

Briefing Paper 26

Business or third sector? Working paper on the dimensions and implications of researching and conceptualising the overlap between business and third sector

Andrea Westall, Associate Fellow, Third Sector Research Centre

Introduction

This paper takes a critical look at one of the outer limits of the third sector – the contested and difficult boundary, continuum or overlap, with the commercial business sector.

This issue is not just a question of exactly where this boundary is located – who is in or out, and on what criteria – but it is also about the implications of creating any particular dividing line on future policy and practice. In other words, its chief concern is the impact of research and policy on those organisations that overlap or are hybrid between the third sector or business. It matters, for example, both practically and politically if such organisations are seen as part of a separate third sector or of a plural economy.

These discussions are therefore dependent on notions and theorising not only about the third sector itself, but also about the ‘economy’. The current conceptualisation of the third sector in the UK is informed partly by the US-influenced non-profit space or ‘sector’ which is usually seen as being predicated on organisations that respond to market and government failure. The ‘third sector’ is therefore implicitly positioned in

opposition to the private and public sectors. In some European traditions, the more economic forms of third sector activity have been rather seen as an intermediary space between different motivations and functions in society – whether arising from households, markets or the state; or as an intermediary between different types or systems of economic activity – non-monetary, market-based or re-distribution.

Based on an initial dichotomy between for profits and non-profits, more recent US-influenced approaches have tended to identify continuums based on the relative primacy or linkages between social motivations and outcomes, and profit motivations and their use. Similar conceptualisations have influenced government and finance providers internationally. *The more European perspective rather stresses different and non-linear ways of carving up reality, with alternative concepts such as the ‘solidarity economy’ or the ‘social economy’.*

However, whilst both these approaches can be useful in explaining the motivations and impacts of different types of small and locally-

based 'values-driven' UK organisations, they are limited in dealing with larger and non-locally embedded organisations and non-standard businesses. Examples include larger worker co-operatives, or complex hybrid organisations such as Café Direct which mix strong social value motivations and outcomes, stakeholders and/or shareholders with different mixes of financial return, relative levels of governance and control. Such organisations may call themselves by alternative terms such as 'social business' rather than 'social enterprise'. Some may prefer to see themselves as part of a plural economy, others as social enterprises or, yet others, as part of a third or 'social' sector.

Additionally, much discussion of 'social enterprise' or the social dimensions or outcomes of the third sector tends to subsume environmental values and impacts under a vague and contested 'social'. That 'social' is itself often quite narrowly conceived – often limited to forms of disadvantage; local ownership, empowerment or economic development; or to activities related to public service delivery. Organisations and businesses that see 'social' more widely, whether in terms of morality, ethics, or the nature of internal processes; or those which create outcomes that may affect everyone in society; or see their goals as re-visioning and re-creating economies – are therefore not easily understood or captured in existing concepts or discussions. An example might be an organisation that has limited profit distribution to finance providers and delivers financial products that work for all people (rather than just the disadvantaged) such as 'trusted' pensions.

Whilst this is obviously an area of academic interest, it is also of practical concern for people and organisations competing or co-operating for recognition and resources, benefiting from government policy and attention, or trying to create social, environmental or economic change.

A boundary in flux

In effect, the boundary between the third sector and business is that between social enterprise and business. Social enterprise, rather than being seen as a distinct sector or type of organisation, might be better seen as an intermediary space being increasingly populated by trends or forces pushing towards the creation of more, and often quite complex hybrid organisations.

There have been different ways to look at this diversity:

- for example it could be approached through looking at the origins and trends of different kinds of traditional organisations, or people with different backgrounds, or as developments of social movements;
- or different 'types' such as development trusts, social firms or co-operatives;
- or the relationship between outcomes, relative levels of trading and non-trading activities, and profit use; forms of 'social ownership' which partly relates to issues of governance and relative stakeholder (including finance providers) control;
- or the nature of the markets within which organisations operate which might otherwise be 'missing' or which they aim to transform.

We could also consider non-monetary forms of social enterprise such as time banks, or local exchange and trading schemes which extend the idea of 'economic'.

The tensions and differences between different kinds of 'social enterprises' in practice centre predominantly around notions of the 'social' – including whether or not the idea of 'social' is seen in relation to external outcomes, or as part of the processes and motivations through which the organisation runs (for example, as reflected in different models of ownership and governance).

Organisations may also move around and across any devised border as a result of changing circumstances, growth, decline or

economic conditions. And they are not isolated – they may be part of complex networks or group structures with other organisational types. Or they might be owned by different organisations, for example, government, a voluntary sector body, a business or another social enterprise.

This diversity of organisational structures and values creates tensions which continue to be played out in discussions with different practitioners or government departments who can tend to adopt different parts of this ‘social enterprise’ space, depending on where their interest predominantly lies.

