able to grow you need to be able to attract investors. And I do believe that you need to be able to also give these investors their money back plus a dividend.”

Willemijn Verloop, Director of Social Enterprise NL, The Netherlands

Themes	Varying views	Illustrative quotes
Restricting shareholder return	<ul style="list-style-type: none"> - Shareholder return needs to be capped - Shareholder return should not be regulated 	<p><i>“Capping the returns ensures that the primary purpose is the social and environmental benefit.”</i></p> <p><i>“Access to capital is seen as one of the big barriers for growth for social entrepreneurs... To be able to grow you need to be able to attract investors. And I do believe that you need to be able to also give these investors their money back plus a dividend.”</i></p>
Restricting pay gap highest and lowest paid	<ul style="list-style-type: none"> - There should be a cap on the ratio between the lowest and highest paid - You have to offer market rate to get the best people 	<p><i>“Over 50% of social enterprises in Scotland have a focus on employment creation. When the employment is fair when there is good gender balance and there is low pay gap between the highest and the lowest paid, if you ramp that up and scale that up you get a fairer and more equal society.”</i></p> <p><i>“In general, there should be a recognition or a ratio of some sort between the higher payers and the lower payers of a business. But you have to also understand the market. If you want the best people running social businesses you have to offer at least market rate. “</i></p>
Restricting allocation of assets	<ul style="list-style-type: none"> - All assets need to remain or be reinvested in the social enterprise - Entrepreneurs should be able to cash in as a reward and way to exit 	<p><i>“I would not be in favour of regulating that. I think entrepreneurs need that kind of flexibility. They’re entrepreneurial, and they have to be rewarded for the fact that they’re taking risks, and put all their money and their houses and everything they have on the line to create impact for society.”</i></p> <p><i>“If we’re to get a generation of social business leaders able to take these companies to a massive scale.., then we’re really going to have to think about who’s going to do that, why would they do it, what’s their incentive, and how do they exit? “</i></p>

Table 23: Main themes related to restricting private wealth creation

The second theme in the debate evolves around different views of whether a social entrepreneur should be able to sell the venture and cash in. Legal structures such as the Community Interest Company (CIC) implemented in the UK restricts a social entrepreneur from generating private wealth through an ‘asset lock’. Applying an asset lock can negatively impact on growth. Sector experts indicate that social entrepreneurs often stay on too long when they do not have the skill set to take the organisation to the next level. One of the reasons mentioned is the passion they have for the enterprise, but another factor suggested is that they stay on because they do not have the option to exit by selling the social enterprise. Thirdly, the debate includes different views around the gap between the highest and lowest paid in an enterprise. Some argue that there should be a low pay gap to create a more equal and fairer society. Others take the view that by applying salary restrictions social enterprises struggle to provide sufficiently competitive salaries to attract and incentivise talent that can take the organisation to a larger scale generating more impact for society. Aside from their stifling nature, a question arises as to whether current criteria encourage key drivers contributing to better outcomes. Liam Black illustrates:

“Mohammed Yunus says “the moment you let profit into the room it’s like having a non-smoking policy and say ‘let’s just have one person smoke.’” I’m sure you’ve heard him talk about that. I think he’s wrong. Even though I respect the man immensely... If your goal is to provide brilliant opportunities for ex-offenders, does it matter to them who owns the company or what happens with the 4 or 5% profit that is made?”

Liam Black, Impact investor, UK

The findings suggest that it can be more effective to validate and reward an organisation based on the impact it creates, compared to restricting shareholder return or an asset lock. For example, case study Sandwiches employs 25 percent of their staff from a homeless background, and allocates 100 percent of its profits to social aims. Sandwiches does not return any profits to shareholders, but is registered as a limited company and does not have an asset lock in place. In Scotland where Sandwiches is based, the organisation is criticised within the social enterprise sector ‘not to be a real social enterprise’ according to the ‘Scottish Voluntary Code of Conduct’ (Senscot.net, 2017). As Sandwiches is registered as a limited company their legal structure would allow their assets to be sold in the future for private gains. The Scottish Voluntary Code of Conduct indicates that in order to qualify as a social enterprise profits need to be reinvested in the business or in the beneficiary community, and not distributed to owners or shareholders. The code further specifies that on

dissolution, all assets have to be reinvested in another organisation with similar aims and objectives (Senscot.net, 2017). Case study Janitors and Youth Support do qualify as a social enterprise in Scotland, yet as the comparison in Chapter 4 highlights they achieve worse social impact and financial outcomes compared to Sandwiches. This example illustrates that the qualification of a social enterprise based on current labels or legal structures does not necessarily validate or encourage value creation for society effectively. This study proposes that it is more important to implement validation systems that encourage the growth of the social and environmental *impact*, compared to controlling shareholder return or future decisions around assets. It is therefore suggested that an organisation should be qualified and incentivised based on their impact instead of intent based restrictions.

Another issue about current boundaries between businesses, social enterprises and charities, is that they are not uniform depending on context. For example the Scottish Voluntary Code of Conduct requires all profits to be allocated to social aims, but Social Enterprise UK states that “We believe that more than 50 percent of an organisation’s profits should be reinvested to further the social or environmental mission” (Socialenterprise.org.uk, 2012). In addition to the boundaries proposed around the level of profits that can be distributed to owners and shareholders, a variety of other criteria are applied by different organisations. The Voluntary Code of Conduct for social enterprises in Scotland refers to fair and honest business practices; good employers aiming to pay a living wage and flatter pay structures than the private sector with a maximum ratio of one to five between lowest and highest as a guide, democratic governance and ownership structures, empowerment of local communities, collaboration, and procurement of local goods and services from social enterprises (Senscot.net, 2017). Social Enterprise UK refers to other values such as transparency around financial, social and environmental information (Socialenterprise.org.uk, 2012). Social Enterprise The Netherlands refers to governance and policy practices based on equal say of all stakeholders, fairness to everyone, consciousness of carbon footprint, and transparency in line with the European definition (Social-enterprise.nl, 2017). By applying these different boundaries and criteria, organisations are labelled and entitled to related benefits differently, depending on whether it is based in Scotland, England or The Netherlands. To illustrate, figure 17 visualises how case studies Youth Support and Sandwiches qualify depending on different contexts:

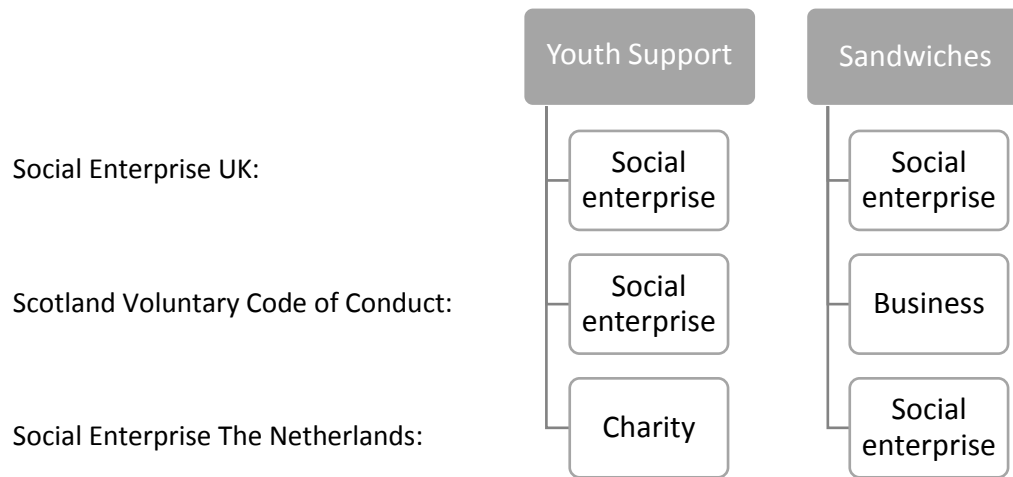


Figure 17: Illustration qualifying organisations as social enterprise

Figure 17 shows how Youth Support is defined as a social enterprise according to Social Enterprise UK, but would be regarded as a charity by Social Enterprise The Netherlands. Sandwiches qualifies as a social enterprise according to Social Enterprise UK and Social Enterprise The Netherlands, but does not qualify as a social enterprise according to the Scottish Voluntary Code of Conduct. This example illustrates how the variation in current definitions can be quite confusing as a guideline for social enterprises, as well as for consumers and other stakeholders.

Another issue of viewing social enterprises as a dichotomy is the lack of grading opportunities when it comes to defining the boundaries. The emphasis by organisations on profits versus purpose can change over time. For example in the case of Coca-Cola overexploiting and polluting water in India (Karnani, 2014, Srivastata, 2014), actions have been taken since to go beyond ‘giving back to charity’, towards integrating principles of justice as part of their business model. Coca-Cola has increased efficiency of water use from 2004 until 2016 by 27 percent, and supports projects to fully replenish the water used in production to communities. Furthermore, Coca-Cola reports that they have begun initiatives to go beyond ‘minimising harm’ to take steps to positively impact society by empowering five million women across global value chain (Coca-Cola, 2016).

When it comes to the question of defining boundaries and lacking ways to grade different levels of social outcomes, there are important lessons to be learned from the fair trade movement (Doherty et al., 2013, Moore et al., 2007). The fair trade example shows that by implementing more flexible boundaries in certifying organisations, the adoption of the concept can expand and achieve more impact at a larger scale. A study comparing fair trade

in different countries shows that in those countries where stricter standards apply such as in Italy, spend per capita on fair trade was 0.66 euros, only six percent compared to more mainstreamed countries such as the UK with a spend per capita of 11.57 euros (Doherty et al., 2013). Stricter criteria can play an important role in safeguarding dilution of standards, but limit adoption and expansion of the social and environmental impact. Similar to the fair trade movement, by viewing and encouraging social entrepreneurship as part of the mainstream economy, wider sectors can be more likely influenced to operate more socially and environmentally responsible. Peter Holbrook illustrates:

“Once you have a market driven by doing the right thing and that is rewarded then what you see is companies all of a sudden wanting to join the party and saying “we can do the right thing, the environmentally responsible thing. We can do it better than everyone else.” And you create a marketplace that is driven by doing what’s right.”

Peter Holbrook, CEO Social Enterprise UK

In summary, this study proposes in line with Battilana and Lee (2014) that the degree to which organisations combine commercial and social aims at their core follows a continuum rather than a dichotomy (Battilana and Lee, 2014). By viewing and encouraging social entrepreneurship as part of the mainstream economy more positive impact can be achieved to address major issues in society. Instead of creating boundaries between ‘business’ and ‘social enterprises’, positive impact can be encouraged more effectively by incentivising the extent to which value is created for society and the environment instead.

6.4 Defining criteria social entrepreneurship

‘What’s in a name?’ There has been an ongoing debate about the definition of a social enterprise (Ridley-Duff and Southcombe, 2012). At what point should an organisation be labelled as a social enterprise, or as a charity or a business, and qualify for related benefits such as funding or customer goodwill? If an organisation generates more than 50 percent of its income through trade as proposed by Social Enterprise UK, or 75 percent as proposed by Social Enterprise The Netherlands? The perspective to view social entrepreneurship as a trajectory as part of mainstream business leads to a proposed change to current definitions of social entrepreneurship and related policies. Moreover, findings discussed in previous sections suggest a proposed criterion of empowerment to differentiate between social entrepreneurship and charitable support. This section aims to provide alternative defining criteria for social entrepreneurship to encourage more effective outcomes for society.

To clarify defining features of a social enterprise is important for several reasons. First of all, criteria used to qualify as a social enterprise can influence what practices are encouraged through related incentives such as funding. In recent years criteria have been developed to qualify organisations as a social enterprise as part of an increasing variety of labels and legal structures. How such criteria are defined influence which organisations and practices are entitled to certain advantages. Social enterprises can benefit from purchase motivations, increased pricing for ethical consumers (Doherty et al., 2014, Zahra et al., 2009) and the opportunity of preferential treatment in procurement of public services in some cases (Bridgestock et al., 2010). Criteria deciding which organisations qualify for such benefits can influence the course of social enterprises in how they balance their commercial and social aims. This study criticises certain criteria currently used, arguing that these mislead social entrepreneurs to some extent in the ‘wrong direction’. Secondly, current criteria and related entitlements restrict the scope of encouraging social entrepreneurship unnecessarily as a limited phenomenon for a relatively small number of ‘social enterprises’ instead of encouraging a wider impact in the mainstream economy. Thirdly, the variety of definitions has resulted in fragmented academic discourse referring to the same phenomenon, but in fact discussing a variety of disparate meanings (Dacin et al., 2011). For example, as a consequence of unclear boundaries around the concept there are different estimations of numbers of social enterprises and growth rates including different sets of organisations (Jamieson, 2013, Teasdale et al., 2013). Fourth, there is a lack of understanding by the general public of what a social enterprise is (Forbes.com, 2013, Villeneuve-Smith and Chung, 2013), which has been identified as one of the main barriers to growth in the social enterprise sector in the UK (Villeneuve-Smith and Chung, 2013). By developing clarity around the social enterprise concept, this section proposes the key defining characteristics of social entrepreneurship relevant to creating better outcomes.

The previous section discussed why it is more effective to view social entrepreneurship as part of the mainstream economy instead of as a separate phenomenon. The trajectory of businesses engaging more or less in social entrepreneurship or ‘sustainability’ (Szekely and Dossa, 2017), varies from viewing profit maximisation as end purpose of the company to viewing profits as a means to an end to create value for society. Earlier in this chapter key concepts of applying principles of justice including empowerment and fair rewards were discussed to effectively address issues such as poverty and inequality. Defining criteria to recognise these overriding principles are discussed next compared to current criteria.

6.4.1 Social entrepreneurship versus charitable support

“There are examples where charities have a critical role to play. But when you’re trying not to deal with the immediate symptoms of a problem, or an emergency, when you’re trying to structurally challenge people that are marginalised or are not being given the opportunity to succeed, that’s when social enterprise can play a much longer term role, in resolving a whole myriad of complex circumstances that can keep people in poverty.”

Peter Holbrook, CEO Social Enterprise UK

By understanding the difference between principles of justice versus benevolence it becomes clearer as to how to differentiate social entrepreneurship from charitable support with the aim to encourage better outcomes for society. By empowering people and communities to contribute their potential and with fair rewards for their contribution social entrepreneurship can effectively prevent and address major issues in society such as rising inequality and poverty, compared to free services such as a food bank providing relief of the symptoms. This does not mean that charitable support is not important, on the contrary, there are situations where charities or welfare are vital and the most appropriate solution such as in emergency situations, or to support people with severe disabilities. However, it is important to recognise that different types of issues require different types of solutions. Empowerment opportunities can create more structural impact compared to free services to enable a positive spiral of people and communities lifting themselves out of poverty on the long term. However, this does not mean to say that because of the potential that social entrepreneurship has in addressing certain issues it is wise to reallocate funds to social enterprises in all contexts. Sadly, the concept social entrepreneurship has been unclear and misunderstood in many cases, resulting in funding being allocated to organisations claiming to be a social enterprise when in reality they are not and their solutions are not the most effective. Similarly, with funding increasingly allocated to social enterprises in recent years, many charities have redirected some of their efforts to turn into a ‘social enterprise’, even when this is not appropriate or effective in their context. An interviewee illustrates:

“One of the issues is that a lot of organisations, probably about 2010, when social enterprise started to be mentioned a lot and funding changed to support social enterprises rather than social programs, a lot of organisations that weren’t really social enterprises suddenly claimed to be social enterprises to try and attract the funding... They didn’t have a business model that was sustainable enough to be what I would call a social enterprise... I say if you’re going to be a social business you have to have a core business model”

Founder Logistics, UK

However, whilst the findings highlight the importance of the empowering nature of social entrepreneurship to create more effective outcomes, the main differentiator currently used with charitable support does not recognise this principle but is based on the level of income generated through trade versus other types of income such as donations, grants and subsidies (Doherty et al., 2014, Santos, 2012, Peattie and Morley, 2008, Mair and Marti, 2006, Peredo and McLean, 2006). Interviewees highlight certain benefits of relying on income through trade instead of other forms of income such as donations and grants:

“The great thing about a social enterprise is it’s a sustainable model, if you’ve got a good business and a social objective and you’re making money you can keep reinvesting, you don’t need to rely on grant funding or fund-raising.”

Mark Parsons, Head of Community Finance and Social Enterprise, RBS & Natwest, UK

“I think that it’s a super time right now where you see more and more integration of the idea of business with benefit. Business that can serve its community or serve the world. I think that it’s the most efficient manner for something to continue because once you build in an income stream into the company then there is a way that it can endure for generations if it’s well run.”

Margaret McGovern, CEO PYMWYMIC, European Investment Fund

As a consequence of relying on trade instead of other forms of income such as grants and donations a social enterprise may develop more effective and innovative ways to fund their operations compared to charities. Interviewees highlight:

“That’s the pure difference that I see, social enterprises exist primarily to do what they do. For example if a social enterprise is into honey, procurement and selling of honey, they exist to do that. And if they don’t do it well, they don’t exist. While NGOs do honey, they also get money to do other stuff. They can pay salaries even if they are inefficient in selling honey.”

