

Social Economy – engaging as a Third System?

In this paper I propose to identify the fundamental principles which underpin social economy organizations and which distinguish them quite clearly from both private and public sector organizations. I shall then describe how I believe the social economy can and should be viewed as a third, or alternative, system in the overall economy and explore what that means for those who are involved in it.

The fundamental principles

It has in the UK become unfashionable to try and define social enterprise and social economy yet I believe it is essential both to our understanding and to the development of such organizations that we are quite clear what we mean by the terms. My starting point is to ask what are the fundamental principles which underpin social economy thinking and to which we would expect all bona fide social enterprises and social economy organizations to adhere?

First of course is the idea of *working for the common good*, seeking to have a beneficial impact on people and on the planet – and by definition ensuring that there is no, or at least minimal, damaging effects on people and the planet from what social economy organizations do. It is common to talk about those impacts as the “triple bottom line” – the impact on people, the environment and the economy. In the field of social accounting and audit, which is where the majority of my own work is now focused, we expect organisations to ensure that their social accounts report on social, environmental and economic performance and impacts.

In a sense there are two ideas lurking here. First is the idea that the primary purpose of a social economy organization is to achieve a specific community benefit (or benefits) and second that in the process of achieving those benefits the organization operates in a way which is seen to be beneficial to people, planet and the local economy. Social enterprises have taken some time to acknowledge that to be socially responsible in the twenty-first century they must be environmentally responsible but there is now growing evidence that social enterprises are taking their environmental footprints more seriously. Similarly they are beginning to recognize much more that they – even the most socially focused - have an economic impact which can be calculated and reported and that their economic practices such as trading fairly, buying locally, working with other social enterprises can all make an important impact on the local economy and need to be considered.

Beyond this overarching, fundamental concept are other more specific principles.

Caring for human resources – social economy organisations should care for, support and develop the people who are associated with it: paid employees and volunteers, management committee members and trustees, ordinary members and beneficiaries of the organisation. This will cover not only terms and conditions for those who work but also the nature of the work itself – is it good work in good conditions? It will also cover

training and development such that the individual as well as the collective capacities of their people are enhanced.

Good governance and Accountability – it is axiomatic that a social economy organization should be independent of control and undue influence by outside interests and that its structure adopts effective democratic practices which ensure that key stakeholders and members are fully engaged. It is through making such practices work that the organization can be properly accountable to its identified constituency.

Asset lock and use of profits – it is generally accepted that the assets of a social enterprise should be retained (or “locked”) for the benefit of the organization and its identified community or constituency of benefit and that profits should not be distributed for the private gain of members or directors – although of course people providing services (including essential capital) should be fairly rewarded. [These provisions are of course central to the recently introduced new UK legal structure, the “community interest company” especially designed for social enterprises and which requires very stringent annual reports showing how assets are locked and how profits are used – and which also requires a social report each year].

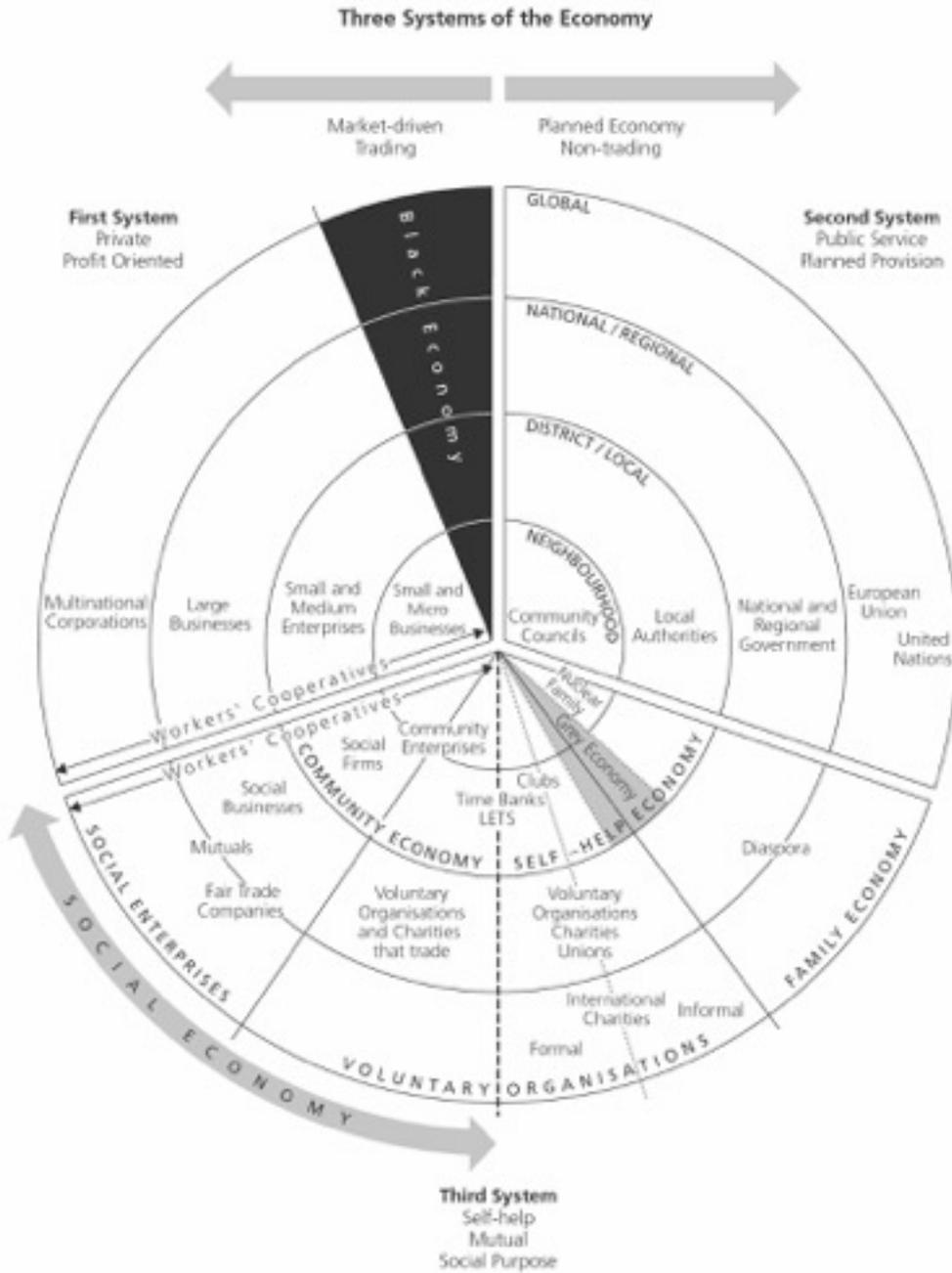
There are two further concepts which are often associated with the social economy and which I personally would include in the “fundamental” list but about which I do not think there is yet general consensus. These are:

