

5<sup>th</sup> EMES INTERNATIONAL RESEARCH CONFERENCE on SOCIAL ENTERPRISE

***Building a scientific field to foster the social enterprise eco-system***

Helsinki (Finland) June 30<sup>th</sup> – July 3<sup>rd</sup>, 2015

***Social Enterprise: A new phenomenon in the field of economic and social welfare?***

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## Abstract

Drawing upon insights from historical institutionalism, this article critically examines the origins of social enterprise and its emergence into the mainstream policy arena. It begins by relating the social enterprise idea to major non-state/non-private institutional traditions, including the European social economy, US non-profits and the UK charitable sector, and places it within the specific field of economic and social welfare. In so doing, the article contests the idea that social enterprise is a new phenomenon in the social welfare field and proposes instead that the supposed 'novelty' of social enterprise as an organisational form and a subject of public policy lies primarily in the nature of the socio-political and economic context of the 1980s-1990s, during which time it became '*en vogue*'. The process of institutionalisation of social enterprise and its ascension into the mainstream policy arena is examined in more detail in the case of England during the time New Labour was in office and beyond, and lessons are drawn from this experience concerning both the role that social enterprise plays or is expected to play as a vehicle to address economic and social needs, and how this is intertwined with both a dominant neoliberal discourse as well as alternative perspectives that emphasise more equalitarian and sustainable development paths. The article concludes with some reflections in relation to the apparent consensus that seems to exist around social enterprise as a legitimate subject of public policy and the resulting *social enterprisation* of public services which is currently taking place in England.

## 1. Introduction

The debate over the future of public welfare services and the fact that they are moving towards the greater use of markets and competition (Le Grand 2007; Greener and Powell 2009) has taken a new turn recently: that associated with the increasing role of not-for-profit organizations and particularly social enterprises, notable in the UK (Cabinet Office 2011a; Millar *et al.* 2012; NCVO 2009; Wright *et al.* 2011). Indeed, since the turn of the Twenty-First Century, social enterprise, broadly defined as businesses that trade for social purposes, has attracted considerable policy interest within the Western world and beyond (Defourny and Kuan 2011; Kerlin 2009). Its rapid ascension into the mainstream policy arena has materialized in the recent establishment of national and multinational policy institutions that have been created to support the sector, such as the Social Enterprise World Forum, the EU European Council of Associations of General Interest and the US Office of Social Innovation and Civic Participation. In the UK, social enterprise has moved from its past modest position on the margins of social and economic policy to currently occupying a key position within wider debates over welfare reform to the extent that it has even been depicted as *the future of public services* (Cabinet Office 2010a). As a policy construct operating across numerous areas of public policy, social enterprise is said to offer possibilities for social engagement and economic inclusion to different social groups, providing novel solutions to a range of societal problems which the state and private sector have been unable to solve (Amin 2009; Borzaga and Defourny 2001).

Two interrelated arguments explain the rationale for this article and set up its main aims. Against the streams of thought that see social enterprise as a 'novel' vehicle for addressing contemporary social and economic welfare needs (Dees 1998; Frances 2009), this article offers a different perspective by proposing that while the concept of social enterprise is indeed relatively new, arguably originating in Western Europe and the USA in the early 1990s, the principles and practices encompassed in the idea of social enterprise are not; and in fact predate market- and competition-driven current trends which, in Greener and Powell (2009)'s view, challenge much of the social policy orthodoxy. Drawing upon a historical analysis, the article shows that the principles and practice of social enterprise can be traced back to the European social economy, the USA nonprofits and the UK voluntary and charitable traditions, with their origins in the 19<sup>th</sup> Century. These principles comprise a long-standing history of trading activity to support social missions, independence (from the state), a preference for democratic governance and multi-stakeholder forms of ownership, and restrictions on the distribution of surpluses (Defourny and Nyssens 2010; Kerlin 2006). Against this background, the article argues that claims about the supposed 'novelty' of social enterprise need to be understood in relation to the socio-political and economic context of the 1980s-1990s, at which time social enterprise came to the fore as a policy construct, newly legitimising long established principles and enabling their incorporation into mainstream policy and practice (Amin 2009; Sepulveda 2009; Ridley-Duff and Bull 2011).

At a theoretical level, the article draws upon historical institutionalism (Hall 1989; Pierson 2000; Steinmo 2008) to understand the early emergence of social enterprise principles and practice long before its formalisation as a subject of public policy. The paper focuses upon the English experience to explore in more detail the processes of institutionalization that have led to social enterprise as a distinct and widely recognised vehicle for social and economic change, alongside Voluntary and Community Organizations (VCOs), charities and cooperatives - also referred to in this context as belonging to the 'third sector' (Alcock 2010; Carmen and Harlock 2008). The English experience is the focus of this study for a number of reasons. Firstly, the rapid passage of social enterprise from being almost absent in the policy agenda in the early-1990s to being widely touted in mainstream UK politics just one decade later deserves attention. Secondly, scrutiny is also required to understand how the prominence afforded to social enterprise as a new feature of social and economic policy has occurred despite both a lack of agreement as to what exactly the concept means or does (Peattie and Morley 2008; Teasdale 2012), and the rather patchy evidence base to support the claims made about its benefits (Amin 2009; Syrett *et al.* 2013).