Darren Lobo, Impact investor, India

“Of course we need to address the question how do charities compare to social entrepreneurs? Do we need them both? Or is something else happening? First of all social entrepreneurs are incredibly innovative. It’s the pressure they feel, they need to earn a living. And I see that makes them very innovative, and often more innovative than the charity sector.”

Robert van der Laan, PwC Corporate Responsibility Leader EMEA region, The Netherlands

Social enterprises are seen to be more effective because they respond to the market discipline aligning business actions with customer value, as well as the dynamics of competition, which in turn is seen to promote increased efficiency of operations and continuous innovation in

the delivery of products and services (Santos et al., 2015). Several authors refer to the innovative nature as a defining characteristic of a social enterprise (Doherty et al., 2014, Bridgestock et al., 2010, Chell et al., 2010, Murphy and Coombes, 2009, Zahra et al., 2009, Austin et al., 2006, Peredo and McLean, 2006). A consequence of having to generate income through trade can in certain circumstances encourage a social enterprise to develop more innovative solutions compared to charitable organisations (Doherty et al., 2014, Bridgestock et al., 2010, Amin, 2009, Di Domenico et al., 2010, Murphy and Coombes, 2009). Whilst innovation can be an important factor to stay competitive, this study takes the view that it is not a necessary feature of a social enterprise, contrary to the stream of literature emphasising that social enterprises are defined by their innovative nature (Doherty et al., 2014, Bridgestock et al., 2010, Chell et al., 2010, Murphy and Coombes, 2009, Zahra et al., 2009, Austin et al., 2006, Peredo and McLean, 2006). As Amin (2009) argues, many social enterprises achieve sustainability and social outcomes through delivering tried and tested services.

A first issue around the current differentiation between a social enterprise and charity based on the level of income generated through trade is a lack of uniformity in boundaries. Whilst there is wide acceptance that social enterprises differentiate from charities by generating a level of their income through trade, views vary from minimal to total reliance on trade in order to qualify as a social enterprise (Doherty et al., 2014, Austin et al., 2006). Some argue that social enterprises should strive for their income to exist solely out of earned income through trade (Yunus, 2007, Boschee and McClurg, 2003). Others contest this and argue that some level of dependency on philanthropy or subsidies is acceptable and desirable for social enterprises, depending on their purpose (Nicholls, 2006). Aside from the debate in academic discourse, boundaries applied in practice vary across different countries. For example to qualify as a social enterprise Social Enterprise UK proposes that “a minimum 50 percent of their income must be generated through trade, rather than from donations” (Socialenterprise.org.uk, 2012). However, Social Enterprise The Netherlands suggests “In The Netherlands we believe that you can only be a social enterprise if you get minimum 75 percent of your income from the market, and a maximum of 25 percent from donations” (Social-enterprise.nl, 2017). The Voluntary Code of Conduct of Social Enterprises in Scotland indicates that “SEs are different from those charities and voluntary organisations which do not aspire to financial independence through trading” (Senscot.net, 2017).

The main issue with earned income as main differentiator is whether this actually encourages better outcomes? Earned income may lead to greater sustainability, financial freedom, and scalability (Nicholls, 2006), efficiencies and innovation (Santos et al., 2015, Doherty et al., 2014, Bridgestock et al., 2010, Chell et al., 2010, Murphy and Coombes, 2009, Zahra et al., 2009, Austin et al., 2006, Peredo and McLean, 2006). However, basing incentives on the earned income criterion does not recognise that some social enterprises might justifiably need to be more reliant on income sources other than revenue. Some social enterprises require a higher level of subsidies, for example to fund additional costs for supporting and training people with disadvantages. Such additional costs should arguably not have to be paid indirectly by consumers but by other sources such as government subsidies. Moreover, a higher level of income other than revenue might be appropriate and important to enable organisations to work with more difficult client groups. By working with target groups from more disadvantaged backgrounds, or the ‘higher hanging fruits’, a social enterprise tends to incur higher costs that justifiably need subsidised. By qualifying social enterprises based on their proportion of income generated through revenue, they may be encouraged to work mainly with ‘lower hanging fruits’ to require less funding from other sources.

Moreover, there is another important issue arising from qualifying a social enterprise based on the proportion of income generated from sales. Incentives based on the earned income criterion are missing the point of encouraging the empowering nature of a social enterprise approach to effectively address issues such as poverty, and social exclusion. For example, a social enterprise might be operating a commercially sound business model delivering services valued by customers and achieve excellent social impact, but by working with clients from more complicated backgrounds incur higher costs. With a higher percentage of income generated from income other than revenue to cover the additional costs, it may not qualify for funding allocated for social enterprises, compared to a ‘social enterprise’ that does not effectively address the root cause of certain issues but raises more than a certain level of its income through trade. It appears to be more relevant and effective to define and encourage social entrepreneurship by recognising and encouraging effective outcomes instead of how income is generated.

6.4.2 Proposed differentiator ‘empowerment’

Social enterprises are seen to hold the premise that they can address certain issues such as poverty and inequality more effectively compared to non-profit models or government interventions (Smith et al., 2013, Wilson and Post, 2013, Bloom, 2012). The previous section

discussed that generating a level of income through trade is not the reason *why* social enterprises can address issues more effectively, even though this can have certain benefits. As the findings in Chapter five propose empowerment leads to better outcomes compared to free services in certain contexts. By applying principles of justice enabling people to contribute their potential and to be fairly rewarded for their contribution addresses issues such as poverty more effectively and holistically. Not only are clients enabled to improve their livelihoods themselves longer term, but there are positive knock-on effects on social status, confidence, self-esteem, health, family stability, subjective well-being, and future prospects (Burns, 2013, Smith et al., 2013, Sen, 1999), creating a positive development spiral versus creating dependencies (Rangan et al., 2007, Shikwati, 2005). To recognise and encourage the empowering nature of solutions provided by a social enterprise it is proposed to emphasise the approach and impact of the organisation instead of how their income is generated as visualised in figure 18.

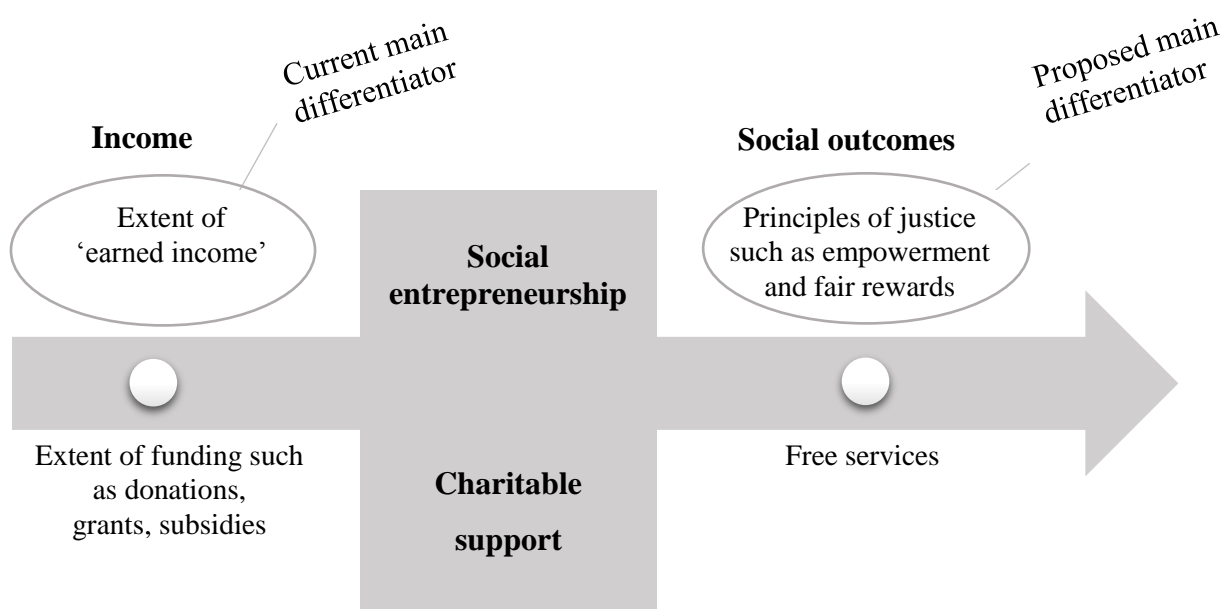


Figure 18: Differentiator social entrepreneurship and charitable support

The proposed main differentiator encourages empowering, structural solutions based on principles of justice, versus charitable support that can lead to adverse dependencies. The proposed main differentiator between a social entrepreneurship and charitable support critiques the paradigm of certain scholars. For example when social enterprise is described as combining commercial market logic with social welfare logic (Pache and Santos, 2013), or as the combination of business and charity (Battilana and Lee, 2014). Rather it is proposed here that social entrepreneurship entails principles of justice to empower clients from

disadvantaged backgrounds to trade value that they have to offer and fairly reward them in return. Such opportunities provide independence and longer term financial self-sustainability, and enables people to contribute their potential. This merits the view of Amartya Sen, economist-philosopher and Nobel Prize Laureate, who argues that poverty is not just a lack of money but it is not having the capability to realise one's full potential as a human being (Sen, 1999).

Blurring boundaries between social enterprises and charities can lead to confusion. It should be noted that charities can also provide services that empower people and communities. In fact, some charities provide 'social enterprising initiatives' to their clients. For example, charity Tearfund helps to develop social enterprises in Russia to help rehabilitate people struggling with addictions (Tearfund.org, 2018). What matters here, is to clarify and encourage the type of approach that is appropriate and effective in different contexts, no matter if it is provided by a charity, a social enterprise or a business. For example, in an emergency situation such as the immediate aftermath of an earthquake, charitable support is required to provide free medical care and food supplies. By comparison, empowerment of communities to develop their own livelihoods is more effective to structurally address issues such as long term poverty or reintegration of people excluded from the labour market. By clarifying the importance of the empowering nature of solutions in certain contexts, policies and incentives aimed at social enterprises can be more effectively designed and allocated.

6.4.3 Proposed definition 'social entrepreneurship'

Earlier in this chapter overriding principles were proposed to effectively combine profits and purpose. Firstly, it is proposed that to effectively address current issues in society a paradigm shift is required to view profits as a means to an end to create value for all stakeholders, including silent or weak stakeholders such as producers in developing countries. Secondly, the findings emphasise that in order to effectively address issues such as poverty, social exclusion and inequality requires businesses to incorporate principles of justice instead of benevolence. The discussion in Chapter five highlights how empowerment leads to better outcomes in certain contexts compared to providing free services. Furthermore, principles of distributive justice were discussed, to fairly reward people for their contribution in creating the wealth. Thirdly, this chapter discussed how viewing social entrepreneurship as a continuum instead of a separate phenomenon encourages growth of the phenomenon more effectively, instead of creating stifling boundaries around the intent of a 'social enterprise'

versus ‘business’. To recognise and encourage the key concepts contributing to effectively combine profits and purpose a ‘social enterprise continuum’ is proposed in figure 19:

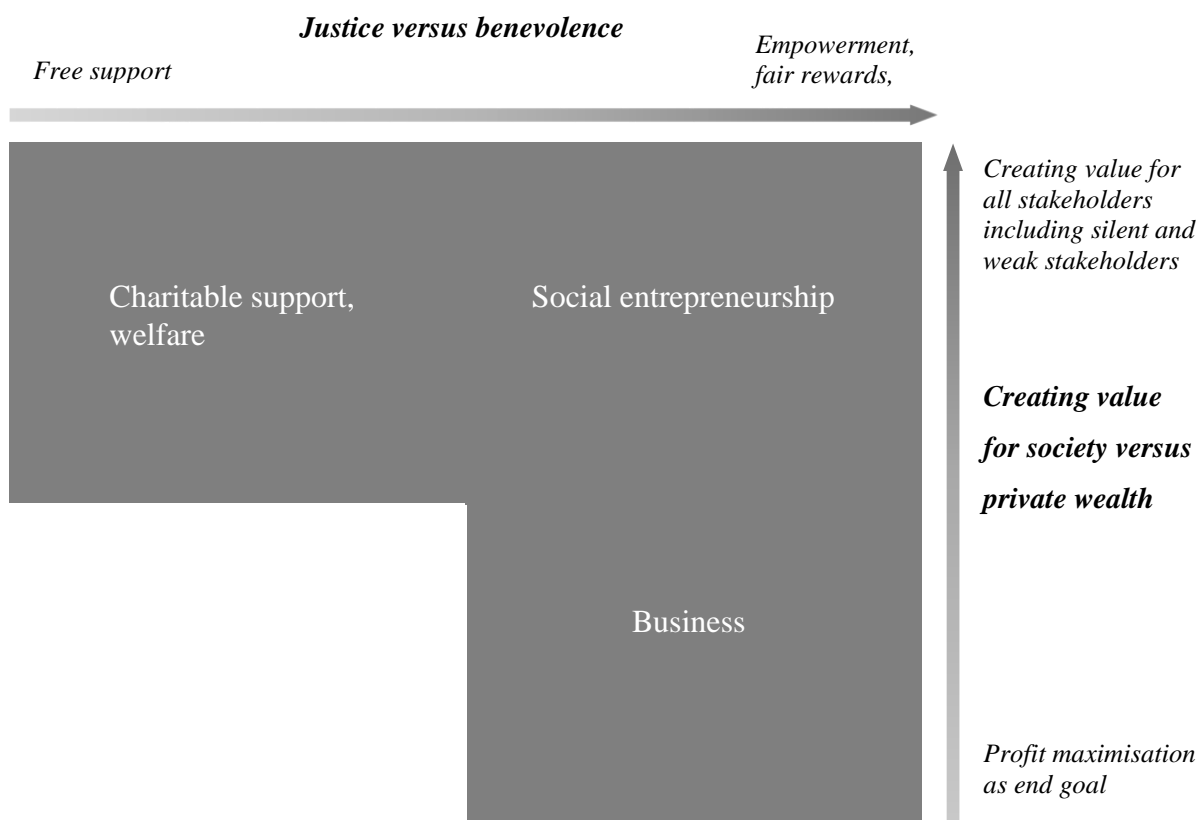


Figure 19: Proposed social entrepreneurship continuum

Taking the main features that have been discussed into account to effectively generate outcomes for society, ‘social entrepreneurship’ is proposed to be defined as follows:

‘Social entrepreneurship is firstly the extent to which value is created for society using profits as a means to an end, and secondly, the degree to which principles of justice are incorporated into the business model.’

6.5 Parameters and transparency

This chapter suggested that by incorporating social entrepreneurship as part of mainstream business, an important contribution can be made to addressing major issues in society. Should therefore all businesses shift their focus towards value creation for society, incorporate principles of justice, and view profits as a means to an end? Where on the proposed continuum should a company choose to be? Views vary in terms of the extent to which a company should prioritise social and environmental aims versus generating private

wealth. One sector expert argues that all companies should have a minimum commitment to social and environmental outcomes:

“Is one percent good enough in terms of social impact of efficacy? No. For me, it’s not. We are facing some pretty major challenges in this world, and we don’t have time to improve the impact of business one step at a time. If we’ve got any chance of mitigating the impact of climate change, an ageing population, world population growing to 9.5 billion people, diminishing food and resources to feed a growing population.... All of these things are going to hit us in our lifetimes. So we need to see a step change in the progress that we’re making.”

Peter Holbrook, CEO Social Enterprise UK

Whilst views vary around how socially enterprising businesses should be, the findings highlight the importance of defining clear parameters and transparency.

6.5.1 Defining parameters ‘purpose versus profits’

Interviewees emphasise the importance of setting clear parameters along the continuum of creating value for society and the environment versus generating private wealth. A social enterprise needs to consider consequences, and trade-offs related to their parameters throughout the business model. For example, if an organisation wants to focus on ‘the last mile’ such as supporting tribal communities where it is harder to generate revenue, it will likely have to rely more on other types of income such as grants or donations. Similarly, the ratio of experienced and disadvantaged employees in a work integration social enterprise needs to be aligned with the training costs involved. Impact investor Liam Black highlights that in his experience many social entrepreneurs do not clearly define their parameters:

“One of the things that strikes us about 90 percent of the social entrepreneurs that sit across the table from us looking for money is how ill-defined their social enterprise is”.

Liam continues to explain that most social entrepreneurs have not decided what impact they want to make, at what scale, how to demonstrate their contribution to the outcomes versus possible other factors, and how they plan to achieve a level of financial sustainability. He emphasises the importance of defining parameters clearly to develop effective models and to qualify for investment, funding or other types of support:

“I think social enterprises, for profit and non-profit, are going to get a level of scrutiny that they haven’t had so far.”