Co-operation – that social economy organizations should work together collaboratively and build the sort of social capital which can serve to strengthen the sector, allow it to talk with one voice when needed and build on common values and aspirations. In theory many – maybe most – would agree with this but when it comes down to day to day reality in a competitive world it becomes difficult to achieve.

Subsidiarity – which presumes that decisions and actions should always be taken at the lowest possible level in society; what Charles Handy has called “reverse delegation” where power is only delegated upwards when there is a clear benefit to doing so and when the community is agreed it is for the best. This sense of local control and community strength has been at the heart of social economy thinking in the past but is now under considerable challenge from two directions. First, as some social enterprises grow they operate well beyond their original boundary and that raises interesting questions about how they relate with those other communities where they provide services. Secondly, the changing relationship between the state and the social economy brings with it some difficult challenges to which I shall return later.

A modern mixed economy of Three Systems

The term “social economy” has become increasingly accepted as a “catch-all” term for those organisations which may be distinguished from, on the one hand, the private sector and, on the other, the public or state sectors. It is a good term bringing together as it does the “social” and the “economic”. In the diagram below which was developed



by myself and a colleague for my book *Social Enterprise in Anytown* (Calouste Gulbenkian Foundation 2003) we seek to illustrate a new way of understanding the role and importance of the social economy (or Third Sector) in relation to the public and private sectors.

The three sectors might be better described as “Systems” in that they represent quite different ways of managing economic – and social – affairs. The private sector is

market-driven and private profit oriented while the public sector is essentially non-trading and to do with the planned provision of public services (although recent “quasi privatizations” with public sector regulators appear increasingly to be something of a hybrid model).

The Third Sector or System, which includes elements which are very market-driven as well as those which are wholly about public service, is characterised as we have already discussed by the concept of common good and with a general adherence to the principles outlined before. This sector, which we can refer to as the Social Economy Sector, embraces a wide swathe of organisations from the worker co-operative movement, through the very commercially oriented social enterprises to include voluntary organisations and charities, community organisations and neighbourhood groups. It embraces small and large organisations and stretches across (or down) to the domestic economy of families. It features especially strongly at neighbourhood level but is now a growing part in all levels of the economy, including internationally.

[Were I redrawing the diagram now I would also extend the term Social Economy to include all three “wedges” of the diagram’s bottom section and I would probably include a “family and a grey economy wedge” not only at the end of the Social Economy continuum but also at the end of the private sector acknowledging how initiatives which start at domestic level may develop either as private sector enterprises or as community initiatives.]

It is now acknowledged that we are talking about a significant sector in the economy – with all major political parties in the UK talking about its role and importance and a number of “mapping exercises” have been undertaken to try and establish just how big it is. That research almost certainly understates the reality. There will be many small, community based organisations, such as my local village hall enterprise, which slip under the radar and there will be those, such as parts of the wider co-operative movement, the remaining mutual societies, housing associations, charities and other voluntary and community organisations which rightly belong to the social economy sector – but which are not always counted and which do not always recognise themselves as part of a definable social economy.