## 2. Historical institutionalism as a tool to understand social enterprise

Historical institutionalism is a major variant of new institutional thinking alongside rational choice and sociological institutionalisms (Hall and Taylor 1996; Schmidt 2010). More recently it has emerged as one of the most influential theoretical perspectives in welfare state development and social policy studies (Béland 2005). Although the term is relatively new (it was coined in the early 1990s), it borrowed many of its ideas from a long and varied tradition of 'new' and 'old' institutional theory, including work such as Theda Skocpol's *States and Social Revolutions* (1979), Philippe Schmitter's *Still a Century of Corporatism* (1979) and Karl Polanyi's *Great Transformations* (1957). Polanyi's classic in particular contributed to understanding of the economy as an instituted process (as being constituted and shaped by institutions); and where behaviours, attitudes and strategic choices of actors are embedded into specific socio-political and socio-institutional settings in particular configurations of time and space (Steinmo 2008).

The paper applies such approaches to the understanding of historically constructed institutions in order to identify sequences of social, political and economic behaviour (Streeck and Thelen 2005) and how institutions structure action and outcomes, as well as how institutional 'change' occurs across time. Understood in this way, historical institutionalism proposes that institutions, policy ideas and values, and no particular single grand theory or societal interest (as in neo-Marxism and Rational Choice), have come to take central stage in political and economic analysis. This is because institutional change is primarily seen as the product of changes in the ideas that are held by actors and the realization of such ideas through concrete policy practice (Hall 1989; Pierson 2000; Steinmo 2008). Institutional change comes about when economic and socio-political actors have the motivation and ability to change institutions and the existing status quo in favour of new ideas (Hall and Taylor 1996). Both Keynesianism and neoliberal economic thinking are examples of ideas that, at their time promised to solve fundamental social and economic problems and had a major influence on subsequent political outcomes, despite the lack of a firm evidence base to support their curative power (Hall 1989; Steinmo 2008).

Hence two main assumptions underpin historical institutionalism. The first assumption is its emphasis on the role that institutions play in shaping behaviour and politics, notably by structuring actors' identities, power and strategies. The second is that institutions are shaped by history; hence the importance of Pierson's advice 'to go and look' and trace the roots of institutional change back to the historical origins of a 'path' (Pierson 2000) or a 'path dependent' trajectory (Hall and Taylor 1996). A defining point for historical institutionalism is that, if 'path dependence' is a decisive causal mechanism of institutional change, then 'critical conjunctures' should constitute the starting points for many path dependent processes (Capoccia and Kelemen 2007). The concept of 'critical conjuncture' constitutes thus a central building block of historical institutionalism (Hall and Taylor 1996; Pierson 2000). As Capoccia and Kelemen (2007: 341) explain,

"many causal arguments in the historical institutionalist literature postulate a dual model of institutional development characterized by relatively long periods of path dependent institutional stability and reproduction that are punctuated occasionally by brief phases of institutional flux – referred to as critical conjunctures – during which more dramatic change is possible. The casual logic behind such arguments emphasizes the lasting impact of choices

made during those critical junctures in history. These choices close off alternative options and lead to the establishment of institutions that generate self-reinforcing path-dependent processes”.

The application of historical institutionalism to the analysis of social enterprise, as proposed here, recognizes some limitations of this approach. Notably these concern its ability to explain ‘change’ (and not just ‘continuity’), and how ideas held by political actors or (endogenous) agency, influence the policy-making process (Béland 2005; Schmidt 2010). While recognizing the need for a better understanding of the role of agency and ideas in explaining the politics of change, this paper pushes the boundaries of historical institutionalism (Streeck and Thelen 2005; Lieberman 2005) and critically recognizes the need for an analytical framework that also account for structures. The interplay between structural and agency factors is therefore deemed to be central to explain the emergence and political ascension of social enterprise.

Accordingly, the argument developed below is that a number of defining historical events since the 19<sup>th</sup> Century onwards have led to the emergence of organizational principles and enterprising values which, within some Western countries, have recently been associated with and embodied in the ‘social enterprise’ idea. Hence this article argues that idea and practice of social enterprise is anything but new and that socially enterprising forms and activities have accompanied industrial revolution and the consolidation of capitalist forms of production and exchange in the economy for a rather long time. Critical countertendencies that have more recently questioned the dominance of neoliberalism and free market economics are also examined here as they too are central to understanding the emergence of the social enterprise phenomenon. As far as the UK experience is concerned, and bearing in mind the developments above, it is argued here that a ‘critical conjuncture’ took place during the time that New Labour was in office (1997-2010) which led to a process of institution-building in support of social enterprise both as an idea and practical response to social and economic needs. This occurred through a sequence of policy interventions that generated a self-reinforcing path dependent process leading to the official enactment of social enterprise as a novel vehicle for social welfare and economic change and its institutionalization as a subject of public policy.