Parameters around social and financial aims need to be aligned with other areas in the business model. For example, case studies in the UK involved with training and employment of people from disadvantaged backgrounds indicate how they could have prevented issues and costs by balancing the ratio of their clients and experienced staff better. Case study Sandwiches initially employed 50 percent of their staff from previously homelessness backgrounds. Following issues around quality and management, they reduced the percentage to 25 percent. Similarly, Founder of case study Bistro highlights how balancing the number of clients is important in order to achieve both commercial and social aims:

“Day 1 of opening [Bistro] we had 16 apprentices, and you know what 16 was too many, if we had left it 3 or 6 months we would have learned that and it would have been a bit easier.”

Founder Bistro, UK

A similar example of balancing social need and financial aims is the experience by case study Authentic Travel, who provide ‘a real India experience’ for travellers to stay with local tribes with the aim to increase their livelihoods and prevent migration to city slums. Their initial focus was on the most remote and poorest communities, as their social need is the greatest. When the social enterprise realised that it was hard to attract a steady stream of customers to remote areas, they included communities that more easily attract travellers. Whilst those communities are not as needy of the opportunities provided, as they already experience a level of tourism, they made it easier for Authentic Travel to achieve a level of financial viability, enabling them to keep operating in the more remote and poorer areas. An impact investor supporting social enterprises in Asia and Africa highlights:

“All I’d say is we’ve typically seen more successful enterprises tap into the easier markets rather than the last mile. The last mile is a myth... The reality on the ground, it’s been difficult. People have made a lot of mistakes thinking they can do it. So be clear in your head, if you want to go out to the last mile you know you’re not going to make enough money to satisfy the VCs of the world, but you’ll make enough money to satisfy yourself if your needs are minimal..

So my advice would be decide where you want to be. If it’s easier selling to the first few kilometres out of the city do that, and if you then can leverage that economy that you’ve built, from there to serve the last mile, then do that. But be clear in the beginning, is what I’d say.”

Darren Lobo, Impact investor, India

6.5.2 Transparency

With the social enterprise sector developing attention and their potential to instigate improvements to our society and the environment, it is important to consider how the extent to which an organisation emphasises value creation for society versus profits is defined, validated and communicated. Validation as a social enterprise can lead to certain benefits such as funding, customer loyalty, referrals, USP in procurement by government, and goodwill such as media attention. Transparency is important to develop a level of trust around the authenticity of the social aims and outcomes of an organisation. A customer at case study Bistro highlights:

“I think if you are claiming to be a social enterprise you should be talking about it and you should be verified in some sort of way. So whether it’s by a membership badge at Social Enterprise UK, or a listing on a website.”

Willemijn Verloop points to the importance of transparency in cases where social enterprises aim to set an example in their sector:

“Most social entrepreneurs are driven by wanting to be an example to the market, and if you want to be an example, if you want to show how new business models work, you have to be transparent about it. So it’s essential in trying to expand the entire field.”

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

The importance of transparency is emphasised for all corporations:

“We need businesses to be much more transparent so people are actually equipped with the information they need to make the choices as consumers that they can make. What we need now is greater levels of standardised integrated reporting where all companies start reporting on their social and their environmental impact alongside their profit and loss performance.”

Peter Holbrook, CEO Social Enterprise UK

The findings indicate some of the complexities to achieve transparency and clarity around the social parameters of an organisation. Willemijn, highlights the costs involved with reporting social impact that can be hard to absorb, especially for smaller organisations:

“I think transparency is essential for a social enterprise. Not just towards your customers about your impact and your product, also actually to all your stakeholders, your investors, your employees. If you make a claim on really wanting to better the world, you have to make clear how you do that and be very open about all these things. It’s not easy. It takes extra time and effort, and often money, to be transparent, to bring all that information out.”

Some interviewees highlight the potential of social media to help clarify impact:

“One of the things that puts a break on some of the more cynical corporate practices is the fact that this would be rumoured in social media, and can turn into a complete own goal if you get an online community that says actually this thing that is reported to be social and environmental it is actually quite tokenistic.”

Reporting and social media might provide some solutions around verification and clarification of authenticity around social and environmental outcomes. However, not all customers or other stakeholders can invest the time in verifying the claims an organisation makes about their social and environmental impact. As an industry expert highlights:

“Some markets won’t pay attention to a detailed blurb on social and environmental value, it’s a different type of transaction, and others are very sophisticated and very eager.”

Gerry Higgins, CEO Community Enterprise in Scotland

Willemijn, highlights some of the benefits of a validation system:

“I think it’s important we find a way for social enterprises to prove their social mission and theory. In The Netherlands there is no legal entity, there is no label that can be used yet. I this is especially important in working with government. The government is the biggest consumer in The Netherlands, accounting for 50% of our BNP... I believe any form of regulation here would really help the social enterprises to grow their impact because now they often lose because they’re not the lowest price. But if you look at what they’re really bringing to society, they bring so much more than their competitors but we cannot prove that yet in this country.”

Willemijn Verloop, Director Social Enterprise NL, The Netherlands

Whilst evidence points to the importance of implementing validation systems such as labels and legal structures, questions can be raised about the effectiveness of the systems that have been developed in recent years. Labels and legal structures that have been implemented in recent years are based on a dichotomy, such as the CIC and labels such as the Social Enterprise UK Membership Badge. As suggested earlier in this chapter criteria used to divide businesses and social enterprises tend to stifle growth of social entrepreneurship. By focusing on the impact created for society instead of intent based criteria such as restricting shareholder return and an asset lock, the phenomenon can be more effectively encouraged to grow. Restrictions that can stifle growth of social enterprises and their much needed impact could then be avoided. Liam Black, impact investor, illustrates:

“I don’t care whether you as a social entrepreneur decide to live on £40,000 from your company not matter how big it gets, or you say “no, I’m going to have a private company and I’m going to address this social issue and sell it to Google in ten years’ time and retire to the beach when I’m fifty”. I don’t care. Because whether I care or not, people are going to do it.

On the two funds that I sit on, what we ask you is “okay, you want to change this particular social problem, are we convinced by that? Are we convinced by your business model?” And whether you own the company or it’s a non-profit model, is irrelevant to us. In fact, we’re finding it’s a lot easier to deal with the privately held companies, they’re more commercial, they understand money a lot better and the founders tend to have a clearer view about what their exit might be. So that makes it a lot easier for us.”

Liam Black, Impact investor, UK

To encourage mainstreaming of social entrepreneurship, a validation mechanism could be developed based on a scaling system recognising the phenomenon to be a trajectory, instead of the labels and legal structures implemented in recent years that are based on a dichotomy. Through adopting a scaling system and communicating the different levels of social and environmental impact, the adoption by mainstream organisations of social aims at different levels can be encouraged with less risks of dilution learning from the fair trade example. Several authors have highlighted issues of dilution of the fair trade brand as some fair trade certified organisation do not adhere to the same extent to all requirements but derive the same reputational and financial benefits as organisations that do (Doherty et al., 2013, Moore et al., 2007). An example is the accreditation by Transfair USA of Starbucks’s coffee in 2000, for less than one percent of their coffee (Doherty, 2013). With the purchasing volume of Starbucks, one percent can make a difference to many farmers. However, a question can be raised as to whether it is right that Starbucks gets the same fair trade label and related recognition by consumers and other stakeholders compared to an organisation that applies fair trade principles to 100 percent of its supplies? How does this compare for example to an organisation that reinvests 100 percent of its profits to its social aims, for example to train homeless people? One interviewee illustrates:

“Within the fair trade example you have companies like Café Direct that is cooperative owned and a 100% of the profits are recirculated amongst the fair trade community. You have other fair trade companies that are selling identical or similar products to Café Direct that have shareholders that take a significant return from the business.”

If current policies around labels and legal structures maintain their paradigm of social enterprises as a dichotomy, an opportunity is missed to more clearly communicate different levels of social and environmental impact. By not communicating different levels of impact, the social enterprise sector risks similar dilution issues as in the fair trade movement, on top of the already unclear perception of the concept by the general public. Applying a scaling system instead of a dichotomy can provide more clarity to consumers and other stakeholders, and may encourage organisations to increase their emphasis on value creation for society versus profits. For example, in the case of Starbucks purchasing one percent of its coffee based on fair trade criteria, communicating the level of their impact might provide a clearer comparison with organisations such as Chocolates working direct with local farmers to make them more sustainable and purchasing all of their supplies at a 25 percent higher pricing compared to the industry norm. Perhaps by communicating different levels of social outcomes more clearly to consumers and other stakeholders, organisations like Starbucks may be incentivised to increase their coffee supplies based on fair trade principles beyond one percent. Furthermore, a validation system based on a continuum instead of a dichotomy would recognise that organisations change their focus on profits and purpose over time. Professor Muhammad Yunus illustrates:

“Somebody might say: ‘ah this is doing very well, why can’t I make money, why do I have to keep it in social business? I transform it into money making business. Who can stop me?’ Nobody can stop you. Simply you decided to convert the social business into money making business. But you may not have told your customers, the rest of the world, that you have done that. So people may be fooled. People may still believe that you are a social business. So they remain a valued customer for you, a loyal customer for you, they didn’t know that in the mean time you are making money out of it. So those are the risky things.”

Professor Muhammad Yunus, Nobel Peace Prize Laureate, Bangladesh

Ownership or management of an organisation may change, and priorities around social parameters can reduce or increase over time. For example, when Ben and Jerry’s was bought by Unilever, some social policies were upheld, but others were removed following increased emphasis on profits versus purpose. For example, following the takeover eco-friendly print containers were replaced to decrease costs (Szekely and Dossa, 2017). Instead of changing emphasis on profits to the detriment of social purpose over time, a company can also increase their commitment to creating value for society, as in the example of Coca-Cola provided earlier in this chapter. By applying a scaling system, different levels of social and

environmental outcomes can be more clearly communicated compared to labels based on a dichotomy. For a validation system to work, changes over time would have to be accounted for by regular verification of an organisations practices and outcomes. Professor Yunus continues how a regular audit process can mitigate risks communicating changes over time:

“We are saying that a company should also have a yearly audit about the quality of the business. To prove whether it is a social business or not. Like annual financial audits. So at the end of the year, there will be certification business that will go through the whole books whether you are still a social business and you are doing it ok.”

Professor Muhammad Yunus, Nobel Peace Prize Laureate, Bangladesh

In order for consumers and other stakeholders to understand and trust the level of social and environmental outcomes of organisations it is proposed to implement a universal certification system partial from vested interests. By auditing organisations on a regular basis, changes in parameters over time can be clearly communicated. If such a system is in place, current validation systems attempting to control the intent of social enterprises, for example by limiting shareholder return and asset locks would be obsolete. A criticism of certification systems is the cost involved. As an alternative option to measure social impact some authors have suggested to implement a system whereby stakeholders can evaluate the value provided to them (Szekely and Dossa, 2017, Clarkson, 1995). For example, a sample could be conducted amongst stakeholders to rate the impact an organisation has on them compared to others in the same sector (Szekely and Dossa, 2017, Clarkson, 1995).

6.6 Conclusions

Building on the findings in Chapter four and five this chapter discussed key factors that play an important role in combining profits and purpose as part of the mainstream economy. Theories such as CSR, shared value and stakeholder theory propose ways for businesses to incorporate social initiatives, but predominantly focus on ‘win-win’ solutions benefiting the financial performance of the company as their main pursuit. However, most practices benefiting society and planet do not have a positive business case (Szekely and Dossa, 2017). If the overriding principle is that the role of a corporation is to maximise financial profits, it is hard for management to justify allocation of resources to benefit society and planet.

First, it is proposed that in order to address issues impacting the long-term health of our planet and societies, a paradigm shift is required viewing profits as a means to an end instead of short-term gains. Secondly, for businesses to effectively create value for society,

principles of justice should be incorporated integral to the business model, as opposed to benevolence. Principles of justice include empowerment of individuals and communities to contribute their potential to society, and to be fairly rewarded for their contribution in return.

By more clearly clarifying the social impact created by a company, incentives such as staff and customer loyalty would work more effectively towards addressing issues in society. For policy makers to encourage value creation for society, instead of implementing restrictions that stifle growth, funding could be more effectively allocated based on the extent to which a business generates positive outcomes for our planet and societies.

CHAPTER SEVEN: CONCLUSIONS

“If you leave a pot of capital behind in a world where there’s no fresh water and the oceans are collapsing and there is no air to breathe and we have social unrest because of the income disparity, it’s not really the legacy that your grandchildren are going to be able to use. So helping in the creation of a better world is a far better legacy than leaving behind a big pot of money.”

Margaret McGovern, CEO PYMWYMIC, European Impact Investment Fund

7.1 Introduction

This research journey began with the aim to explore how social enterprises can overcome challenges in establishing a strong financial platform and effectively create social impact. Based on a micro-perspective, analysis of the 93 interviews and cross-case study comparison resulted in key concepts leading to better dual outcomes such as ‘avoiding the pity purchase’ by positioning the product or service first and foremost based on fulfilling a market demand instead of social need. Further analysis clarified the need for a different emphasis on either commercial or social logic dependent on different areas of the business model. For example, emphasis on commercial logic in the ‘offering’ and ‘customer area’ leads to better dual outcomes, whilst the ‘infrastructure area’ requires a balancing act between both logics. Furthermore, analysis across the interviews and training and employment case studies determined key drivers that contribute to more or less impact on their clients, such as aligning opportunities with market demand, and providing a balanced work environment. Adopting a macro-perspective of the findings led to further insights of how to more effectively combine ‘profits and purpose’ as part of the wider economy. From this perspective social entrepreneurship is at the forefront of a movement where the role of business is changing from a shareholder paradigm, pursuing short term gains to maximise shareholder return, to business as a value creator for all stakeholders and wider society. Section 7.2 summarises key findings of the thesis. The contribution of those findings to theory, and the implications for policy makers, and (aspiring) social entrepreneurs are discussed in 7.3. The main limitations of the proposed concepts are discussed in 7.4. The chapter concludes with five suggested avenues for future research building on the findings in this study.

7.2 Summary of key findings: towards a ‘profits for purpose theory’

The diagram in figure 20 provides an overview of the key findings and proposed concepts in this thesis and illustrates how they relate to each other.

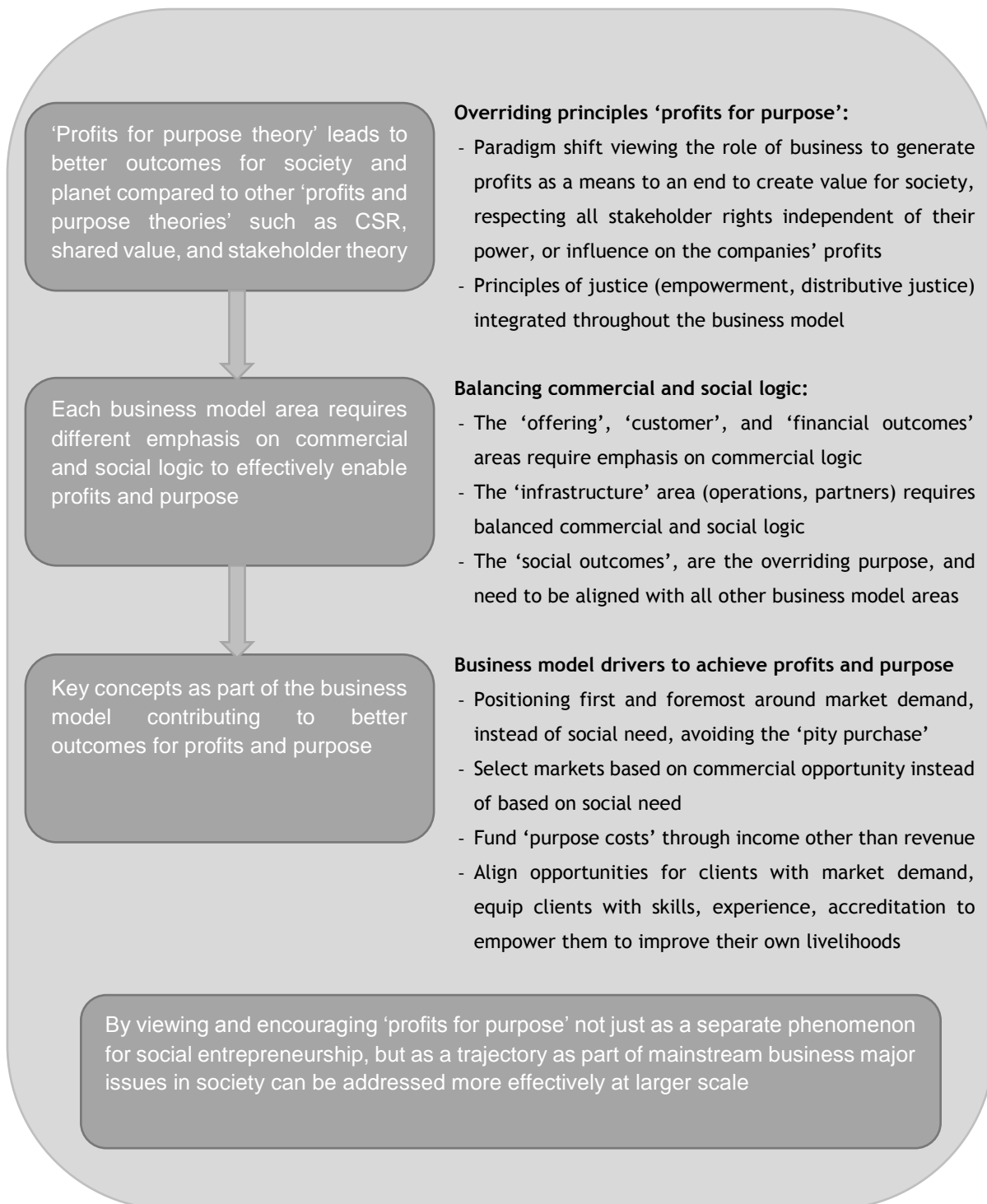


Figure 20: Overview thesis findings

7.2.1 Overriding principles 'profits for purpose theory'

The combination of the proposed concepts arising from this study make a contribution towards a 'profits for purpose theory'. The findings highlight how profits and purpose can be combined effectively in the case of social entrepreneurship where profits are a means to an end to create value for society. As such an alternative is provided to shareholder theory,

where the purpose of business is seen to be wealth creation for the most powerful stakeholders such as shareholders and senior management (Friedman, 2012). Furthermore, by viewing profits as a means to an end, the overriding principles proposed in this thesis provide an alternative to CSR, shared value, and stakeholder theory. With the underlying assumption of those theories viewing financial performance as the overriding aim of business, they provide limited scope to consider value creation for society. With the business case for initiatives benefiting society and environment only positive in a relatively small number of initiatives (Szekely and Dossa, 2017, Elms et al., 2011), these perspectives tend to lead to a focus on ‘low hanging fruits’. So what about those strategic decisions that do not have a positive business case, but can create value for society and planet?