It is hard often to distinguish between a voluntary organisation and a social enterprise. Indeed some describe themselves as both – or either – according to whom they are talking or according to the bit of their work they are describing. There are charities, large and small, which raise money, earn income and deliver services. The voluntary sector generally depends more and more on trading and commercially arranged contracts rather than on donated funds. Does there need to be a borderline between charities and voluntary organisations on the one hand and social enterprises on the other? Or, as I believe, are they all part of a continuum? Are they not all social economy organisations with an identifiable common purpose to work for the common good and with a common set of fundamental principles?

It is interesting and important to reflect that not only has the Co-operative Movement in the UK recently positioned itself quite firmly as part of the Social Economy but that it started as a small, volunteer-run community initiative in Rochdale in 1844 when some activists raised funds in order to provide good quality and good value food and household goods for local people. That volunteer shop, open only in the evenings in an upper room, grew to become a worldwide retailing, manufacturing and educational movement.

The concept of a continuum is dynamic and exciting because it means organisations can, and indeed do, change over-time and shift position on the continuum but still remain part of the same sector. The Co-op movement is a classic example. starting as a voluntary, part-time enterprise. A voluntary community association might turn part of its premises into a workspace in order to generate income and offer opportunities to small business. Tentative trading steps at the local market or even through a LETS scheme may lead to the establishment of a new community or social enterprise.

The Third System is admittedly a fairly disparate collection of organizations which for much of the time prefer to focus on what makes each sub-sector different rather than on what they have in common and what makes them together a definable third system. Recent development in the UK to establish broad social enterprise Coalitions and dialogue initiatives between the enterprise and voluntary organizations “ends” of the continuum are to be very much welcomed. For, in order to become a serious part of a modern mixed economy the Third System must be able to talk when it needs to with one voice and so engage with government and the private sector – and with other institutions. This represents a huge challenge to social economy people – being able to acknowledge common goals and work together to fight for them while respecting the integrity of the many different ways of doing things which makes up the richness of the Social Economy.

This in turn leads me to consider what we might read into the shift in the UK from using the phrase “community enterprise” to that of “social enterprise”.

From community to social – a significant shift?

Most of my active working life was spent supporting the development of *community enterprises* and that term was a broadly accepted description of a range of organizations which sought to tackle social issues by engaging in trade and which were owned and controlled by the community or constituency they sought to benefit. Many of the best known community enterprises in the UK grew out of community activism – local people working together to tackle a perceived social injustice or a community problem. Thus Govan Workspace was created by a group of residents supported by a community worker who wanted to address the growing unemployment in their part of Clydeside as the ship-building industry shrank. In London Coin Street Community Builders resulted from the actions of local people determined to prevent their bit of the South Bank losing affordable housing and community space to office blocks and up-market apartments. Similarly in North Kensington the roots of the hugely successful

development trust was a campaign by residents against the incursion of the raised section of the motorway which was to drive through their neighbourhood.

These and many other community enterprises came to business as a means of either tackling the problems they had identified (setting up a managed workspace in the case of Govan) or earning funds so that they could pursue their community development plans (running a car park in the case of Coin Street). As community enterprises they came from the community and sought – and continue to seek – ways of maintaining their community legitimacy through memberships and through various accountability processes. As community enterprises they were not just businesses but institutions which were able to represent the interests of the local community and act as a mechanism through which the community could take actions and set up its own initiatives without depending on the public or private sectors. In that way community enterprises and the people who supported their establishment saw them as part of a process of community empowerment – giving the disadvantaged and dispossessed the chance to engage with the political agenda.

So, as we have seen the shift from community to social enterprise I would suggest that there has been a shift from the idea of community development and community empowerment to a focus on the delivery of specific services. There has been a shift from the idea of community enterprise as an entity for community action to an emphasis on social enterprise as a business model – “not very different in its essentials from private businesses”. Instead of the idea of collective action where the community leaders learn to run business as a necessary tool to achieve their ends the search is now on for social entrepreneurs – individuals with a business idea willing to develop it for the benefit of a community or for disadvantaged people, but often without any prior roots in that community or constituency. Whereas community enterprises are very much the agent of the people by whom and for whom they have been established social enterprises can easily be seen as the tool of the state as they lobby for more of the procurement cake and are courted by all the major political parties as a means of delivering welfare and other services (often by implication as a cheaper means too).

Why do people do social enterprise?

This is the profound and fascinating question. In the heyday of community enterprise the answer was quite unambiguous. It was about empowerment, about community self-help and with a political ambition to redress a perceived imbalance of opportunity and to promote “another way” of doing things – at Coin Street they proudly displayed a banner across the street proclaiming “there is another way”. The roots of community enterprise were traced back at least to the Rochdale Pioneers and to the aspirations that ordinary working people should have greater control over their lives and be able to challenge successfully the power both of the state and of the private sector.

I wonder if that political edge is still there in the age of social enterprise as government seeks to co-opt not only social enterprises but the wider social economy as its “partner” in service delivery? Maybe it is an opportunity to become a bigger and more respected

player in the economy, but it is also a threat to the essential independence of a third system which can challenge and which can show that there is a different way of doing things. Therein is the great challenge facing social economy people in the UK during the last years of the first decade of the twenty-first century.

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