### **3. Tracing the origins of social enterprise**

The origin of non-state/non-private enterprising organizational forms can be largely traced back to the 19<sup>th</sup> century. As capitalism advanced, groups of people linked to religious, political-ideological and other interests established organizations such as voluntary associations, charities and cooperatives in order to combat growing social and economic needs and to pacify the increasing public unrest associated with the intensification of capitalist social relations of production which followed industrialisation. Broadly speaking, these developments gave origin to the ‘social economy’, within the continental European tradition, and ‘nonprofits’ and the ‘voluntary’ and ‘charity’ sector within the US and UK traditions respectively.

The roots of the social economy can be found in the French tradition where organizations were established to improve the living conditions of the most vulnerable individuals in society and to promote the redistribution of wealth and social justice (Defourny 2001; Moulaert and Ailenei 2005). The social economy comprises a family of organizations including co-operatives, associations, mutual aid/benefit societies and foundations whose primary aim is organising production and consumption as well as proving access to credit, healthcare and other welfare services (Moulaert and Ailenei 2005). Social economy organizations share similar principles, including the aim of serving their members and the community; the priority of people and labour over capital in the distribution of income; independence from the state; and democratic governance (Borzaga and Defourny 2001).

Market-based commercial activity is part and parcel of this tradition, as this was deemed essential to guaranteeing organizations’ sustainability and independence. Yet, commercial activity is primarily undertaken to pursue organizations’ social mission and is embedded within a collective ethos. The social economy allows a certain level of distribution of surpluses among the direct beneficiaries of organizations; cooperatives for example can distribute part of their surpluses amongst their membership. Although organizations aspire to independence, state legal recognition was critical in raising the profile of the social economy across Europe both in the past and in the latter part of the 20<sup>th</sup> Century (Defourny and Nyssens 2010).

It is not a surprise therefore that the contemporary idea of social enterprise was born within this tradition and was initially associated with the cooperative movement. In particular, it was associated with the Italian *cooperative sociali* or 'social cooperatives' that emerged in the late 1980s in response to the growing problem of unemployment and the needs of the socially excluded more broadly (Borzaga *et al.* 2011). In contrast to 'traditional' (members only) cooperatives, social cooperatives were created to serve 'broad communities' and hence they were legally allowed to combine multiple stakeholders in their membership thus widening their beneficiary base (Defourny and Nyssens 2010). One distinctive feature of the social enterprise definition to emerge from within this tradition is that the 'social' part of social enterprise concept must be built into any economic activity or, in other words, the very production of goods and services itself constitutes the way in which the social mission is pursued (Borzaga and Defourny 2001).

'Nonprofits', as in the US tradition, or 'voluntary sector' and 'charities', as in the UK usage, are the second and third traditions from which the origins of social enterprise can be traced. While both traditions share some similarities, they also differ in many ways. This is mainly as a result of differences in the relationship between nonprofits, state and market observed in these two political-institutional contexts and more notably the establishment of the welfare state in Europe.

The US experience is noteworthy as the origin of independent nonprofits here is deeply rooted in its history, from the times of colonial rule and immigrants' hostility to royal power and centralised state authority, to the present (Dobkin 2006). This fact determined the early distinctiveness of US nonprofits in delivering social and economic goods alongside the state and the market. Unlike the European experience, it is the apparent closeness between US nonprofits and markets is frequently observed in the social enterprise literature (Dart 2004; Dees 1998). This became more apparent during the 1980s when "nonprofits began to seize on social enterprise as a way to fill the gap left by government cutbacks, dramatically expanding the use of nonprofit commercial activity" (Kerlin 2006: 251). This trend has been referred to as 'marketisation' (Weisbrod 1998), a term used to denote the fact that nonprofits have become more market driven, self-sufficient and 'business like' (Dart 2004). A cautionary note here is that while research shows that marketisation is real (e.g. non-profit commercial revenue rose by 219 per cent between 1982 and 2002), 'private donations' and US 'government grants' also rose considerably over the same period (Kerlin and Pollak 2010).

A defining point of the US experience however is that 'marketisation' occurred within a context where nonprofits were increasingly viewed by policy makers as 'superior vehicles for meeting public needs' (Defourny 2001: 7) and not just a supplement to state provision as in the Europe of the welfare state. This is the case of private foundations which operate as 'role models' for the non-profit sector and provide financial support and visibility to outstanding 'social entrepreneurs' while championing 'social innovation' within the wider economy (Defourny and Nyssens 2010). The apparent closeness of nonprofits to markets has also been interpreted as the manifestation of the divide that is supposed to exist between nonprofits and the US central state. Against this assumption, Dobkin (2006) argues that the US nonprofit sector is largely the product of state intervention which, through the US Federal Tax system, deliberately targeted and promoted its development, with non tax-exempt nonprofits growing from fewer than 13,000 in 1900 to more than 1.5 million in 1940. Yet, such tax-based intervention does not equate to state intervention based on direct subsidies and grants as was often the case in Europe, but was rather a form of minimal state interference, attuned with the trend described above towards the closeness between non-profits and markets under this model.