A company such as case study Chocolates demonstrates that decisions are made differently when profits are a means to pursuing value for creation for society. Chocolates establishes long term relationships directly with their cocoa suppliers in Ghana and Ivory Coast paying purchase prices based on principles of distributive justice. They award their suppliers based on their contribution in the supply chain at prices that are 25 percent higher compared to the industry norm. If Chocolates would pursue shareholder return as their main purpose instead, it would be hard to justify their purchase costs. Whilst theories such as stakeholder theory propose consideration of all stakeholders, the stakes are evaluated based on the impact they can ultimately have on financial performance. With cocoa producers in Ghana and Ivory Coast having relatively little power in the supply chain, decisions will likely not result in fair distribution of the wealth created. By pursuing ‘profits for purpose’, Chocolates creates better outcomes for society compared to other companies in the sector. By viewing profits as a means to an end, applying principles of justice and empowerment Chocolates illustrates how strategic decisions can be made to create positive value for society even when the business case shows a negative impact on financial results.

This study does not seek to convince business to adopt value creation for society as their main purpose, but proposes that this paradigm leads to better outcomes for current and future generations. Does that mean that a business pursuing ‘purpose before profits’ should make all strategic decisions prioritising social aims over the profit motive? The study contributes to recent discourse exploring challenges arising from combining commercial and social aims by clarifying that emphasising purpose over profits does not mean that social logic should prevail in all strategic decisions. On the contrary, the findings highlight the importance of ‘leading with the business’ to achieve better social and financial outcomes.

7.2.2 Balancing commercial and social logic

In order to create value for society, and achieve commercial success, how should a business balance commercial and social logic? Especially when there are no ‘win-win’ alternatives benefiting both social and financial outcomes beyond shared value thinking? What if a business case for an initiative or strategic direction creates positive value for society, but negatively impacts on financial performance? Theories such as CSR, shared value and stakeholder theory fail to provide clarity of how to prioritise trade-off decisions between profits and purpose (Melé, 2009, Campbell, 2007, Margolis and Walsh, 2003). Other recent studies indicate a paradox of how prioritising commercial or social logic impacts profits and purpose both positively and negatively (Battilana et al., 2015, Santos et al., 2015, Ebrahim et al., 2014, Mason and Doherty, 2014). As discussed in Chapter three, a study by Woodside (2017) proposes that an organisation can prioritise either logic throughout their business model to prevent challenges arising from conflicting social and commercial aims. Therefore, is it better not to combine both profits and purpose at the heart of an organisation in order to avoid tensions between commercial and social logics? This study suggests that it is not necessary to choose between either logic, rather that both logics have important benefits. The findings in Chapter four showed that emphasis on commercial logic in the ‘offering’, ‘customer’ and ‘financial outcomes’ areas in the business model areas leads to better dual outcomes, and that the ‘infrastructure area’ requires a balance between both logics. As a reminder figure 21 illustrates the different emphasis on either logic in each area of the business model leading to better outcomes, visualised by areas requiring emphasis on commercial logic in darker grey, and areas requiring emphasis on social logic in lighter grey. The findings highlight that the profit motive has an important role to play in allocating resources efficiently around market demand (Santos, 2015). By developing the offering and marketing model based on commercial logic, a business establishes a stronger financial platform to deliver a social purpose. Moreover, by aligning training and employment opportunities around a market demand, clients are better equipped with skills and experience they can use elsewhere in the market. The infrastructure area of the business model requires a balanced logic between commercial and social logic, for example in creating a balanced work environment for clients from disadvantaged backgrounds, or the need to work with partners such as investors who are aligned with both commercial and social aims of the enterprise. Key drivers in each business model area have been identified leading to better outcomes for both purpose and profits as summarised next.

Offering/ Value proposition <ul style="list-style-type: none"> - Define value proposition based on product or service value instead of relying on ‘the pity purchase’ - Build value proposition around market demand, not social need 	Customers <ul style="list-style-type: none"> - Position the offering around product or service value instead of the ‘pity purchase - by promoting, pricing and building customer relationships based on the offering with the social mission as ‘cherry on the cake’ - Selecting markets based on potential to generate margins, instead of ‘proximity to social need’, for example apply ‘Robin Hood economics’ 	Infrastructure <ul style="list-style-type: none"> - Ensure activities/ operations enable balance ‘product and purpose’ (i.e. mix beneficiaries and experienced work force) - Ensure and maintain balance - Leadership, team, and governance - Align partners and investors with dual mission - Level of returns on investments and legal structure - Balanced work environment, culture, values - Balanced division of rewards
Financial outcomes <ul style="list-style-type: none"> - Focusing on numbers - Blended income streams to overcome the ‘purpose costs’ - Clarify and fund ‘purpose costs’ instead of flawed business models - Value proposition and markets enabling higher margins - (Slightly) increased pricing due to social mission - Lesser requirement to generate ‘wealth for a few’ (i.e. shareholder return, high wages and bonuses) - Advantages social mission e.g. customer loyalty, PR, increased pricing 	Social outcomes <ul style="list-style-type: none"> - Clear parameters, authenticity, transparency for social aims and outcomes (i.e. balancing ‘low vs high hanging fruits’); - Align social aims with other business model areas - Enabling social aims and ‘balancing product and purpose’ - Providing the right type of work environment 	
Commercial logic		Social logic

Figure 21: Key business model drivers enabling profits and purpose

7.2.3 Key business model drivers enabling profits and purpose

Figure 21 shows the key business model drivers identified across the 93 interviews and cross-case comparison contributing to better social and financial outcomes. First, the findings highlight how by positioning the enterprise first and foremost around market demand instead of around a social need leads to better outcomes, and to position the social mission as ‘cherry on the cake’. For example, case study Logistics has built a strong financial platform by providing logistics and warehousing services valued by their customers instead of developing a product or service around a social need. In 2015, its seventh year of operating, Logistics turned over £5.8 million, creating £160,000 of social spend and a further £100,000 of profits. Their financial performance enables Logistics to invest in the training program for their clients coming from a disadvantaged background including homelessness and previous incarceration. Being commercially successful enables Logistics to be independent from other forms of income such as funding and donations. Their independence enables Logistics to take on clients from a complex background instead of selecting ‘lower hanging fruits’ to meet social impact targets required by funders. Moreover, by developing their offering around market demand, their clients are in a better position to find employment, compared to offering training and experience in skills that are saturated in the market such as landscaping or furniture recycling (Hudson, 2009). Logistics has achieved a relatively high success rate of 70 percent of getting and keeping clients in employment.

Secondly, analysis across the 93 interviews and cross-case study comparison highlights that selecting markets based on commercial opportunities instead of social need leads to better dual outcomes. To illustrate, Bistro is located in a prime location in London, compared to the majority of social enterprises located in deprived areas (Villeneuve-Smith and Temple, 2016). Their clients from deprived backgrounds travel by public transport to Bistro to be part of a commercial model that enables positive financial outcomes as well as social impact. Whilst the ‘offering’ and ‘customer’ area of the business model requires emphasis on commercial logic, it is proposed that the ‘infrastructure’ area requires a balancing act between both logics. For example, the findings highlight the need to balance experienced staff and apprentices to enable sufficient quality of products and services.

A final key driver identified to enable the combination of profits and purpose is the need for a ‘blended income stream’ existing of income generated from revenue and other types of income such as funding and donations. It is proposed that customers should not have to pay indirectly for additional costs related to a social mission such as training of disadvantaged staff, or that there should be a disadvantage compared to competitors investing less in value

creation for society. However, the example of a community café depending on funding unnecessarily because they are operating a ‘flawed business model’ highlights the importance of clarifying what costs are related to the social purpose of the enterprise that can legitimately be funded by income other than revenue. Funding costs related to training homeless people is different from funding unnecessary overheads for a large café in an area where there is no sufficient demand to justify such overheads. Funding could be allocated more effectively to legitimate costs incurred due to investment in the social mission instead.

7.2.4 Key drivers social impact

Cross-case comparison and interviews with clients from deprived backgrounds highlights key drivers to more effectively deliver social impact. First, by providing training, skills, and accreditation aligned with market demand equips clients better with skills and experience enabling them to find employment out with the social enterprise. Social enterprises such as Youth Support and Janitors have a relatively low success rates of clients gaining employment at subsequently 25 and 23 percent and less satisfied interview responses from clients regarding the type of opportunities received. By comparison case studies Bistro and Logistics who provide training, experience, and accreditation aligned with opportunities in the market place have a success rate of clients gaining employment at 72 and 70 percent, and clients indicating higher impact on related factors such as improvement in confidence and self-esteem. Secondly, clients emphasise the need for a balanced work environment where they can learn the reality of contributing commercial value rewarded by the market, but that also understands and considers their background. Thirdly, clients express the impact of ‘meaningful employment’, where opportunities are aligned with their interest and potential.

The overriding principle behind the drivers leading to better social outcomes is the proposition that empowerment leads to better outcomes compared to free services. By equipping people with the skills, experience and accreditation to improve their own livelihoods, issues such as poverty and social exclusion are structurally addressed, instead of dealing with the symptoms. This does not mean that charitable support such as foodbanks or homelessness hostels are not necessary. On the contrary, a homelessness hostel provides critical instant support to a homeless person. However, the findings highlight how empowering an individual or community with the opportunity to improve their own livelihoods provides a more structural solution addressing other factors related to poverty and inequality such as confidence, self-esteem, pride, dignity, hope, ambition, ‘being part of society’, improved relationships with friends and family, and happiness.

7.2.5 Defining social entrepreneurship as part of mainstream business

The combination of pursuing a profit motive and value creation for society is not just limited to social enterprises. Mainstream businesses create value for their stakeholders, for example by providing employment. Both ‘mainstream business’ and ‘social enterprises’ vary in terms of the extent of delivering social value for society and their approach. This thesis proposes that by viewing and encouraging ‘profits for purpose’ not just as a separate phenomenon for social enterprises, but as a trajectory as part of mainstream business, major issues in society can be addressed more effectively at larger scale. The proposition is that what matters is not dividing organisations into categories, but to encourage all companies to pursue value creation for society by applying principles of justice integral to their business model, in order to create a fairer, greener and harmonious society.

The findings highlight that current defining criteria of social entrepreneurship dividing organisations into either a business or social enterprise are restrictive in nature and tend to stifle growth of the phenomenon. In addition, current boundaries to separate companies into two types lack clarity due to non-uniform boundaries in different contexts. Furthermore, current defining criteria do not steer and encourage social entrepreneurship towards better outcomes. For example, a comparison of case study Sandwiches with Youth Support illustrates that an enterprise like Sandwiches creates better social outcomes but does not qualify as a social enterprise in Scotland, compared to Youth Support, which does qualify as a social enterprise but achieves lesser social impact by comparison.

Another example of how current criteria do not encourage better outcomes is the emphasis on income generation through trade to qualify as a social enterprise instead of a charity. This study proposes that it would be more effective to encourage empowering solutions, a key contributing factor as to how social entrepreneurship can prevent and address issues such as poverty effectively. Whilst relying on revenue instead of other forms of income such as donations can lead to certain benefits, emphasising this criterion can lead to organisations focusing on ‘lower hanging fruits’ incurring lower costs to increase the ‘revenue versus donations ratio’. Such criterion misses the point of encouraging empowering solutions to individuals and communities to improve their livelihoods and related factors.

To recognise the extent to which a business is ‘socially enterprising’, pursuing value creation for society with profits as a means to an end, a scaling based system is proposed. A scale based label can help create transparency and accountability by validating and communicate different levels of impact on ‘people’ and ‘planet’ versus private wealth creation. By

proposing social entrepreneurship to be a continuum as part of mainstream business, and clarifying what defining criteria contribute to better social outcomes, the phenomenon can be encouraged more effectively towards creating better outcomes for society at larger scale.

7.3 Implications for theory, practice, and policy

The findings summarised above make several valuable contributions to extant theory, and lead to recommendations for practitioners and policy makers as to how to more effectively encourage profits as a means to create value for society.

7.3.1 Contribution to theory

This thesis aims to make five main contributions to theory. First, key drivers as part of the business model to achieve both profits and purpose contribute to a gap in our understanding of how to overcome key challenges arising from a dual mission. Early social entrepreneurship literature mainly described the ‘what’ of social entrepreneurship, individual social entrepreneurs and heroic tales (Doherty et al., 2014, Dacin et al., 2011, Bornstein, 2004). The anecdotal emphasis on social entrepreneurship heroes has been compared to the initial development of strategic management literature characterised by a lack of generalizable details (Short et al., 2009). Short et al. call scholars to explore and develop frameworks around the strategic and managerial consequences of the social enterprise dual mission (Short et al., 2009). Studies highlight that many social enterprises struggle with challenges arising from combining profits and purpose leading to deficient performance or organisational failure (Doherty et al., 2014, Wilson and Post, 2013, Moizer and Tracey, 2010, Teasdale, 2010, Zahra et al., 2009, Austin et al., 2006, Harjula, 2006). More recently studies have begun to explore challenges arising from the hybrid nature of social enterprises (Pache and Santos, 2013). These studies provide valuable insights in the type of challenges arising from the dual mission (Battilana et al., 2015, Santos et al., 2015, Battilana and Lee, 2014, Doherty et al., 2014, Smith et al., 2013), and into techniques as to how commercial and social logics can be integrated, for example by recruitment, socialisation policies and organisational governance (Besley and Ghatak, 2017, Lee et al., 2016, Battilana and Lee, 2014, Ebrahim et al., 2014, Battilana and Dorado, 2010). However, the gap in our understanding of how to effectively combine commercial and social aims as part of the social enterprise business model remains. Key drivers identified in this study to enable the dual mission such as ‘positioning the offering around market demand instead of social need’, ‘Robin Hood economics’ by selecting markets based on commercial potential, and the need for a ‘blended income stream’, contribute to this gap in extant discourse.