Overall, the language and scope of social enterprise in the UK seems to have narrowed since 2001, when the Social Enterprise Unit was set up in Government, probably as a result of the government policy focus on disadvantaged areas, social inclusion and public service delivery as well as the pre-eminence of certain ‘standard’ business models. The idea of plural business models has been under-developed, with government particularly preferring a policy focus on Corporate Social Responsibility (CSR) as a way for business to engage with social and environmental issues. This bias may be behind the development and proliferation of language by different business models, using terms such as ‘social business’, or ‘ethical business’, to identify and attract attention to alternative ways of operating.

Conclusions and implications

The interests of government, finance and funding providers, and certain coalitions of interest, have dominated existing practical concepts of social enterprise and the third sector.

Theory has been influenced by either US-based notions of a division between the non-profit and for-profit sectors, or more European-based sociological and political approaches which emphasise alternative ideas about the economy. In these different viewpoints, the ‘third sector’ is either a

specific ‘sector’ or an intermediary space with organisations adopting different combinations of principles. Attempts to bridge the gaps between these two positions are happening, but seem to be running behind innovations in evolving organisational forms and structures which may fit neither conception.

Organisations that feel part of neither tradition, either ignore such debates or devise new terms for their identity – for example, ‘social business’, ‘sustainable business’, ‘ethical’ or ‘environmental’ business. It is interesting that many hybrid organisations tend to want to be seen as businesses rather than as part of a voluntary or third sector, partly perhaps because their goal is often to change market structures and the nature of the economy itself.

In this situation, therefore, there is a clear need to embed research and policy in evolving reality.

Research implications

Look at and analyse actual examples of organisations or business that overlap the third sector/social enterprise/business boundary

Research needs to firstly take a purely inductive and exploratory approach to all the dimensions, processes, outcomes and motivations of hybrid forms of organisational and business activity. We do not know enough about what actually exists and why. This is a necessary first step before attempts to create theoretical concepts or practical policy.

Theorising the third sector along with the economy

More work should be done to conceptualise the third sector as well as different forms of economy, in order to better understand the practicalities and conceptual reasoning behind certain ways of carving up reality.

Governance: the under-researched and weakly understood dimension

Another key area of research is governance or social ownership, particularly since much decision-making over social enterprise and third sector activity is related to mission, stakeholder engagement, results of productive activity, profit use and control.

What is social and what is environmental?

The ideas of 'social' and 'environmental' should also be subject to scrutiny and research, since they have been limited in their application to particular social outcomes, often associated with disadvantage, or focused on public policy goals, such as regeneration or work integration.

Organisations that change motivations and goals over time

There are also organisations that cross the boundary between the third sector and business. Why does this happen and what are the benefits or disbenefits?

Government implications

Government is particularly affected by this boundary issue since clear demarcations enable it to determine policies, for example, potential tax benefits or financial support, but may also disable it from being able to think through how to deal with complex and changing realities. *For example, the idea of 'resilient' economies may require the idea, not of a monolithic commercial business imperative, but rather that of plural business structures and motivations.* Some social enterprises may better therefore fit into this arena both for practical reasons as well as in order to fulfil their goals. This approach also recognises the role of some social enterprises in transforming markets themselves and the players within them. Should such activities be part of the third sector or a plural economy or both?

Reconsidering the third sector/business boundary

Government could fruitfully support research of organisations that sit on or cross the boundary between the third sector and business, to expand understanding of what is possible, and inform any future policy towards more ethical markets, or to a more moral, resilient and sustainable economy.

The implications of the 'social' in social outcomes

The UK Government is particularly interested in social 'outcomes'. However, the current ideas of 'social' are limited and would benefit from further development. It also recognises that these social outcomes are not just created by the third sector. One policy implication may be that the boundary between business and the third sector is less important than forms of taxation that prefer positive social, economic and environmental activities and outcomes, regardless of the organisation or partnership creating them.

From outcomes to processes and values

The danger of only focusing on outcomes is that it presumes that process does not matter. The presumed relatively 'better' performance of building societies in the recession; the trusted and competitive nature of John Lewis or Ove Arup; or the potential of proposed multi-stakeholder elderly care co-operatives to improve trust and dignity; suggest that the nature of businesses and organisations do matter. More research is clearly needed here but an implication for government might be to break the stranglehold in theory and practice of a particular and dominant form of business organisation, if it is shown that other models are better suited to changing needs and complex economic realities.

This paper is part of the Third Sector Research Centre – Briefing Paper Series see www.tsrc.ac.uk for more details and a copy of the full Working Paper 26

The support of the Economic and Social Research Council (ESRC), the Office of the Third Sector (OTS) and the Barrow Cadbury UK Trust is gratefully acknowledged. The work was part of the programme of the joint ESRC, OTS Barrow Cadbury Third Sector Research Centre