The UK case also has a long-standing and rich tradition of voluntary and charitable organizations which date back to medieval times. Charities often took the form of hospitals, orphanages and poor houses which were funded by religious groups, the nobility or wealthy individuals to help the poor and neediest (Taylor and Kendall 1996). As in continental Europe, Britain has a rich tradition of cooperatives including those developing trading activity, with a cooperative movement that has proved politically influential since its creation in the 19<sup>th</sup> Century (Birchall 1997). Arguably, the consolidation of the state welfare system after World War II determined that non-state/non-private organizations of all denominations passed from being the dominant vehicle for providing social welfare to becoming its junior partner (Kendall 2009). This fact made the UK experience substantially different from that of the US - at the time (1940s-1950s) when the US non-profit sector was flourishing. From the 1970s onwards this situation changed as a result of economic crisis, globalisation, increased competition and growing politico-ideological opposition to centralised state-run services. In time, these trends undermined the state's ability to expand the welfare system (Kendall 2009) and unleashed countertendencies to state-run provision (e.g. privately-run services

and privatizations) which, in the last fifteen years, furthered the acceptance of social enterprises, VCOs and charities as subjects of public policy (Cabinet Office 2010b; DTI 2002; DoH 2010).

Overall, despite the divergences observed between the US and UK experiences, the dominant definition of social enterprise that emerged from both traditions is, interestingly, largely rooted in the same school of thought; that which is known as 'earned income' (Defourny and Nyssens 2010). For this school, organizations make a functional use of commercial activity in support of their core social mission, with trading mainly considered as a source of income. One key implication of this approach is that any nonprofit or charity that gets involved in commercial activity can, in theory become a social enterprise and so could any for-profit private enterprise with social aims. In both cases the definition corresponds to the social enterprise characterization as *double bottom line* organizations that strive to achieve social and financial outcomes.

#### 4. Context of emergence of 'social enterprise'

If the principles encompassed in the idea of social enterprise are not new, as demonstrated above, the question that arises is why there was a need, on both sides of the Atlantic and despite differences among both traditions, to develop a new concept that in theory better encapsulated such principles. In other words, if Moulaert and Ailenei (2005: 2038) are right to suggest that each historical period produces its own 'alternative circuits' to combat poverty beyond those produced by the state (social policy) and the market (private enterprise's employment), then the issue that needs to be addressed is what makes social enterprise different or better equipped than existing organizational forms and 'alternative circuits' such as the social economy, non-profits and charities when responding or adjusting to current socio-political, economic and institutional environments. The importance assumed by 'policy ideas' (Béland 2005) as advanced by historical institutionalist analysis is critical here.

This paper argues that social enterprise emerged within the US and European contexts as a result of a critical combination of existing organizational principles and novel institutional responses that materialized in light of the ideological hegemony that neo-liberalism achieved in the aftermath of the 1970's economic crisis and the end of the 'Golden Age' of the Welfare State. How these factors gelled together is not as clear as at first might appear, hence the explanation proposed below seeks a way of understanding this for the first time. It is commonly believed that social enterprise gained official credentials in the context of economic crisis - just like the social economy, nonprofits and charities had done in the past (Borzaga and Defourny 2001). This suggests a countercyclical causal relationship between the economic cycle and the growth of social enterprise, namely that social enterprise *grows* when the overall economy slows down. While this hypothesis stands firm when applied to the historical examples of expansion of the European social economy and US nonprofits (Moulaert and Ailenei 2005), it does not fully apply when referring to the actual 'official' *emergence* of social enterprise. Indeed, the emergence of social enterprise as a policy construct largely occurred from the early-1990s onwards, a period of economic growth and relatively low unemployment in the UK, US and many EU countries. In other words, it occurred during the upward phase of the economic cycle, not during the downward phase as predicted by those who advocate the 'countercyclical' nature of the phenomenon.

If the argument about the relationship between the growth of social enterprise and countercyclical economic trends breaks down, then the question that arises is, what are the factors that explain the phenomenal political 'ascension' of social enterprise and its institutionalization as a relatively distinctive organizational form during a period (late-1990s and early-2000s) in which 'alternative circuits' à la Moulaert and Ailenei (2005) were theoretically *less* needed as the market was delivering social goods, namely employment. One possible answer is that, in contrast to some past non-state/non-private organizational forms, social enterprise seems to better reflect the general spirit of an epoch as characterized by both the supremacy of the free enterprise ideology and marketisation of different spheres of public and private life, on the one hand, and the subsequent resurgence of critical economic thinking that questions the core values of *laissez faire* by placing social and environmental principles at the heart of sustainable economic development paths, on the other. As far as the latter is concerned, since the 1980s (and particularly in light of the recent crisis of 'casino capitalism' (Sinn 2010), together with the state's failure to regulate markets thus allowing speculation to take place and the subsequent economic downturn), previously idealized values of free market economics such as (irresponsible) risk-taking, (extreme) individualism and consumerism have come under increased public and government scrutiny (Stiglitz 2010). As Amin (2009: 30) puts it, 'Compared to the