Secondly, the findings seek to make a contribution to the recent stream of research exploring how prioritisation of conflicting logics impacts the dual outcomes of a social enterprise. By proposing how prioritising commercial or social logic in each business model area enables better outcomes, this study helps clarify some of the contradictions in the literature around ‘mission drift’ and the ‘hybrid paradox’. The predominant focus on ‘mission drift’ in the literature suggests that social enterprises should prioritise their social aims to prevent mission drift (Santos et al., 2015, Young and Kim, 2015, Cornforth, 2014, Ebrahim et al., 2014, Mason and Doherty, 2014, Smith et al., 2013, Brandsen and Karre, 2011, Mersland and Strom, 2010, Yunus et al., 2010). Other studies indicate the risk of not sufficiently prioritising commercial aims as a reason for ineffective performance or organisational failure (Bruneel et al., 2016, Moizer and Tracey, 2010). Furthermore, several studies refer to a ‘hybrid paradox’ suggesting that prioritisation of social logics or commercial logics can lead to both better and worse dual outcomes (Battilana et al., 2015, Santos et al., 2015, Mason and Doherty, 2014, Ebrahim et al., 2014). These studies highlight that prioritising social or commercial logics overall do not provide a solution towards achieving better financial and social outcomes. The findings from a cross-case study comparison and analysis across the interviews highlights the importance for a social enterprise ‘to lead with the business’. For example, by developing a service or product around market demand with good commercial potential, instead of relying on a ‘pity purchase’. The findings emphasise that in order to avoid mission drift, the answer is not to prioritise social aims in all strategic decisions. On the contrary, by developing the business model first and foremost around a commercially strong value proposition, a social enterprise achieves better social and financial outcomes. To avoid mission drift, social logics are integrated throughout the business model, and have more priority in the ‘infrastructure area’ of the business model. For example by seeking balance between a mixed workforce of employing clients from disadvantaged backgrounds, and an experienced workforce, or by selecting partners and investors who are aligned with the social mission of the enterprise. The proposed key drivers clarifying what part of the business model require different emphasis on either logic show that contrary to the study by Woodside (Woodside, 2017) it is not necessary for one logic to supersede the other and dominate decision-making in order to prevent tensions. For example, the study by Woodside highlights a case study of a restaurant training refugees as apprentice chefs struggling to sustain a for-profit business due to costs related to supporting refugees, seeking a solution in converting the venture to a non-profit organisation. The findings in this study show that in order to overcome such challenges it is not necessary to prioritise social logics overall. On

the contrary, the profit motive plays an important role in building a strong financial platform to deliver the social mission, and to be less dependent on funding and donations. This study has shown how the profit motive can lead to better opportunities for clients by empowering and equipping them with skills and experience aligned with market demand (Hudson, 2009). The proposed key drivers contribute to recent discourse of how to prioritise commercial and social logic to overcome challenges arising from the dual mission.

A third area of theoretical contribution comprises of the proposed drivers to more effectively impact clients of training and employment social enterprises. There is a gap in the literature on the actual impact of such social enterprises and what drives better or worse social outcomes (Teasdale, 2010). One of the reasons mentioned for this gap is that it can be challenging to measure and compare the social impact created by social enterprises due to varying aims and non-standardised metrics (Arena et al., 2015, Stevens et al., 2015, Luke et al., 2013, Millar and Hall, 2013, Smith et al., 2013). The proposed key drivers towards better social outcomes such as providing skills, experience and accreditation aligned with market demand, and a balanced work environment contribute to this gap in research to empower clients from disadvantaged backgrounds more effectively.

Fourth, by proposing key drivers leading to better dual outcomes, this study contributes to the ongoing debate of what defines social entrepreneurship (Alegre et al., 2017, Defourny and Nyssens, 2017, Ridley-Duff and Southcombe, 2012). By clarifying what defining criteria actually matter towards more effectively achieving better financial performance and social impact, this study proposes a new definition of social entrepreneurship to help steer the phenomenon towards better outcomes. For example, by clarifying why social enterprises can be more effective compared to charitable solutions in addressing long term issues such as poverty and social exclusion it becomes apparent that the empowering nature of opportunities provided is a criterion to be encouraged, more so than the current main differentiator of the percentage of earned income through trade. By empowering cocoa farmers with opportunities to improve their livelihoods themselves structurally addresses issues such as poverty and related issues such as child labour more effectively, compared to donating water wells or second hand shoes, regardless of whether the income for these shoes or water wells has been generated through trade or fundraising. Similarly, the findings highlight that by empowering and equipping a homeless person with the skills and experience leading to employment addresses poverty and social exclusion longer term and positively impacts on related factors such as confidence, self-esteem, dignity, feeling part of

society, and improved relationships, compared to providing free meals. Furthermore, the findings propose differentiating factors of social entrepreneurship as a trajectory part of mainstream business to focus on the extent of value provided to society and viewing profits as a means to an end, by applying principles of justice and empowerment. It is proposed that recognising and encouraging these criteria leads to better outcomes for society at larger scale, compared to restricting the phenomenon to a separate category and applying stifling boundaries such as asset locks and allowing no shareholder return. The study has shown that a limited company without an asset lock can achieve better outcomes for clients such as homeless people, compared to ‘social enterprises’ who have an asset lock in place, but achieve a low success rate of getting clients into employment by comparison.

A fifth and final contribution to theory is made by adopting a macro-perspective of how the findings underpin overriding principles to effectively combine profits and purpose as part of mainstream business. A paradigm shift is proposed to view the role of business to create value for society and profits as a means to an end, by applying principles of justice and empowerment. These overriding principles provide an alternative to shareholder theory, where the role of business is viewed to first and foremost maximise profits to increase shareholder wealth (Friedman, 2002). Realising the negative consequences on society and the environment such as increasing inequality, social exclusion and climate change, companies are increasingly rethinking their role in terms of value for society (Porter and Kramer, 2011, Harris-White, 2006, Mintzberg et al., 2002). To become a ‘sustainable business’ is not an easy process but a journey that evolves over time facing many complex situations and significant challenges (Szekely and Dossa, 2017). The proposed ‘profits for purpose’ concepts provide an alternative to CSR, shared value and stakeholder theory. In these theories wider interests of stakeholders and society are considered to a larger extent compared to shareholder theory, but with profits remaining the end goal, ‘weaker stakeholders’, such as suppliers in developing countries, or the environment keep losing out. With the business case for CSR, shared value and stakeholder theory not proven, these theories seek their legitimacy in moral grounds. However, with financial performance as an end goal, it is hard to justify prioritisation of value creation for society, apart from win-win scenarios that are criticised to be just the ‘low hanging fruits’ (Szekely and Dossa, 2017, Elms et al., 2011). Unless the paradigm shifts for the role of business to use the planet’s resources to create value for society, the majority of strategic decisions that can benefit society and address major issues, will be made in favour of serving shareholder return and

private wealth creation instead. The proposed concepts to view profits as a means to an end, and to empower all stakeholders to contribute their potential and to be fairly rewarded for their contribution based on principles of justice, provides a legitimate alternative theory to combine profits and purpose compared to CSR, shared value and stakeholder theory. By combining commercial and social logic in the right areas of the business model, the profit motive has a valuable role in effectively allocating resources. However as proposed by Adam Smith, the profit motive needs to be combined with strong principles of justice as the ‘main pillar of society’ to avoid the ‘fabric of human society to crumble into atoms’ (Smith, 1759, p. 84). As this thesis began with the statement by Nelson Mandela, to address issues such as poverty, similarly to slavery and apartheid requires not an act of charity, but an act of justice.

7.3.2 Suggestions for policy makers

This study proposes three main suggestions for policy makers to steer and encourage social entrepreneurship to more effectively achieve positive outcomes for society at a larger scale. First, funders and policy makers can benefit from recognising and incentivising the proposed key drivers contributing to better outcomes. Increasingly, funding is allocated so social entrepreneurship to help tackle issues in society. However, whilst some social enterprises demonstrate the potential to effectively address major issues in society, many others struggle to achieve their dual mission (Doherty et al., 2014, Wilson and Post, 2013, Moizer and Tracey, 2010, Teasdale, 2010, Zahra et al., 2009, Austin et al., 2006, Harjula, 2006). By incentivising key drivers contributing to social and financial impact policy makers can help encourage better outcomes. For example, incentives related to the impact created by empowering individuals and communities to contribute their potential and fairly rewarding them for their contribution would be more effective compared to how much income a social enterprise generates from trade, or whether it has an asset lock in place.

Secondly, the findings suggest that funding should be allocated to ‘justifiable purpose related costs’ to avoid unnecessary dependencies or sustain flawed business models. For example, if funding is allocated to cover unnecessary overheads to support a large community café without sufficient demand for their services, funding could be allocated more effectively to encourage a smaller sized café that could lead to a profitable model over time. By clarifying what additional costs are incurred related to ‘purpose’, such as training of staff from disadvantaged backgrounds and allocating funds to these ‘purpose related costs’ instead of generic financial awards, social and financial outcomes can be encouraged more effectively.

Thirdly, to encourage social entrepreneurship and potential benefits for society to grow at a larger scale, it is proposed that policy makers do not divide social enterprises and business into two categories by applying stifling restrictions such as asset locks and limited shareholder return. Instead, this study suggests to encourage social entrepreneurship as part of mainstream business by validating and incentivising the impact created on all stakeholders, including ‘silent and weak stakeholders’ such as the environment, producers in developing countries, and socially excluded groups from society. To some extent such policies are being implemented, for example the recently introduced law ‘Participatiewet’ in The Netherlands encouraging business to employ people with disabilities. To validate and communicate the extent of positive impact created on society, regular audits could be carried out, similar to financial audits by independent bodies. Or, as Szekely and Dossa (2017) suggest to avoid costs involved with audits or certification, a sample of all stakeholders could evaluate the relative impact the company has compared to the industry average. To provide clarity and transparency to consumers and other stakeholders about the extent a company creates positive impact on people and planet a scale based label is suggested. To illustrate, such a label could adopt a star based system as suggested in figure 22. Learning lessons from the fair trade movement to prevent issues of dilution, such a scale based label could communicate the difference between an organisation like Starbucks purchasing one percent of their coffee against fair trade requirements, compared to an organisation like Chocolates who pay all their suppliers 25 percent more compared to the industry norm. A scale based label could also more clearly communicate the impact of organisations compared to current definitions of charities, businesses, and social enterprises that can be rather confusing. Figure 22 illustrates how two organisations qualify as a social enterprise, charity or business based on current criteria in different contexts, compared to communicating the impact of the organisation on people and planet based on a scale based label:

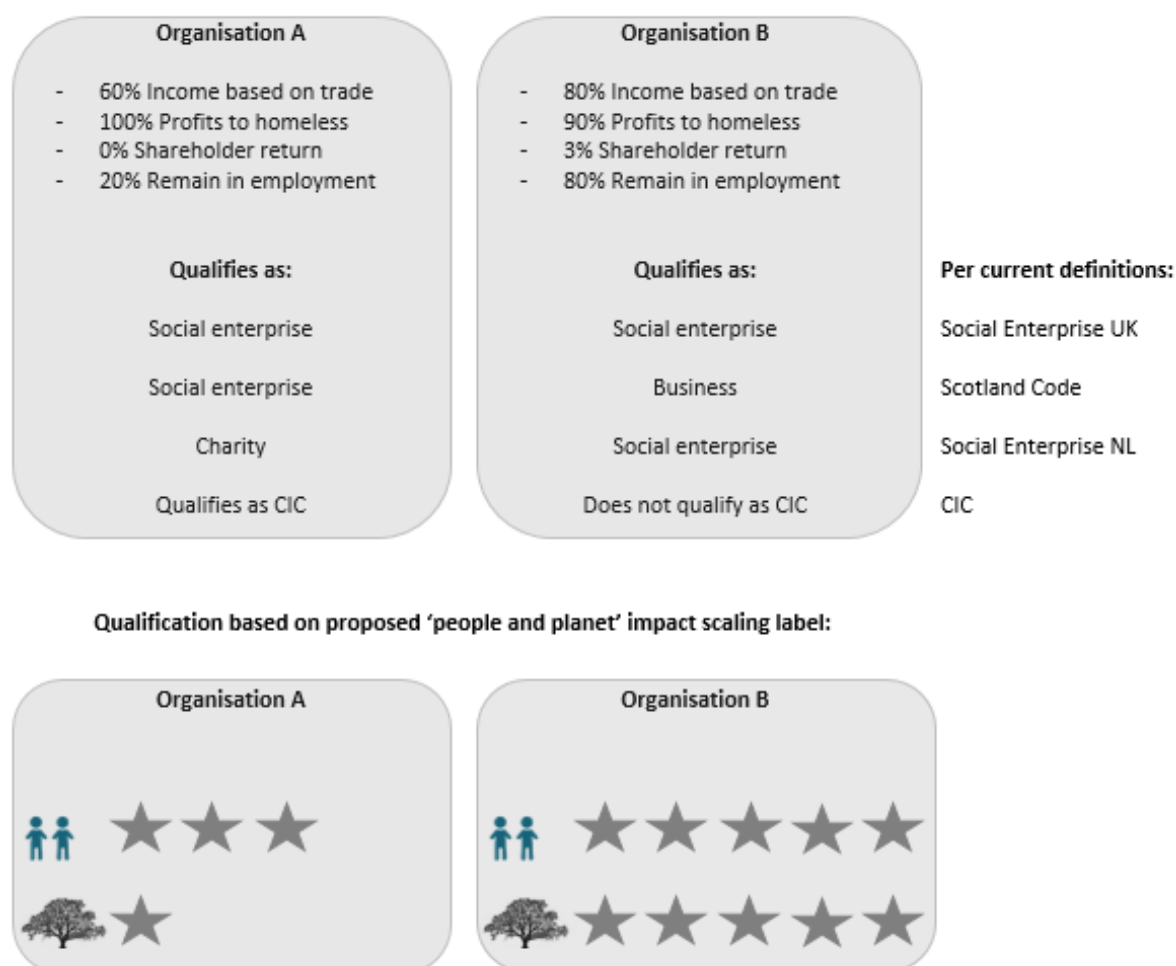


Figure 22: Illustration possible scale based label

7.3.3 Recommendations for (aspiring) social entrepreneurs

Many social entrepreneurs struggle to overcome challenges arising from the combination of conflicting social and financial aims, often leading to ineffective performance or organisational failure (Doherty et al., 2014, Wilson and Post, 2013, Moizer and Tracey, 2010, Teasdale, 2010, Zahra et al., 2009, Austin et al., 2006, Harjula, 2006). Achieving the dual mission is further complicated with no blueprint for managers to follow as there is a lack of understanding of how such challenges can be overcome, especially in the field of strategic management (Wilson and Post, 2013, Hamby et al., 2010). The key drivers proposed in this study as to how to overcome such challenges provide guidance for how to design a business model to achieve both commercial and social outcomes. For example, case studies Youth Support and Janitors may achieve better outcomes by developing their offering around market demand, instead of social need, or by selecting markets with better commercial potential instead of proximity to a social need, and by empowering their clients with skills, experience, and accreditation aligned with opportunities in the market place.

Furthermore, the overriding principles proposed by this study to effectively combine profits and purpose provide recommendations for any business aspiring to integrate a social purpose with a profit motive. By applying principles of justice and empowerment integral to the business model, a company can more effectively contribute value to society. As in the Coca-Cola example, resources can more effectively be invested in production methods that are less damaging for farmers near production plants in India by not polluting or unnecessarily wasting water based on principles of justice, compared to providing donations to charities helping to install water wells. Similarly, a 'social enterprise' like One could provide employment opportunities based on principles of justice and fair distribution of rewards to empower communities to increase their own livelihoods and in turn enable them to better afford access to clean water, compared to donating water wells. Or, a restaurant like Bistro more effectively transforms the lives of their apprentices from a homelessness background by empowering them with the skills, experience, accreditation and support to find meaningful employment compared to providing free meals. This is not to say that charitable support is not needed, and indeed provides valuable solutions in certain contexts or as a bridging gap. However, the proposed principles emphasise how business can more effectively use their resources to prevent and address the root cause of issues such as poverty, inequality, social exclusion, and climate change.

7.4 Limitations

The findings and propositions in this thesis have two main limitations. First, the study explored the combination of profits and purpose in the context of social enterprises that aim to create value by empowering participants in their value chain such as clients from disadvantaged backgrounds, or suppliers in developing countries. As such, social outcomes are generated based on principles of justice by enabling individuals and communities to contribute their potential, and to be fairly rewarded for their contribution in return. As a reminder, figure 23 shows how social enterprises can be divided into two main categories, as explained in the introduction chapter. The type of social enterprises part of this study reflects the majority of social enterprises in the UK, trading to the general public with the aim to support vulnerable people, create employment opportunities, and to address social exclusion (Villeneuve-Smith and Temple, 2016). The study did not focus on the second type of social enterprises who aim to create social impact by providing products and services to people from a disadvantaged backgrounds such as housing, medical care, or water filters.



Figure 23: Two categories of social entrepreneurship

Secondly, the proposed concepts are based on using grounded theory methodology and as such are initial substantive theories aimed at their usefulness, credibility, and originality, rather than formally tested theories aimed at ‘absolute truth’ and ‘universal validity’ (Bryant, 2017, Charmaz, 2014). As in the analogy of studying the properties of cows explained in Chapter three, it is not always necessary to study phenomena in large quantities to claim validity of findings. By including a relatively large number of interviews and examining social entrepreneurship in different countries and contexts validity of the key concepts were strengthened to apply in a wider setting. However, when a grounded theory is first developed it can usually not claim the status of a formal theory that can only come with time and attention of others (Bryant, 2017). The next section provides suggestions for future research building on the concepts proposed in this study.

