Determining the presence and effectiveness of ethical governance in social enterprises in the United Kingdom

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ABSTRACT

This thesis presents the findings of exploratory research in the area of social enterprise governance. Specifically focussed on Social Firms, there were a number of major outcomes. Firstly, a significant association between accountability and legitimacy in perceptions of governance was determined. In addition, the constructs of transparency, accountability, sustainability and legitimacy were developed, providing a basis for further research.

The exploratory study exposed significant differences regarding perceptions of Social Firm governance. These pertained to variables such as organisation size, turnover, Board size, decision-making authority and the presence of a social audit. The implications being that older, smaller organisations with larger Boards may have a stronger social, rather than business orientation. Conversely, Social Firms with smaller Boards and higher turnover may have a keener enterprise focus than the former type. This provides some support for the emergent theories relating to stewardship models of governance in social enterprises. The general lack of a social audit amongst the sample signifies that holistic approaches to measuring governance performance are not commonplace.

The findings prompted the development of a conceptual model of Social Firm governance, which proposes a division of Board structure to improve accountability, thus enhancing legitimacy to primary beneficiaries. This division comprises a smaller, instrumental Board of directors, and a representative, inclusive stakeholder committee, charged with oversight and contributing to suitable strategy development.

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CHAPTER 1

INTRODUCTION

1.1 BACKGROUND TO THE STUDY

The issue and academic field of corporate governance is something of a *zeitgeist.* With a backdrop of high-profile corporate governance failures, a changing regulatory environment and a burgeoning academic literature, activity and interests in it continues unabated. A majority of public attention is drawn to high-profile cases of maligned corporate governance: arguably the most notorious of recent times include Enron and the long-running Parmalat debacle. However, corporate governance issues transcend sectors and pervade the public and nonprofit sectors also. There is also a small and emergent sector, the social enterprise sector, which remains relatively untouched by academic enquiry into its organisations. This study aims to go some way towards rectifying this, through exploratory research of its themes and issues.

Social enterprises form an important and growing element of the economy in the United Kingdom. They are defined as "A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community..." (DTI, 2002, p.7). A recent report by the UK Government's Office of the Third Sector (Sector, 2006) valued their cumulative economic contribution in the region of approximately £27 billion, from 55,000 recognised social enterprises. They provide a range of services to customers and communities in need of them, and play a part in regeneration of deprived communities in towns and cities (Pearce, 2003). They also have a primary role for delivering social benefit to a defined community or group (Borzaga and Defourny, 2001, Spear, 2001). They use enterprise to increase the level of social benefit they deliver to these groups (Pearce, 2003; Westall, 2001).

The UK government has been pro-active in supporting and championing social enterprise activity at a national and regional level. It is common that councils and local government will pursue some kind of agenda for social enterprise. They are seen in as important providers of public services in the future, though evidence that they actually can and do this is presently unavailable. However, they do still play an important part in regeneration and empowerment within communities, so it is notable that study of their governance is relatively sparse: a handful of recent academic papers exist that focus on the governance of social enterprises *per se* (Low, 2006). Partly this is complicated by the variety of social enterprises, the term is an umbrella that covers cooperatives, housing associations, Social Firms, charity trading arms and credit unions, and many more types besides (Pearce, 2003; Paton 2004). There has been significant research activity in some of these types, though there are others with relatively little research development (Low 2006, Mason, Kirkbride and Bryde, 2007). Therefore, with a gap emerging in the corporate governance and social enterprise academic literature, this research reviews and explores the salient features of social enterprise governance.

1.2 RESEARCH AIMS AND OBJECTIVES

The research question that was developed from the initial literature survey was:

Do attitudes to governance influence perceptions of performance in Social Firms?

Following this research question, research objectives were determined:

- To examine the influence of accountability on the legitimacy of social enterprise governance.
- To determine the role of the social mission in facilitating ethical practice by managers of Social Firms.
- To determine and analyse the significance of any relationship(s) between transparency, accountability, sustainability and legitimacy
- To develop a model of governance that represents a holistic view of the formal and informal governance arrangements in Social Firms.

Both the research question and objectives provide a focus to the research that was intentionally exploratory. This was useful because it provided a general direction for the study, without restricting the parameters of investigation too much. A summary of the findings, and their relation to the research question and objectives, can be found in Chapter 8 (**8.2**).