Reagan/Thatcher era which demonised any critique of neo-liberalism, today many more voices are calling for other ways of organising the economy in order to achieve a better balance between economic efficiency, ecological sustainability and social equity'. These include 'green economics', 'corporate social responsibility', 'ethical markets' and 'philanthropic capitalism', all of which advance the need for a move towards more ethically, socially and environmentally committed models of enterprise, economy and society, and explain the emphasis upon the 'social' part of the social enterprise concept. In contrast, the 'enterprise' part of the social enterprise concept is symbolised by a pervasive and proactive attitude towards business, commerce and markets (Dees 1998) and hence the 'entrepreneurial turn' that it implies best absorbs and reflects the spirit of the epoch. As Jennings *et al.* (2005) point out, the dominant economic philosophy at the heart of enterprise and entrepreneurship is capitalism and the free market, risk-taking, competition, profit-maximization and individualism.

The fact that social enterprise better reflects historical trends in two different ways (as both a critique and a way forward) has reinforced the idea that it truly represents a more modernizing and sustainable 'alternative' to existing non-state/non-private mission-driven organizational forms (Sepulveda 2009; Sepulveda *et al.* 2013; Vickers and Lyon 2013). This is in tune with recent trends which have been reported towards the transition from non-profits, third sector and social economy organizations to the social enterprise model within several Western countries (Defourny 2001; Dart 2004; Defourny and Nyssens 2010). More controversially, Frances (2009) claims that charities can only be truly effective in delivering a 'just' and 'sustainable world' when they start exploring 'social enterprise' and corporate partnership. Unsurprisingly these developments and their implications on public policy have generated unease among policy actors that see social enterprise as a 'neoliberal crusader' which has different if not opposed values to volunteering and charitable values and principles (Eikenberry and Kluver 2004). Indeed, while some features of free market enterprising cultures are embedded into the fabric of mission-driven organizations and are central to their functioning, other features such as profit-maximisation, private benefits and extreme individualism, are in stark contradiction with their key values and philosophies. 'Individualism' (or the individual freedom to make rational economic choices), is a good example for illustrating these differences and tensions that such contradictions generate. Individualism, embodied in the figure of the social entrepreneur, has been widely embraced and celebrated within the US nonprofit tradition (Defourny and Nyssens 2010) and also features within UK social enterprise discourses (Teasdale 2012). Individualism however contrasts with the experience of cooperatives and charities which are often built and rely upon the commitment of groups of people and communities. Potential tensions that arise between 'individual-driven' versus 'collective-driven' organizational philosophies are further aggravated when 'super-hero' social entrepreneurs are placed on a pedestal or when the 'private sector end' of the social enterprise spectrum (as opposed to its 'charity sector end') becomes more prevalent within the social enterprise movement as has more recently occurred in England.

## **5. From social enterprise idea to policy and practice: the case of England**

Some keystones in the process of critical conjunctures and consensus-building concerning the social enterprise idea and its political-institutional positioning as a subject of public policy and an apparently distinguishable feature of the UK social and economic landscape are examined below. These keystones are examined in relation to some examples of material evidence about the growth of the social enterprise sector and its implications on practice.

### *5.1 Emergence and strategic positioning*

The emergence of social enterprise in the UK policy arena is intimately linked to the New Labour government (1997 to 2010) and to political actors within the *cooperative* and *community business* movements which endorsed social enterprise (Brown 2003; Ridley-Duff and Bull 2011; Teasdale 2012) as a 'policy idea' (Béland 2005).

The first official mention of the concept was in a Treasury report entitled 'Enterprise and Inclusion' which stressed the positive contributions that 'social enterprise' makes to 'the regeneration of deprived areas by helping to provide employment, goods, services and more generally build social capital' (HM Treasury 1999: 112). Social Enterprise London, which had been established in 1998 following the merger of some cooperatives and support agencies that had close links with New Labour, became in turn the first English 'regional' political actor to adopt the concept as part of its policy agenda (Brown 2003).

In 2001, New Labour created the Social Enterprise Unit in order to champion social enterprise across government departments. The first 'social enterprise government strategy' emerged from this Unit a year later and included an official definition of social enterprise as: "a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners" (DTI 2002: 13). The definition that emerged from within the UK Business Department (formerly Department of Trade and Industry) was pragmatic in nature, in the sense that it sought to accommodate all types of organizations that claimed to be social enterprises, but at the same time it is a highly politicised one. The fact that two central tenants of the cooperative movement - distribution of surpluses among members and the commitment to democratic member control (Brown 2003; Teasdale 2012), which are incompatible with the trustee-beneficiary model of charity, were incorporated in it challenged the relative hegemony that the voluntary sector and charities had until then as representatives of the UK 'third sector' (Ridley-Duff and Bull 2011).