7.5 Suggestions for future research

To gain more insights related to the proposed concepts future studies can explore the following five avenues. First, research could further investigate how the proposed key drivers in the business model contribute to social and financial outcomes. For example, quantitative studies could compare the outcomes of social enterprises that position their business model to a more or lesser extent around their value proposition versus social purpose. More clarity could be gained as to how contextual factors play a role in the

effectiveness of emphasising purpose as a ‘small or large cherry on the cake’, such as the type of customers, or government incentives and legislations. Similarly, studies could compare the outcomes of a larger number of social enterprises and their approach to key drivers including ‘selection of markets based on commercial potential versus social need’, ‘blended income streams’, and provision of a ‘balanced work environment’. A different approach would be to explore the impact of the proposed key factors by conducting longitudinal experimental research. Studies could explore how changing the approach to key factors in the business model would impact on the outcomes of a social enterprise over a period of time.

Secondly, studies could further examine the impact of proposed drivers on social outcomes of work integration social enterprises in a wider context or experimental setting. For example, research can explore how a larger number of work integration social enterprises perform on indicators including the percentage of apprentices gaining and retaining employment, and related factors such as confidence and compare their approach to the proposed contributing factors of aligning opportunities with market demand, provision of skills and accreditation, a balanced work environment, and support. Alternatively, longitudinal experimental research design could investigate how changing the approach to key proposed factors impacts on clients. For example, a case study like Janitors could start providing opportunities that are more aligned with market demand, or to provide more accreditations and measure any changes in terms of percentage of clients gaining employment, and other indicators such as confidence and self-esteem.

A third research avenue could entail exploration of the proposed overriding principles to effectively combine profits and purpose as part of mainstream business. Researchers could compare companies that adopt principles of justice and empowerment integral to their business model versus charitable support and their value created for society. Furthermore, studies could conduct a cross-case comparison of ‘like for like’ businesses that emphasise profits or purpose differently and compare their financial and social outcomes. An experimental research design could explore how shifting emphasis from a profits to a purpose paradigm, or integration of principles of justice and empowerment leads to different outcomes in terms of the value created for people and planet.

This study highlights the importance of ‘distributive justice’, to fairly divide the rewards between those creating the wealth, including weaker stakeholders such as producers in developing countries, or employees with little power. The findings highlighted complexities

around defining what fair rewards are and the practical issues of pursuing a low salary gap where high salaries may be required to attract talent. In the literature the battle among competing theories of distributive justice evolves around concepts including need, ability, effort, and mutual agreement, with the trend moving to pluralistic theories allowing more than one fundamental principle to play a role (Donaldson and Preston, 1995). A fourth area of research could investigate complexities around what fairness of rewards entails and as to how this can be encouraged in terms of policies or ownership structures such as cooperatives.

A fifth and final suggested area of future research is to explore how social entrepreneurship can be encouraged as part of the mainstream economy. For example, studies can investigate the perception of stakeholders such as customers of the possibility of a uniform scale based label and potential impact on their purchase behaviours. Following lessons learned from the fair trade movement studies can explore how the emphasis on purpose versus profits can be encouraged, validated and communicated effectively without diluting the phenomenon and effectively grow social entrepreneurship and consequential benefits for society and planet. Using the words by Peter Holbrook:

“What really changes things is if you can shift the market. Because businesses trade in response to a market. So if the market demands that business are being much more socially and environmentally responsible then businesses will become more socially and environmentally responsible.

This is why the Social Value Act is fundamentally a game changer. Because what’s not to love about this notion that you reward businesses for doing the right thing? I mean, this is not rocket science. This is remarkable. This is the definition of common sense.”

Peter Holbrook, CEO Social Enterprise UK

APPENDIX 1. OVERVIEW INTERVIEWEES - SECTOR EXPERTS

Interviewee name/ title/ description	Interviews	Country
Peter Holbrook, CEO Social Enterprise UK; Supporting the social enterprise sector in the UK	2	UK
Liam Black, Impact investor, Chief Encouragement Officer Wavelength, mentor social enterprises, previously CEO for several social enterprises including Jamie Oliver's Fifteen	2	UK
Gerry Higgins, CEO Community Enterprise in Scotland; Supporting the social enterprise sector in Scotland	1	UK
Mark Parsons, Head of Community Finance and Social Enterprise, RBS & Natwest	1	UK
Fraser Kelly, CEO Social Enterprise Scotland; Supporting the social enterprise sector in Scotland	1	UK
Alastair Davis, CEO Social Investment Scotland	1	UK
Rob Wilson, Director Ashoka UK	1	UK
Neil McLean, Chief Executive Social Enterprise Academy	1	UK
Alan McNiven, Chief Executive Engage Renfrewshire	1	UK
Alan Kay, Social enterprise and community development researcher	1	UK
Willemijn Verloop, Director Social Enterprise NL & Partner Social Impact Ventures; Supporting the social enterprise sector in The Netherlands	1	The Netherlands
Robert van der Laan, PwC Corporate Responsibility Leader EMEA region	1	The Netherlands
Margaret McGovern, CEO PYMWYMIC, European Investment Fund	1	The Netherlands
Andrew Picken, Director Social Enterprise Europe	1	Europe
Darren Lobo, Impact Investor, Intellectap	2	India, Africa
Professor Muhammad Yunus, Founder Grameen social businesses including Grameen Bank; Nobel Peace Prize Laureate	1	Bangladesh
Total number of interviews	19	

APPENDIX 2. OVERVIEW INTERVIEWEES - CASE STUDIES

Case study	Country	Title/ description	Interviews
Bistro	UK	Founder and CEO	2
		CEO Beyond Food	1
		Chef trainer, ex-apprentice	1
		Senior manager	2
		Bar & Restaurant Manager	1
		Clients - apprentices	3
		Customers	2
Logistics	UK	Founder, Managing Director	1
		Director of Operations	1
		Business Consultant	1
		Clients - employees	2
Youth Support and Go Karting	UK	CEO	2
		Marketing Manager	2
		General Manager	2
		Head of education & youth training	1
		Client -employee	1
Sandwiches	UK	Co-founder	2
		Investor & Board member	1
		Clients - employees	3
		Customer	1
Janitors	UK	Partnership & Growth Manager	2
		Community renewal manager	1
		Clients - employees	2
		Partner - Head of Employability	1
Dining in the Dark and Coaching and Recruitment	The Netherlands	Founder	2
		Clients - employees	3
		Customers	2
Taxis	The Netherlands	Founder	1
		Clients - employees	2
		Corporate customer	1
Chocolates	The Netherlands, Ghana, Ivory Coast	Chief Chocolate Officer	1
		Sales Manager	1
		Customer/ Distributor	1
Authentic Travel	India	Co-founders	4
		Senior manager	2
		Clients – employees/ guides	2
		Clients - villagers	3
Apparel	US, Ecuador	Founder & CEO	2
		Senior manager	2
		Supporter	1
		Clients - Agents of Change	4
		Customers	2
Total number of interviews			74

APPENDIX 3. INTERVIEW GUIDE SECTOR EXPERTS

1. Can you tell me about your background and how you came to do what you do today?
2. What is a social enterprise to you?
3. Can you think of an example where a social enterprise has a huge positive impact?
4. In terms of helping people in disadvantaged situations, can you think of situations where a more charitable approach or social enterprise approach seems more effective?
5. Based on your engagement with the social enterprise sector, what would you say are the key factors to success for a social enterprise?
6. What do you think are the main challenges social enterprises face?
7. What do you think are the main advantages of a social enterprise (vs commercial enterprise)?
8. What examples of social enterprises have you observed to be effective in achieving both financial sustainability and social impact? In your opinion why have they been effective?
9. What examples of social enterprises have you observed to be less effective in achieving financial and social outcomes? In your opinion why have they been less effective?
10. In your opinion what challenges do social enterprises face in their pursuit to balance social impact and financial performance? Based on your engagement in this sector what do you think are key lessons for social enterprises to achieve and maintain this balance?
11. What would you say are the main barriers towards achieving financial self-sustainability?
12. What would you say are the main enablers towards achieving financial self-sustainability?
13. Have you observed effective ways for social enterprises to differentiate themselves in the market?
14. Based on your engagement with social enterprises can you think of specific market segments that appear to be effective for social enterprises to target?
15. To what extent do you think social enterprises benefit from positioning their products/ services as a 'good story' versus 'good product/ service' in their messaging to customers?
16. What are your thoughts around transparency towards customers knowing they are buying from genuinely social enterprises? (e.g. certification, levels of social impact?)
17. Can you think of any other messages or advice based on your experience with social enterprises that you would like to pass on?

APPENDIX 4. INTERVIEW GUIDE MANAGEMENT

1. Can you please tell me about your background and how you came to do what you do today?
2. Can you think of an example when you felt ‘this is why I am doing this’?
3. Can you tell me about the main aims of ‘SE’?
4. How long has ‘SE’ been in existence and how has it developed?
5. What would you say have been key factors to the success of ‘SE’?
6. What have been the key challenges you have faced in the business so far?
7. Can you please tell us a bit about the ‘beneficiaries’ of ‘SE’, and their situation?
8. How has the opportunity at ‘SE’ helped them?
9. What are the important parts of the program at ‘SE’ that helps create this impact?
10. What were the main challenges at the start?
11. What has been the main challenge in the last 3 months?
12. How many employees does ‘SE’ have and what is the percentage from disadvantaged backgrounds?
13. How does ‘SE’ select and prioritise the people it aims to help?
14. To what extent is ‘SE’ financially self-sustainable?
15. In your opinion what have been the main barriers and enablers towards financial self-sustainability?
16. To what extent does ‘SE’ focus on business goals versus social goals?
17. Can you think of examples where you had to choose between social and financial aims?
18. If ‘SE’ was a purely commercial organisation and had no social aims to consider what would you say would be the main differences?
19. If you could pass on any lessons learned about balancing commercial and social objectives what would they be?
20. What market segments do you target and why?
21. What are the main ways ‘SE’ differentiates itself in the market?
22. Can you tell me about the use of the ‘impact story’ in your messaging to customers?
23. What type of investment/ loans/ grants have you used and what have been the pros and cons?
24. What is the legal status/ structure of ‘SE’ and what have been the pros and cons?
25. What is a social enterprise to you?
26. If you could pass on advice to other (aspiring) social entrepreneurs what would you say?

APPENDIX 5. INTERVIEW GUIDE BENEFICIARIES

1. Can you please tell me about your background and how you came to do what you do today?
2. Can you please tell me in what ways your life has changed since your time working with 'SE'?
3. What are the best things about working with 'SE'?
4. How much has this opportunity contributed to your financial position?
5. How much has this opportunity contributed to other factors such as confidence, skills development, future prospects?
6. What are you most proud of?
7. What are your aspirations?
8. Based on your experience working with 'SE', can you think of anything that could be improved?
9. What have been the biggest challenges working with 'SE' in the last 3 months?
10. If you would start this opportunity all over again is there anything you would have liked to be different?
11. How does an opportunity like this compare to charitable giving to you?
12. How does this opportunity compare to other opportunities to improve income?
13. What are the main things about 'SE' that make it work for you?
14. Can you think of any other comments you would like to make?

APPENDIX 6. INTERVIEW GUIDE CUSTOMERS

1. What do you like about 'SE'?
2. What are the main reasons for you to buy from 'SE'?
3. How much do you know about the social mission of 'SE'?
4. What do you think about the opportunities provided by 'SE'?
5. Does the social mission of 'SE' make any difference to you?
6. What information would you like about the social mission/ impact?
7. In general when you buy from social/ ethical/ fair trade organisations how important is transparency/ certification to you?
8. How do you view a social impact organisation as a means to improvements in society (for example compared to charitable giving)?
9. Can you think of any other comments you would like to make?

APPENDIX 7. ETHICAL FORM

Participant Information Statement

You are being invited to take part in a research study. Before you decide, it is important for you to understand why the research is being done and what it will involve. Please take the time to read the enclosed information and feel free to discuss it further with the researcher or any other party.

Researcher Details

The research will be conducted by Melanie van de Velde, based on her PhD study on social enterprises, which has been awarded the Adam Smith Business School Scholarship at the University of Glasgow. Melanie has over 15 years senior management experience, both in the commercial and social enterprise sector. Her academic background includes an MSc in Industrial Engineering and an MBA with Distinction. Based on her experience running a social enterprise for girls in the slums in Nairobi she became aware of the additional challenges social enterprises face compared to commercial organisations. This inspired her to undertake this research project to learn from social enterprises around the globe as to how to overcome challenges in achieving both financial sustainability and social impact. She is keen for those shared lessons to be distributed widely to prevent costly 'reinventing the wheel' and help social enterprises achieve a higher social return on investment.

What is the purpose of the study?

The purpose of this study is to support social enterprises with shared knowledge of how to define effective strategies to achieve and balance financial sustainability and social impact.

Why have I been chosen?

Your organisation has been invited to take part in the research as part of a selection of 8 exemplar social enterprises from around the world. To increase the value and external validity of the findings, social enterprises will be studied in different parts of world (UK, The Netherlands, India, Kenya, Ecuador and the United States).

The case study organisations are selected to meet different categories to enable cross case analysis and to enable the theory to extend to a broad range of organisations. Next to the case studies industry expert interviews will be conducted, and existing social enterprise literature and industry reports will be included in the analysis.

Do I have to take part?

There is no obligation to take part in the study and you may decline participation or withdraw at any time during the process.

By participating in the study, you will be led to reflect on lessons learned on the growth and positioning of your social enterprise. Information about your experiences combined with analysis of data provided by other case studies and industry experts will help generate valuable knowledge of how social enterprises can effectively grow as a business and change people's lives for the better.

What will happen if I take part?

The researcher will arrange a convenient time to arrange interviews with management (preferably one 'senior manager' and one 'middle manager'), beneficiaries and customers.

The researcher will arrange a convenient time to arrange an interview that should take around one hour. The interviews will be digitally-recorded and subsequently transcribed and anonymised, before being analysed by the researcher. By participating in the study, you will be led to reflect on your experience and observations on social enterprises and their pursuit to achieve social impact and financial sustainability. Analysis of your observations combined with data provided by other case studies, industry experts, surveys, literature and industry reports will help generate valuable shared knowledge of how social enterprises can effectively grow as a business and change people's lives for the better.

Will my taking part in this study be kept confidential?

All information will be collected for the needs of the study and will be treated confidentially. All data collected will be aggregated and anonymised with all names of participants and organisations changed into pseudonyms and identifying information subtly modified. Please note that assurances on confidentiality will be strictly adhered to unless evidence of wrongdoing or potential harm is uncovered. In such cases the University may be obliged to contact relevant statutory bodies/agencies.

The recorded data will be retained for 5 years from the date of the first interview and then destroyed. A period of five years is deemed necessary as the anonymised research data may be utilised in future academic and business publications. The start of the retention period begins with the date of the first interview and this period may be extended subject to future written agreement by the interviewee.

What will happen to the results of the research study?

The study will be part of a doctoral thesis produced at the end of a three year research period. Parts of the thesis document may be published in academic journals and disseminated across policy-making or academic bodies, as well as communicated to interested social enterprises and support organisations.

Who has reviewed the study?

The study proposal was reviewed by experienced academics from the Business School at the University of Glasgow, and by the Ethics Committee at the College of Social Sciences.