Drawing upon historical institutionalism, it can be argued that social enterprise have recently passed from being simply a 'policy idea' (Béland 2005) to actually being enacted by the state as a concrete organizational field. Within a context of deliberation about the future of social enterprise, political institutions were specifically created to unify these competing interests (Bland 2010). One example was the Social Enterprise Coalition which was established in 2002 in order to represent the emerging sector and raise its profile more widely. It must be highlighted that the Social Enterprise Unit was placed within the Business Department which primarily dealt with the private sector and where social enterprise was seen as a response to perceived market failure. As Carmel and Harlock (2006: 160) explain, up until 2006 social enterprises were "institutionally dealt with as businesses and part of the market, rather than the third sector".

One key element that helped to give substance to the social enterprise idea during this period was the growth of an official evidence base documenting the 'apparent' exponential growth that the sector experienced from 2003 onwards (Teasdale *et al.* 2013). The first estimate of the number of social enterprises in the UK was published in 2003, indicating a total of 5,300. One year later the business department (DTI) tripled this figure to 15,000. By 2005 another estimate based on the Annual Survey of Small Businesses almost quadrupled the official figure to 55,000, only to be further raised to 62,000 in 2008 and to 180,000 in 2013 (Cabinet Office 2013). These figures should however be treated with caution. Teasdale *et al.* (2013)'s study timely demonstrates how different definitions of social enterprise have allowed different types of organizations to be classified as social enterprises. This definitional looseness has led to the inclusion of private (for profit) businesses with a 'social aim' which represents 90% of the 62,000 social enterprises counted in 2008.

Yet, despite this problem, these figures were (and still are) widely publicised and politically used to justify the need for government intervention to support social enterprise, on the one hand, and the success of such interventions (e.g. in terms of the stock of organizations) (Lyon and Sepulveda, 2012), on the other hand. Throughout the noughties, the sector became the target of numerous policy initiatives that aimed to, build its capacity (e.g. Capacity Builders and Futurebuilders), start up and growth financial aid (e.g. Department of Health Social Enterprise Investment Fund), improve its physical asset base (e.g. through the transfer of publicly-owned assets) and legal recognition (e.g. through the introduction of the Community Interest Company –CIC- legal figure in 2005).

A major change and defining moment in the relationship between social enterprise and the UK charitable and voluntary sector occurred in May 2006, when the Social Enterprise Unit was brought together with the Active Communities Unit to form a new Office of the Third Sector, under the wing of the Cabinet Office, with social enterprises (alongside cooperatives and mutuals) becoming part of the new officially constituted English 'third sector' (Alcock 2010; Carmen and Harlock 2008; Kendall 2009:6). This move from 'private' to 'third sector' can be seen as a political-strategic move engineered by lobby groups within New Labour whose objective was arguably to promote the 'earned income' model among charities and VCOs (Teasdale 2012) through the action and example of a qualified *insider*: the newly emergent *social enterprise* sector (Sepulveda 2009). Social enterprise was presented as offering a way forward (notably to reduce grant dependency among charities) through its 'business like' model that is more suitable for charities than the 'for-private-profit' model in terms of organizations' (social) mission and values, (democratic) governance and (social) ownership (Sepulveda *et al.* 2013).

It is vital to highlight here that it was precisely the changing trends in income sources among UK charities and VCOs which offered the strongest backing so far to government claims of social enterprise as a superior organizational form. Successive research reports (including by the National Council for Voluntary Organisations) in effect showed that since the mid 2000s 'earned income' of the charitable and voluntary sector has overtaken the amount it received in 'voluntary income' or donations (NCVO, 2009; 2010). This was interpreted and presented as evidence of the transition of third sector organisations towards the social enterprise business model. This trend has continued to grow since then, with most charities now willing to increase their trading income, and often through the 'provision of public services' under contractual agreements (Cabinet Office, 2010a; 2011a; NCVO, 2010).

Whether this trend can be associated to a wholesale transition from charity and VCOs to social enterprise or is rather the manifestation of a long-standing process of marketization of the English third sector is a matter of debate (McKay et al. 2011). The point here is that this evidence further strengthened government discourses on social enterprise and public service provision (Cabinet Office 2010c) and also led to new examples of institutional developments. A case of this influence on practice is the Public Services (Social Value) Act which became law in March 2012, and has been presented as an important step forward in supporting social enterprises and third sector organizations to secure public sector contracts (Cabinet Office 2014). The fact that social enterprises, charities and VCOs had long campaigned for commissioning and procurement to take social value into account in tendering processes could be seen as evidence of these organizations positive interactions with and responses to the opportunity structures faced, and how their actions (or agency) have contributed to influencing and shaping policy-making processes (Béland 2005; Schmidt 2000).