Contacts for Further Information

Thank you for taking the time to read this information. Should you have any further questions, please email Melanie van de Velde at m.van-de-velde.1@research.gla.ac.uk or her supervisor, Professor Colin Mason at Colin.Mason@glasgow.ac.uk

If you have any concerns regarding the conduct of the research project, please contact the College of Social Sciences Ethics Officer by contacting Dr Muir Houston at Muir.Houston@glasgow.ac.uk

APPENDIX 8. ILLUSTRATION CODING ‘SOCIAL IMPACT’ UK DATA

Tentative code	Narrative	Participant
Empowering clients Respecting clients	<i>“I really enjoy supporting social enterprises because I find it’s quite an empowering model. Like if you come into a social enterprise and you’re buying a product or a service you’re not donating in the traditional sense. .. So I find that the relationship is quite equal. And I think that’s more empowering than if you’re just donating to charity. Because I know that the money I’m spending is helping someone have a job, but also the money I’m spending, I’m getting a fantastic service out of it as well. So I like social enterprise because I think the balance between the consumer and the producer is a lot more equal and therefore everyone, I think, feels empowered and it’s a lot more self-motivating. I think it gives people more respect, and it really encourages people to think about the ways they can help others. So it’s not just about me maybe having a little bit more money than someone else and donating, it’s about us respecting each other as a consumer and a producer. “</i>	Customer – Bistro, UK
Achieving the best outcomes for people	<i>“Actually switching the model on its head and becoming an enterprise felt very natural for us because it was about achieving the best outcomes for people.”</i>	Sector expert, UK
Creating hope and ambition, transformative impact	<i>“Giving them jobs and employment opportunities and careers, and thereby giving them hope and some sort of ambition for the future, had a far more profound and transformative effect than simply giving them free services.”</i>	Sector expert, UK
Creating transformative impact	<i>“You’ve got individuals who have been out of work for five, six, seven years, perhaps been in prison for part of that time, didn’t have any hope of getting back into work, who have successfully achieved paid employment after coming onto our program. Those are the things that I really enjoy seeing, people change their lives. “</i>	Founder – Logistics, UK

Breaking through barriers	<i>"I do find the third sector is quite institutionalised. They have heard every homeless person or jobless or workless person socially excluded person. All the excuses about why they can or can't do something. When you get someone in a live working environment you can challenge them a lot more, and tell them to get their head stuck in and come to work on time and we can patch through some of that and they listen. And I have seen people having conversations with key workers and job centre advisors and they don't listen."</i>	Founder – Bistro, UK
Impacting lives of family members, improving social life, transformative impact	<i>"My whole outlook on life has completely changed... What do my children think about me being here? They think it's great, they absolutely love it, they're proud, they're excited, they love it. I am already a chef at home obviously but they love it. Their lives changed too. They have extra-curricular activities now which they didn't have before. Their lives are opening up and expanding and their social lives expanding also. Their whole lives changed. It just had a massive huge positive knock on effect on all of our lives"</i>	Client – Bistro, UK
Creating transformative impact	<i>"A former apprentice who is now a sous chef in a restaurant, and had been in prison a number of times had a number of children he had not been looking after, and now he is holding down a job and taking his career forward, in a really good restaurant in London and really adding value to society. And that's when you go, that's why we do this."</i>	Founder – Bistro, UK
Creating pride and self- esteem	<i>"Yeah, I've got a lot of advice. If you're passionate about it then you can do it. You can definitely do what you want to do. Not give up hope. I was sent to jail three years ago and I didn't think that I'd be able to be working in The Savoy, from the day I got sent to jail to three years from then. So definitely, believe in yourself and you can achieve what you want to achieve."</i>	Client – Bistro, UK

Creating pride and self-esteem, and happiness	<i>“So I was training the apprentices and doing the menus and I had this new responsibility. I loved it. It’s one of my real good achievements. In that time we cooked for every politician you can probably imagine; David Cameron we’ve met, I cooked for The Queen on top of The Gherkin, I met Gordon Brown, sat around the round table with Hazel Blears, Boris Johnson came for breakfast. So many different memories that I have in my life. “</i>	Client – Bistro, UK
Creating transformative impact Getting into employment, obtaining certificates	<i>“Before I came to ‘Logistics’ I was on a bit of a downward spiral, I left school without any GCSEs, and I sold a few drugs and I stole some things. I was a bit of an unsavoury character, I wasn’t happy in myself, I got a few run-ins with the law and I wasn’t going anywhere. And then I heard about this scheme. So I came here, and Mike knew that I had a criminal record and that I had to attend probation regularly and that I had a bit of a troubled past, but he saw a good thing in me, put me on, gave me full time employment, I’ve got four different certificates for handling equipment, forklifts and such, he’s put me on a City & Guilds course, and I’ve turned my life around really. I was really into drugs and alcohol, and now I’ve come here I actually feel important.”</i>	Client – Logistics, UK
Improving relationships with family, developing hope and ambition for the future, increasing happiness, improving income	<i>“So basically since I’ve been released (from prison) I’m all about family at the moment, getting myself together, which I am pleased to say I’ve done that now, and there’s bigger things to happen for me a bit later on down the line. So I’ve got to go back into studying and all that to get some qualifications which I need to progress onto the next stage where I’d like to be in a few years’ time... If I’m honest, to provide a sound wage each month where I’m not struggling, and it doesn’t make me have to think about my life previously in order for me to obtain that. I’m quite able to just do it, getting out my bed in the mornings and going to work like the regular men and women out there. And above all I think I’d just like to be happy at the end of the day. You know, I’ve got my family around me, so I don’t need anything else apart from that.</i>	Client Logistics, UK

Creating transformative impact, breaking through barriers	<i>What I've achieved since I've come out. The fact that... the fact that I've actually broken into the role of getting out your bed, I have to get up at five o'clock every morning just to get here for work, because I live the furthest away. So the fact that I've maintained that for the last two years, I think, is a big plus, considering getting out of bed for me wasn't until like twelve, one o'clock before. So it's a big plus. There's a lot of other things that go with it, obviously. I've got a better quality of life now. It's different when you're not looking over your shoulder.</i>	
Creating pride, confidence, self-esteem, happiness	<i>"You feel more confident, and more valued in what you're doing day to day you know... And I was apprentice of the month last month so I am over the moon"</i>	Client – Bistro, UK
Empowering clients Creating confidence, self-esteem, dignity	<i>"The thing that I loved about a social enterprise from day one, is that the whole process of rather than delivering a service to people in need, part of what I did was that I would employ them. That changed the dynamic very much. They seized to become beneficiaries or service users, but they become employees, they become staff, they become your colleagues. That fundamentally changes the relationship and it makes it a far more empowering and equal relationship. And of course all of the courses that you can give to people in poor communities about empowerment, or self-confidence or self-esteem, you know, they are irrelevant compared to the impact of giving someone a job, the dignity of giving someone a job."</i>	Sector expert, UK
Empowering and equipping people	<i>"Most importantly it was about empowering and equipping the people within my community with the skills that meant that they could work and become independent people within society, rather than dependent on charity."</i>	Sector expert, UK
Creating confidence, self-esteem, happiness	<i>"When I work I feel like what I do is good for the company, I feel they need me as much as I need them. Sort of left under my own steam now, I've found my groove, I just come to work, I can also do a team leader, I've been learning</i>	Client – Logistics, UK

	<i>how to control a group of other people and get them all motivated and check their work and be on top form, so I feel good about the place. Yeah, I feel happy. I feel genuinely happy about my work here, what Mike's done."</i>	
Creating confidence and self-esteem	<p><i>"Self-worth. Biggest one of all. I mean, you think about it, I've never been a person that would want benefits, that's why I chose the path that I chose. Because I don't believe I should have to go cap in hand to anybody. It's my job to actually provide for my family, provide for my children, and I'm a proud man, so I wouldn't go cap in hand.</i></p> <p><i>But there again you look at people that have been on benefit for decades. And I think about those people, look at them, I'm not prejudging them, and I don't mean to sound like I am, but where's their self-worth? I think with things like this that are put into place for people, that they have a sense of self-worth. Because they're actually doing something. It may not be what they want to do, but the fact remains they're actually doing something, they're contributing something..</i></p>	Client – Logistics, UK
Generating ripple effect on other parts of life and other people	<i>And they're not just contributing something for themselves, they're contributing for other people as well. Because other people do benefit from this, not just themselves. For me personally, I like watching the guys come in and the guys leave knowing that I trained those people, knowing that I helped those people in whatever way that I could have helped them."</i>	
Creating confidence, self-esteem, respect, transformative impact, breaking	<i>"Since I've started working here, one of the biggest things I find is I've got a new found respect for myself, because before I felt like I was... I can't swear, can I? Like I was terrible. I was being a terrible person, I made terrible life decisions, and I was stuck in a rut of just getting my Job Seeker's Allowance, get drugs, get drunk, maybe I might steal something if I didn't feel like I had enough money. Whereas now I actually feel proud of</i>	Client – Logistics, UK

through barriers, happiness	<i>myself. Instead of getting up into the mid-afternoon, I get up at seven every morning, I keep myself clean, keep my room straight, all my clothes straight, I enjoy coming to work.</i>	
Generating ripple effect on other parts of life and other people	<i>It adds structure to my life, so I feel a lot more structured, but I also feel respected. Like when I do something right I get praise for it. When I pass my tests, when we do 100% accuracy for the week, I feel really good. When Mike asks me to look after some other people, see recently I've been working with a deaf chap, he is completely not hard of hearing, he was completely sensory impaired, so I learned sign language. The last two weeks I did a sign language course, intensive. And I've learned to sign and work with deaf candidates that come in here, just teach them about work environment. So I feel like I've bettered myself quite a lot. I never used to have patience for anyone. Used to be...</i>	
Equipping people with certificates, experience Generating income Creating happiness, improving relationships with family	<i>Okay. I'm most proud of the fact that since I've started working here, it's a mixture of two things; one, I've got four different certifications on the forklift, there's the counter-balance, a reach, a man-up, and a turret truck for the very narrow aisles. So I've got those four licences, I'm quite proud of that because I thought I was a terrible driver. But secondly I've managed to step up in life, keep myself cleaner, keep myself straighter, I make money, I like having money. A grand every month is what people need. So I'm proud that I've managed to get into the full time work, learn how to drive the forklift trucks. Another thing I'm proud of is the fact that they trust me to teach other people how to pick and pack and use the computer system. So I'm happy I've gone from being the very bottom of the barrel, I feel quite high up now, I get to help other people rehabilitate after rehabilitating myself..</i>	

<p>Breaking through barriers</p> <p>Creating hope and aspirations</p>	<p><i>So I feel amazing for that, it's really helped me out. Everyone around me is actually really proud of me. There was a time before when my own family sort of shunned me, they didn't want to know me, I was in a bad place and I was being not very good to society. So I didn't speak to my mum for about four years straight, and just lost contact with my dad. But recently I've been in contact with them both. I live back at my mum's house, and putting money in there because she is struggling, single parent. So I'm back at my mum's house, I'm not using any drugs and alcohol, I'm putting money into the family home, so I just feel like 'Logistics' has really gave me the kick up the backside that I needed..</i></p> <p><i>Working here has given me aspirations, just aspiration in the first place is a good thing because before I didn't aspire to be anything. Whereas I get small aspiration like when I first started here I aspired to be a forklift driver, now I'm a forklift driver. Now I aspire to be a team leader. I'd like to go on to actually have the job title of supervisor or team leader and just have a bit more responsibility, something different every day. I'd quite like to train people how to use the forklift trucks as well, the assessors, they look fun. So either to team lead a group and help people rehabilitate like I did myself, or to assess people on the forklift trucks, because that's quite fun. It is fun, it's a good job. I'd enjoy that. One day I'll be one of those things. One day I will lead a team or be a forklift truck assessor. That's it. Thanks."</i></p>	
<p>Equipping people with experience</p>	<p><i>"Okay. I think the difference that we offer, the opportunity that we offer here to some of the other projects that are going on out there is that it's a very professional environment. I've seen lots and lots of great community centres that offer really good programs, teaching people how to cook, teaching people how to manage life skills, all the things that go round, or IT skills, there's so much that goes on out there. I think what makes this different is that they actually get the opportunity to do the work while they're here. So the building up, as I say, of Fresh Life is day</i></p>	<p>Senior manager – Bistro, UK</p>

Breaking through barriers	<p>one it's just us talking about what the opportunity is, day two they're here at the restaurant, and they're up in this training kitchen and they're cooking..</p> <p><i>So they get involved very, very quickly which I think breaks down barriers</i> because there's ten, twelve, fifteen people in the kitchen in small groups with a recipe cooking. I think at the end of it the bit that shows is that thing of letting them engage at their own level, but <i>it's real</i>. We usually bring in ex-apprentices as well to work on those days, and seeing someone who's gone through the same process that a year ago was in the same position and now they're actually just qualified as a chef, it's real. And it's talking to people on the same level. I don't really know anything else that makes it work, but <i>I know that being involved and letting people get stuck in, which is a phrase we use a lot of the time it really does work</i>. They feel relaxed, they're doing something and they're producing wonderful food. And even if they don't want to become chefs they've achieved something, something lovely."</p>	
Creating confidence	<p>"Because it's not just about the job, the skills that they're going to learn when they're here, <i>it's about the confidence. And so many of the client group we work with, their confidence is quite low to start with</i>. Sometimes they don't realise that. They'll say "oh, no, I'm super confident." But actually it's that walking through the door of somewhere and having somebody to greet you and make you feel at ease is a really good thing. And communication, really, really big. If you can communicate to somebody what you're feeling, and I try to do it as well, if something's bothering me about someone, that I think they're maybe not quite ready to do this, I would much rather have that conversation with them and say "look, this is not a criticism, but I'm noticing this, this, and this." Certain little aspects that are showing up."</p>	Senior manager – Bistro, UK

<p>Contradiction: It's about generating income in order to achieve social objectives</p>	<p>"I don't think social enterprise means that you have to pay for services. So I think it's a common mistake or a misunderstanding that emerges. Social enterprise does not mean that all of a sudden we're charging for services that people access. It's about generating income in order to achieve social objectives.</p> <p>So for example if I wanted to sell bottles of water as a way of funding my free domestic violence drop-in centre then that's completely appropriate. So this notion that if you go down the social enterprise route then all of a sudden those services you start charging for is a myth that I'm very keen to bust. I think where social enterprise can add much greater value is about changing the relationship between a service-user."</p>	<p>Sector expert, UK</p>
<p>Respecting clients</p>	<p>"So often we view people that are requiring public service interventions or charitable support and help as immediately almost second class. They become service users, they become a client. Actually it's far more powerful if you can take people out of poverty and take them on that journey through being their colleague or their co-worker. Because that gives them an equal status in the relationship, whereas when you traditionally view people as your service users or your beneficiaries immediately it can create that almost patronising approach."</p>	<p>Sector expert, UK</p>
<p>Structurally resolving issues such as poverty, not dealing with symptoms</p>	<p>"I think that there are many places where charities still play a vital role in life. And in those situations whereby you need almost an emergency response, you can't necessarily develop a business around responding to emergencies. And the example I would use are things like domestic violence, hostels, drop-in centres, dealing with very sensitive issues in a way where you don't want a transaction to occur, there shouldn't be a payment for a service. It's supporting people in that hour of greatest need. And I think charities play a remarkable role in that sort of work. The other example would be food banks. Food banks play a critical role when all else fails to help people survive. So I think there are a couple of examples there where charities have a critical role to play. But when you're trying to not deal with the immediate symptoms of a problem, or an emergency, when you're trying to actually</p>	<p>Sector expert, UK</p>

	<i>structurally challenge people that are marginalised or are not being given the opportunity to succeed, that's when social enterprise can play a much longer role, a longer term role, in resolving a whole myriad of complex circumstance that can keep people in poverty. So I think for me social enterprise is a long term macro solution, and charities increasingly I think we recognise they play an incredibly important role, but often in the situations where you need emergency response to alleviate symptoms. So I think one is around control of symptoms and one is much more around structurally changing things to do away with the symptom altogether."</i>	
Creating transformative impact	<i>"But I don't want to downplay how difficult it is to run any sort of business and make it profitable and keep it on the road. And for larger private sector companies who have very demanding shareholders is that more or less difficult than having demanding young people? Don't know. But running any enterprise is a real challenge, is why most people don't do it, but if you can get it right, particularly if you can get it right in the socially enterprising model I think the results can be transformative."</i>	Sector expert, UK
Creating pride and confidence, transformative impact	<i>"We wanted to create a program that gave someone a chance. And that was really our ethos, was to look at other employers and say "if you give this individual a chance then what they can do is astounding." And some of the people that we have helped, it's absolutely changed their lives... We knew that we needed something a bit longer term. That sheep dip of just six weeks in and out wasn't enough for the people that we were targeting who had such a journey to take. So we listened to ourselves, we were confident in what we were doing, so we gave them longer to bed in, to be part of a team, to feel confident, and truly be proud of what they were doing."</i>	Senior manager – Janitors, UK
Empowering clients, improving self-	<i>"If you're always seen as the homeless charity beneficiary or the homeless charity service user you're always going to carry that label of what you were with you. When you work for a social enterprise, as an apprenticeship or as a</i>	Sector expert, UK

esteem and self-image	<i>trainee or in any other role - you become an employee and you become a co-worker. And that immediately changes that kind of traditional label that you might have been wearing for years previously."</i>	
Creating employment, transformative impact	<i>"I think the best social policy that anyone's ever invented is a job. A job can really transform a life, so I think employment is a really crucial aspect for us."</i>	Co-Founder – Sandwiches, UK
Generating income, creating transformative impact, hope and ambitions Creating self-esteem	<i>"Oh, it's made a big, a big impact on my life. Obviously the money. Because I used to work here full time, but then my dream goal is to be an outdoor instructor. Obviously I'm in college and all that now. I worked here full time up until August last year, and then the shop were wanting to keep me on part time, which is brilliant for me because I still wanted to be part of the... Jamie knows how much I like, I love 'Sandwiches' and what it does for the homeless people and all that. There was nothing like this when I was younger, when I was homeless. But the feeling I get coming to work, and doing a day's work, and the money, it pays my rent. I need to pay rent now. So the money, the wage from here pays my full rent</i> <i>My self-esteem's got better through working here. Even when I got the chance I still didn't believe I could do it, and I done the trial and all that and they told me they were giving me the job. Because I wasn't used to it, I didn't know, it was my first job."</i>	Client – Sandwiches, UK
Creating employment, pride, hope and ambitions, improving	<i>"A good question. Getting employment. My college. Everything, my family, my friends. Life itself. Getting given an opportunity in life again. I've grasped it with two hands. I'll never let go of the opportunities that I've been given. So to that question, everything. Aye, everything. Aye, definitely. My wee mum. My dad's not too well so I've just got to change my time with him just now. But, aye, they're proud of me, the things I've achieved. I was in</i>	Client – Sandwiches, UK

relationships with family and friends, happiness	<i>Parliament, speaking in Parliament a few weeks ago, Holyrood. That was an amazing experience, through Scottish Youth Justice, I'm trying to make a change through criminal justice for young people. There's an organisation called CYCJ, Criminal Youth...</i>	
Creating income, structure, stability	<i>"Well, I've had various different jobs. I had a few apprentices, apprentice painter, apprentice bricklayer, but I was just released from prison the end of last year, this is the first job I've got since I was released from prison. So it's gave me some structure, some stability, and some money for the kids and my girlfriend, which is obviously good. Aye, everything's going well at the moment considering, from six months ago. So, yeah, I'm working hard, I've got my family to focus on, I've got the job now. All my family's really proud, considering what happened six months ago, where I was. And now that I'm going to the gym, working out, spending time with my family, my kids, so aye, there's been a big change in me.</i> <i>I'd just like to say if you were going to do something like this, just maybe the only thing I've said, maybe a chance at some full time employment at the end of your course, or maybe some more training, as I've said. More certificates, more training, or a chance at some full time employment.</i>	Client – Janitors, UK
Improving relationship with family		
Importance of sufficiently equipping clients		

APPENDIX 9. ILLUSTRATION CODING ‘SOCIAL IMPACT’ WIDER CONTEXT

Tentative category ‘Empowerment creates more impact compared to free services’ <ul style="list-style-type: none"> - Structurally addressing issues compared to dealing with symptoms - Creating transformative impact on individual - Creating a ripple effect on other parts of life 		
Focused codes	Narrative	Participant
Improving income – A Empowering clients - A Creating pride, honour and dignity - B	<i>“Divine Chocolate has been having an incredible impact on cocoa farmers across Ghana for well over ten years now. The traditional charitable model is that you give food and you provide aid and you provide that kind of emergency assistance. Well, giving cocoa farmers the power of owning their own brand that’s sold in eleven countries around the world is much more enriching, there’s much more pride and honour and dignity through making your own money in the world and then determining how it’s going to be spent, rather than waiting for, normally, charities from white countries to appear in your country and help you build a school.”</i>	Sector expert - UK
Improving happiness, friends and family – C	<i>“My parents feel very happy to see that people are seeing talents in me that they also see. And my friends, you know how friends are, they are making jokes about “I want to apply too, I am going to pretend I am deaf so I can get a job too”. That’s funny but I know they are really happy for me (smile).”</i>	Client – Coaching and Recruitment, The Netherlands
Creating pride – B	<i>“In The Netherlands there are only a few people that are proud to tell that they are a taxi driver. And most of them work at ‘Taxis’.”</i>	Client – Taxis, The Netherlands
Creating a ripple effect throughout the sector - ADDITIONAL	<i>“ ‘Taxis’ of course is founded to drive electric. So we have never used a drop of petrol in the history of the company, but we have a number of aims first, of course. Being sustainable ourselves. We also try to recruit our drivers amongst elderly people that used to be unemployed to help them on a job again. And we are proactively trying to greenify the taxi market. So we are constantly looking what can we do to incentivise others also to</i>	Founder – Taxis, The Netherlands

	<i>become electric taxi drivers. That is sometimes a bit strange because they are also your competitors maybe. But we believe that it's our obligation to always find a business model in which we can have this business mission, and our social mission. And those two should be aligned all the time. And if we do that I think we can be very successful in both sides."</i>	
Breaking through barriers – A	<i>"If you constantly treat somebody as blind, he will never go beyond that and he will always feel blind and different. I am convinced that is the same for people with all types of handicap... When you have a handicap and you found a base to develop yourself like that you are a lot more loyal than another employee and you will also see that back in input, and sick leave figures and other interesting side advantages like that."</i>	Client – Dining in the Dark, The Netherlands
Creating confidence - B Empowering and equipping people - A Employing clients A	<i>"I have been working here since March this year. I have been searching for a job since March 2012. I had an academic background and I couldn't find any job. So I ended up applying for cleaning jobs or jobs at a warehouse. At one of the applications they said I was overqualified and that I should apply at 'Coaching and Recruitment'. I had nothing to lose so I ended up applying at 'Coaching and Recruitment'. I found there a traineeship. Now I have confidence in myself again. And I developed my capacities here. It made me feel I was not less than anyone else. So when they asked me to apply at PwC and I said yes, they really moved heaven and earth to have me apply for a job here. I went through the procedure for job interview. It was immense and that's how I ended up at PwC Forensics."</i>	Client – Coaching and Recruitment, The Netherlands
Creating happiness and an upward spiral – B	<i>"Before I was at 'Coaching and Recruitment' I was preparing for a cleaning job. At 'Coaching and Recruitment' they told me I could do everything I wanted and encouraged me to feel more confident and I felt appreciated. Because I felt appreciated, I became happy and because I became happy I wanted to do more things, learn</i>	Client – Coaching and Recruitment, The Netherlands

	<i>more things, I was in an upward spiral. And here at PwC I really have a feeling I can achieve anything if I want to and I work really hard for it. And believing and knowing this I just feel more happy and better.”</i>	
Creating enthusiasm – B Breaking through barriers - A Being a part of society – B	<i>“What I really like about this work too is to give young students with a visual handicap from the age of 16 - 20 the opportunity to have a nice challenging part-time job just like their peers and classmates. And to take away some of the insecurity and embarrassment and to make them enthusiastic for working and actively taking part in society instead of sitting at home.”</i>	Client – Dining in the Dark, The Netherlands
Creating pride and confidence – B	<i>“Aside from serving dinner in the dark, what people really admire, people dare to ask questions about how to do you do things at home, in the supermarket, how is that. And there is the opportunity to take people into your own experiences. And you notice that when they have been here they think hey I wouldn’t have realised that it would entail that much and that they realise that you can do so much. Because they notice that the waiters are great at their job and in that sense that they are not at all that needy or handicapped.”</i>	Client – Dining in the Dark, The Netherlands
Empowering and equipping people - A Generating income – A Being part of society – B	<i>“I know much better what my talents are, and also my weaknesses, by having the opportunity to develop my potential, and discover new things, and to get the space to grow. Society wise I enjoy it that I have a permanent job, to be involved with something and to see it grow, and to have an income and to be more a part of your social environment, that feeling has given me definitely a boost.”</i>	Client – Dining in the Dark, The Netherlands
Creating self-esteem - B Being part of society – B	<i>“In that sense my self-esteem has increased a lot, you see yourself more as part of society and contribute to a very cool concept. You're no longer an outsider, that is what struck me very much (laughs).”</i>	Client – Dining in the Dark, The Netherlands

<p>Creating hope, dreams, aspirations and happiness - B</p> <p>Improved social life – C</p>	<p><i>“When I look to the future I honestly have to say that I for a long time I didn’t have dreams because of my visual sight worsening. At ‘Dining in the dark’ I have had problems with that too, to accept my visual ability deteriorating. Also together with Bas who coached me to develop myself, also outside of work in my private life. Which made me feel a lot better also about myself and my visual handicap which resulted in me being a lot more positive about life compared to 7 years ago. This also had a number of positive consequences, that it goes a lot better in terms of my social life, and that I now have a stable steady relationship, that colours the image of the future a lot more.”</i></p>	<p>Client – Dining in the Dark, The Netherlands</p>
<p>Generating income - A</p> <p>Creating happiness - B</p>	<p><i>“Before they [Authentic Travel] came to our village. I used to work in our farms. After finishing work in our own farmlands. We used go 70-80 kms away from Purushwadi and search for farmlands. Work in those farms for 10-15 days as labourers and come back..... I like it here in Purushwadi. I was born and brought up in the serene environment of my village. I love nature. Also I am not qualified enough to bag a better job in city. So I came back to village started farming and joined ‘Authentic Travel’ as a guide. My life is much better now.”</i></p>	<p>Client – Authentic Travel, India</p>
<p>Empowering clients - A</p> <p>Being with family – C - ADDITIONAL</p>	<p><i>“When they [Authentic Travel] came in the village. They made work opportunities available for us. We don’t have to search for labour work anymore. We now work here in with our families in our very own village. We serve our guests and tell them about the Culture & Biodiversity of our Village.”</i></p>	<p>Client – Authentic Travel, India</p>
<p>Generating income - A</p> <p>Creating happiness – B</p>	<p><i>“The villagers are happy when guests come. They get an additional income. They expect guests to keep coming in. I have to rotate homes equally. In off season when tourist are less, it takes a while for a house to get its turn. They keep asking when next will they get a chance.”</i></p>	<p>Client – Authentic Travel, India</p>

Creating openness to life and education outside tribal village - C	<i>“They are ready to accept them, they accept the tourists coming in to the village and serve them whatever they have in a very loving manner. They are ready to ask questions like, because since most of the villagers do not go out of the village they do not know how the outside world is, so they are very open to asking questions as to what happens outside. The education levels, the college, something about the college so their children can go to college outside and learn more, or get a degree and get a better job. So now they have become more open, more communicative, more accepting of the outsiders coming in.”</i>	Senior manager – Authentic Travel, India
Creating financial independence, and confidence - A Empowering clients - A Creating openness to life and education outside tribal village – C	<i>“Since this is helping them to become financially independent they have a voice that they can show. They have an opinion and they’re able to share that because they’re not dependent on anyone. They’re a little more, I would say, empowered. Yeah, that’s the right word. They become a little more empowered because of this. And when they see girls coming in here, like we have management trainees coming here and doing their rural stay-ins, they’re staying here for doing their projects, when they see the girls, they are young, unmarried and they’re moving around different places without their parents along with them, they are open to sending their children, their girls outside the village for any studies further, or for any job further. They’re open to that because they feel it’s not a very horrible world outside. The girls are safe and they can be sent across. So that’s an immense, immense impact that the thought process has changed. The thought process has changed slowly, but strongly. Very strongly. That’s amazing.”</i>	Senior manager – Authentic Travel, India
Creating income – A	<i>“Yes. A very huge impact, I would say, because earlier money, of course, is something which is essential for everyone, you have small needs or big needs, you need the money to cater to those needs of yours. So they have to, they do not have, they never had a proper livelihood. Agriculture was just a base thing that they used to do that was just an occupation. And in case they needed money for any, maybe, school fees, school tuition fees, or</i>	Senior manager – Authentic Travel, India

	<i>going to the hospital, or going to the doctors, they wouldn't have the money, they would have to go out and work as labourers which would be like going there and standing in the hot sun for quite a while, sometimes they would get that work, sometimes they would not."</i>	
Creating happiness - B Enabling villagers to remain with their family – C	<i>"So they work as daily wage labourers. If they do get that work for the day they might not get any means to get any food and they're slogging in the sun, so they get very tired, and it's a pittance, the money that they get is a pittance, so they were tired because they need that money. This kind of a program which has been happening for the past few years has helped them to do what they are doing. They're very, very happy because they don't have to move away from their house, they are with their children, they can plan their schedule, they are with their cattle, they know the cattle is going out grazing but it will come back. So they are there in the house but they're earning as well."</i>	Senior manager – Authentic Travel, India
Creating happiness – B Enabling villagers to remain with their family – C - ADDITIONAL	<i>"So that has really helped them because they don't have to go in search of a job. It's a very, very immense change. Now they don't even look at going out of the village. There are a few people who had migrated earlier, they were doing jobs in the city but they were not very happy because it's a very cramped up space and it's a congested space, and they're used to living in open spaces and with their family around. Because of coordinating with us, because of being with us and these programs they have been able to leave the jobs in the cities and come back to the village, be here and work in the village itself doing what they're doing, sharing their knowledge, sharing the information about the village and they're very, very happy because they are with their family member. They are with their community and they are able to celebrate occasions and festivals and any occasion that they would want to celebrate they can celebrate with their friends, and they're all very happy. They're all very happy. Very, very happy. Very happy."</i>	Senior manager – Authentic Travel, India

Structurally addressing environmental issues instead of dealing with symptoms - A	<i>“In the end, you need to understand, or it’s great once you understand that the biggest drawback for conservation is the community itself. And it’s not just foreign NGOs coming and supporting save a specific animal, or save a specific tree, it’s the community understanding why it’s important to change it, and the work we’re doing, hopefully these kids will become that new paradigm, they’ll become head of these institutions, and they will drive this change, because the biggest drawback in the end for conservation is the community itself. They need to feel they are part of it. And with all the right, because this is their community as well.”</i>	Senior manager – Apparel, Ecuador, Peru, US
Structurally addressing environmental issues instead of dealing with symptoms - A Creating a ripple effect - C	<i>“The awareness of people here in Galapagos is really important because Galapagos being so diverse it’s so fragile. And one of the main problems that I see here is local people doesn’t have that awareness. And all the marketing and all the propaganda for conservation goes to the international part. But nothing stays here. Also, people doesn’t have that awareness because it’s so rich, also, that people don’t need to foresee the future. They just want to live the present and take all the can now instead of planning for the future and future generations. Yeah, of course. Agents of Change, for me, is a really, really nice program. Really has a lot of impact in communities because make them realise how rich and how fragile are the ecosystems of Galapagos. And they don’t just stay there, they also take them a little bit forward, in pushing, or teaching them how to have their own entrepreneur, or social entrepreneur. So impacting just one member of the community can impact hundreds that surround them.”</i>	Sector expert, Ecuador
Being part of society, amongst people - B	<i>“What I enjoy very much is to be amongst people again. You are daily busy with something useful. And that’s very important to me. When you have nothing to do then it stops, I am not happy anymore. And this a terrific thing to do and I hope to do it for a few more years.</i>	Client – Taxis, The Netherlands

Creating happiness, pride - B	<p><i>I am glad I can do some useful work again and not to stand by the side line. I really enjoy having something to do daily. And this is a great activity, how we do it here at 'Taxis'.</i></p> <p><i>It's great fun working at 'Taxis', as it is a young company, it is sustainable which means a lot to me, beautiful cars we drive in, and I have great colleagues, which makes it great fun to work here."</i></p>	
<p>Creating transformative impact - B</p> <p>Creating a ripple effect in other parts of the sector – ADDITIONAL</p>	<p><i>"So we're working together to make the world 100% slave free, the chocolate world. That's our vision. And that goes further than our own chocolate, that's all chocolate worldwide. And we do that, to be crazy about chocolate, we're not wacky, strange people, we're passionate to make the absolutely best tasting chocolate in the world. So the impact of a company that doesn't exist that long is relatively small, but the vision is quite big. So if you want to work at 100% slave free chocolate, communicate the problem, be an example, and act to inspire to make sure the big guys actually take their responsibility to act in a similar way that we do. What we do is we work on the field and we work with, let's say, 200 farmers, 2000 farmers, it might be a little bit more, in three cooperatives, and we buy the cocoa direct. We have long term relationships with them and we pay 25% over the farm gate price. So we pay 25% more for a long period of time, and the impact on that is huge. And if you see that there is a huge impact going on then it's really important to understand that the big guys need to take that."</i></p>	Chief Chocolate Officer – Chocolates, Ghana, Ivory Coast

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Beyond Shareholder Theory

Whilst business has brought many benefits to society, many companies have used resources and distributed wealth to achieve short-term gains at the expense of the long-term health of our planet and societies. 1 billion people live in extreme poverty on less than 2 US dollars per day. Scientists predict an increase in temperature of 4.5 degrees Celsius by the end of the century, creating serious damage that is irreversible. To structurally address these issues requires business to play a critical role by adopting a paradigm shift around their role in society.

There is increased recognition that an economy based on a 'shareholder paradigm' has led to detrimental outcomes for society based on the assumption that profit maximisation should occur even at the expense of silent and weak stakeholders. Theories such as corporate social responsibility, shared value and stakeholder theory have added an element of purpose to the role of business, next to the profit motive. However, they fail to clarify how value creation for society is effectively integrated into strategic decisions beyond 'low-hanging fruit'. For example, energy savings, a 'win-win scenario' benefiting both profits and planet, is a no brainer. But how can managers justify additional costs to fairly reward cocoa suppliers in Ghana preventing conditions of child slavery? And how to justify production methods that are less damaging for the planet but reduce profits? Or, for a social enterprise aiming to empower people in poverty, is it wise to locate their premises in deprived areas, or can they create more impact by targeting markets based on commercial opportunities?

In this thesis van de Velde explores how to combine the best of both social and commercial logics to effectively balance 'profits and purpose' based on 93 interviews across ten social enterprise case studies and sector experts in the UK, Netherlands, India, Ecuador, US, Bangladesh, Ivory Coast, and Ghana. The findings highlight that both logics have an important role to play in the business model, contrary to studies suggesting that one should supersede the other in order to prevent tensions. Key business model drivers are identified to effectively achieve financial and social aims.

A 'profits for purpose theory' is proposed as alternative to CSR, shared value and stakeholder theory to legitimately allocate resources to create value for society. By integrating principles of justice at the core of the business model, businesses can empower individuals and communities to contribute their potential in return for fair rewards. In doing so the misinterpretation of Adam Smith's free market theories can be rectified and major issues in our planet and societies can be addressed to create a better world for current and future generations.