## 5.2 From strategic positioning to 'social enterprization'

A wide consensus exists among scholars that neo-liberal ideology came to dominate the debates on public policy during the mid 2000s and that the evolution and ascension of social enterprise needs to be understood in this context (Bland 2010; Carmel and Harlock 2008). Accordingly, the initial enthusiasm for the 'Third Way' (Giddens 1998) had faded by mid-2000 and shifted towards a more pragmatic vision on the benefits of globalization and free market economies, and the functional (rather than transformatory) role of social enterprise; focused on the *provision of public services* and their contribution to the creation of a competitive market of service providers and so assisting the government's agenda for social welfare reform (Cabinet Office 2010a, c; 2011a). As Haugh and Kitson (2007: 3) observe, this move enabled the sector "to move from the economic margins towards the mainstream [...] which now plays an increasing role in economic, political and social life" and by which it became the target of numerous support initiatives (Hall *et al.* 2012; Lyon and Sepulveda 2012). It also supposed a change of strategic positioning, by which social enterprise passed from being seen as a response to some (marginal) forms of 'market failure' (e.g. providing employment opportunities for disadvantaged groups) (HM Treasury 1999) to being seen as a potent vehicle to address 'state' and 'systemic failure' more broadly.

Self-reinforcing path-dependent processes concerning social enterprise continued to play out with the election of the Conservative-Liberal Democratic Coalition government in 2010. Under the new administration social enterprises, voluntary groups and charities were expected to continue to play key roles in delivering public services (Cabinet Office 2010a, c) and also as a key plank of their new 'big idea', that of building the 'Big Society' (Cabinet Office 2010b). Arguably, the Coalition decision to abandon the term 'third sector' for that of 'civil society', and the replacement of the Office of the Third Sector by the Office for Civil Society was an ideological move aimed to differentiate the Conservative's communitarian discourse on civil society (Blond 2009) from New Labour's (past) communitarian ('Third Way') roots where the state had a more central role to play as an enabler and coordinating mechanism (Carmel and Harlock 2008). In contrast to New Labour, the Coalition has mainly focused upon the failures of the state to meet social needs and provide public services, and stresses the ability of social enterprises and civil engagement, combined with an increased role for the market and more competition, to address such failures and deliver social goods (Blond, 2009; Cabinet Office 2010a, c), although with an increasing policy focus on growing the social investment market to achieve this goal (Cabinet Office 2013).

The government's call for social enterprises to play a greater role in the provision of public services was not, however, limited to the existing organizations. It also comprised the deliberated creation of new ones, notably organizations created from within the public sector or so-called public sector 'spin-

out' social enterprises or mutuals (Cabinet Office 2011b). This state-promoted and supported strategy of business creation has more recently been materialised in the English health and social care sectors (DoH 2010; Hall *et al.* 2012; Millar *et al.* 2012). Unofficial figures estimate that approximately 80 to 100 social enterprises (ranging from 25 to over 1,000 employees) have spun-out from the public sector in these areas since 2011 (to March 2014) largely through the Department of Health's Right to Request programme, with most receiving financial (start-up) support through the DoH's Social Enterprise Investment Fund (Lyon *et al.* 2013).

Although this is a relatively recent move and comprises only a handful of new businesses, the trend is rapidly growing and spreading to other areas of the public sector, such as education, housing, probation and criminal justice services; hence its potential significance. Most importantly for the main argument here, this evidence represents another stage in the process of consolidation of social enterprise as both a key policy construct and source of real agency in the English social welfare landscape. This, potentially defining, government agenda and process around public services has been characterized in the literature as the '*social enterprisation*' (as oppose to '*privatization*') of public services (Sepulveda, 2009, 2012). In short, *social enterprised* services are being transferred from state control to independent business ventures, which adopt the social enterprise business model (i.e. trading for social purposes) and are commonly (socially) 'owned' and managed by former public servants (nurses, General Practitioners –GPs-, managers, etc) who led the spinning out process; a policy that began with New Labour and has intensified under the Coalition government, with it explicit commitment to transform the UK National Health Service (NHS) into 'the largest social enterprise sector in the world'(Cabinet Office 2010a, 2011a, b).

## 6. Conclusions

This article began by arguing that while the concept of social enterprise is relatively new, its principles and practices can be traced back to past organizational forms that have been observed in leading Western countries since the 19<sup>th</sup> century at least. The historical review conducted here has demonstrated how principles underpinning the social enterprise idea (e.g. a proactive attitude to markets and profit generation, independent management, democratic governance and social ownership), were all embedded into the fabric of existing non-state/non-private organizational traditions. However, this bundle of principles was not referred to as constituting 'social enterprise' until the early-1990s. In explaining the supposed 'novelty' of social enterprise, this article has argued that it was largely factors relating to the socio-political and economic context of the 1980s and 1990s which made the emergence of social enterprise institutionally possible. In short, this context was characterized by the hegemony of neoliberal economic ideology, and its glorification of enterprise and enterprising cultures and societies, but also the rise of counter hegemonic tendencies that sought to question the values of *laissez faire* by placing societal and environmental values at the centre of social and economic development paths. These underlying yet conflicting historical trends cut across the divide between non-state/non-private institutional traditions and help to explain the apparent process of convergence and institutional isomorphism identified in the literature regarding the transition from 'third sector' towards the 'social enterprise' model.

This line of inquiry was theoretically informed by historical institutionalism. The core concepts of 'critical conjunctures', 'institutional change' and 'path dependence' became particularly useful in informing our understanding of how policy ideas can accumulate a critical mass of political consensus around them, thus unleashing processes of institution building and the coalescing of ideas into concrete organizational forms and policy practices (Capoccia and Kelemen 2007; Hall and Taylor 1996; Steinmo 2008). The English experience of social enterprise and social enterprise development has served as a case study and example, of how a pre-existing and ill defined 'policy idea' became formalized and evolved into organizational practice, becoming a key subject of public policy during the New Labour Government and under the Coalition Government.

The main conclusion of this study is that the arrival of New Labour to power in 1997 and the choices that its successive governments made in relation to social enterprise and third sector, led to a process of institutional building (embodied in the establishment of the Social Enterprise Unit; Social Enterprise Coalition; Office of the Third Sector and so on) which generated a 'self-reinforcing path-dependent processes' that was conducive to the acceptance of social enterprise into mainstream policy. Substance has been lent to the social enterprise idea by the emergence of three bodies of 'evidence', (albeit contested) - the 'rapidly growing' stock of social enterprises, the alleged transformation of

grant-dependant charities and VCOs into income generating social enterprises, and the growing population of spin-out social enterprises. Hence New Labour and the political-institutional actors that have promoted social enterprise within government, such as the cooperative movement, constituted a 'critical conjuncture' in the process of the official emergence and development of the sector in England. The coming to the fore of social enterprise occurred during the period in question and appears to have transcended the wave of criticism it received, despite the limited nature of the evidence base to support the case for state intervention in this area (Amin 2009; Hunter 2009; Peattie and Morley 2008; Syrett *et al.* 2011). Despite this criticism, policy discourses and policies that promote social enterprise have persisted beyond New Labour and are now embedded in Coalition government policy and particularly its programme of social welfare and public service reforms. Furthermore, they are gaining political momentum internationally as governments around the globe have sought to learn from the English experience (Lyon and Sepulveda 2012).

The question that remains is why social enterprise remains politically attractive for different sectors of the UK political spectrum, from left to right, and why it has shaped a relative programmatic continuity between New Labour and Coalition governments. In line with the historical analysis developed here, one possible answer is that social enterprise has come to be seen as a less politically and ideologically controversial alternative to the move towards pure market-led provision and the privatization of public services which dominated the UK policy agenda in the 1980 and 1990s. This argument also applies to other developed countries which underwent marketisation and privatizations during the same period. In fact, within the new context, where the notion that markets should be the preferred mechanism to allocate resources (notably to the poor) has been heavily opposed and criticised, the idea of *social enterprised*, as opposed to *privatized*, public services has appeal for many on the centre-left because *social enterprised* services are theoretically in the hands of communities and add social value and economic and environmental sustainability. For the political centre-right, the appeal lies primarily in the state minimizing its involvement in traditional areas of public policy such as health, social care and education, and providing choice by enabling social enterprises to compete for public contracts alongside charities and for-private-profit providers.

There is considerable scope for the further marketisation of the UK public sector, from health and social care to social work, housing, education, work integration and so on, and the magnitude of the current economic crisis may well be used to justify such an agenda - the Coalition government has in fact justified its programme of significant welfare reform by the need to implement austerity measures to reduce the public deficit (Cabinet Office 2010a). The opening of new public service markets has also been seen as an opportunity for social enterprise development within other EU countries that have mature (albeit struggling) welfare systems, particularly giving ongoing economic stagnation and the squeeze on public finances. Yet, it is equally likely that a move towards further *social enterprised* of welfare systems as the one underway in England would mean additional fragmentation and short-cuts in welfare provision and a further transfer of responsibilities (but not necessarily resources) to independent service providers (e.g. social enterprises), responsibilities that are arguably essentially those that the state should be undertaking. Whilst *social enterprised* public services may well be appealing and politically less controversial than pure privatization (although this move has been seen as 'smokescreen for privatization'), the morality of a development like this is highly questionable considering the growing bulk of unmet social and economic needs which have only worsened since the 2007-2008 crisis and the subsequent widespread political and economic turmoil notably in some Western European countries.

How social enterprise develops in future in the UK and elsewhere is very difficult to predict. Historical institutionalism (which is primarily interested in 'explanation') is particularly sceptical about 'scientific prediction' as it implies, "a linear analysis of variables that can be distinguished from one another and which react to one another in predictable ways and [the argument concludes] such analysis denies the reality of the world in which we live" (Steinmo, 2008: 134). Whether new critical conjunctures and related institutional innovations will open new opportunities for social enterprise and so lead to more socially and economically inclusive and environmentally sustainable economic development paths will ultimately depend upon each socio-political and institutional context and their specific configurations of economy, state and society relationships; furthermore the will and ability of economic and politico-institutional actors, or agency, to shift horizons, reconfigure such relationships and change the status quo will be equally vital.

## **Acknowledgements**

The author would like to acknowledge the financial support from the Third Sector Research Centre (TSRC), UK Economic and Social Research Council (ESRC), the Office for Civil Society and the Barrow Cadbury UK Trust. He also would like to thank colleagues at Middlesex University, Fergus Lyon, Stephen Syrett, Ian Vickers and Daniel Ozarow, for their insightful comments and support.

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