1.3 THESIS OUTLINE

Following on from this Introduction, Chapter 2 begins with an overview of the corporate governance literature. A variety of different governance theories are discussed, and then applied across different organisation types. Finally, the review centres on social enterprises and governance. One of the major themes from the review was the relative lack of any substantive social enterprise governance research. This directed the review to the need for exploratory research to provide some empirical evidence of emergent themes in social enterprise governance. Therefore, it highlighted some of the emergent theories applicable to social enterprise governance, and a set of propositions were developed for further testing. At the forefront of these theories was institutional theory, and its use in analysing governance was deemed appropriate and novel for study of socially-oriented organisations.

Chapter 3 considered the methodological implications for the study, and discussed the merits of a number of different approaches. Postpositivism was advocated for the study for two principal reasons: firstly because exploratory research is well suited to a relativist scientific approach, and; secondly, because the institutional approach adopted aligns with postpositivist methodology. These methodological norms were important for grounding the exploratory research in a way that could be justified in light of previous, similar, studies. This Chapter also gave an outline of the stages involved in the research, and a research design model was developed to show how the two stages fitted together.

Chapter 4 provided a rationale for an explanation of Stage 1 of the study. After justifying the methods chosen to accomplish and analyse this qualitative stage of the research, a summary of the salient findings from the key informant interviews closed the Chapter. The most important outcomes were that governance was a worthwhile and multi-faceted subject of further study; and Social Firms represented the appropriate type of social enterprise to focus Stage 2 of the research on.

Chapter 5 explained the implications for validity and reliability in the investigation, together with sampling and piloting issues. As Stage 2 was quantitative, the measurement instrument was explained, and each aspect of it was justified in relation to prior studies. The Chapter finished with a reflective account of the potential limiting factors that may impinge upon the study, and remedial action that was in place to minimise their impact.

Chapter 6 detailed the quantitative findings and analysis of Stage 2. Firstly, descriptive analysis showed the trends in the data, and non-parametric tests were performed to look for any associations within data categories. In additions, tests for internal consistency and normality of distribution established that the data set was valid. Next, a rigorous series of parametric tests was conducted on the Likert statement data from the questionnaire, and found a number of significant findings. Of these significant outcomes, there were some categories that recurred more than others, principally the number of Board members, budget responsibility and the locus of decision-making authority. Also, an association was found between one of the predictor variables (accountability) and the dependent variable (legitimacy). Summary analysis of these findings was provided in this Chapter, though the implications of these outcomes were given in the following Chapter.

Chapter 7 grouped discussion of the implications sequentially, by proposition. In a thorough interrogation of the implications of the study, this Chapter culminated in the conceptualisation of a governance model that would arguably serve Social Firms better than the current governance arrangements. This model attempted to alleviate the apparent difficulties encountered by Boards of trustees by splitting them into to two: an instrumental Board of directors (requiring some recruitment of expertise), and a separate but influential stakeholder committee (with similar responsibilities to the Board of trustees). The former Board is better placed to deliver social benefit to primary beneficiaries: managers and staff. The latter committee provides oversight of the Board and is in control of the social audit process. This attempts to increase the uptake of the social audit as a means to improving accountability, thus enhancing legitimacy of governance. A discussion of the various parts of the conceptual model followed, with the emphasis on justification of the role of legitimacy and stakeholder claims upon it. The Chapter concluded with a discussion of the limitations of the study, difficulties encountered and caveats pertaining to the study generally.

Chapter 8 provided a set of conclusions about the study. Principally, these were the salient factors for significance of perceptions about Social Firm governance. In addition, consideration was given to the development of the constructs used in the study, and those propositions that have indicated valid components of each one. The conceptual model, and a number of areas for further research were discussed. Finally, a summary of the directions that each may take, together with an indication of how they could contribute to a body of knowledge was provided.

1.4 CONTRIBUTIONS TO KNOWLEDGE

The thesis contributes to both the corporate governance and social enterprise bodies of knowledge. It contributes to the former because the area of social enterprise governance is generally under-researched, and this study provides some insight into the structure and practice of governance for a social enterprise type. The majority of corporate governance research tends to focus on corporations, public organisations or nonprofits. Social enterprises are still a relatively recent addition to the corporate governance field, and so this thesis is a valuable starting point for further investigation. This is particularly so if some of the findings can be, as has been indicated in Chapter 8, applied across sectors. Some social enterprises have proven to be successful in niche markets against multi-national competitors (for example Day Chocolate Company and their Divine chocolate brand). These organisations manage the fusion of two (supposedly) opposing orientations, social and business, and there is evidence that they can compete against mainstream business. This thesis shows that there are some interesting aspects of Social Firm governance that could be applied to corporations, particularly the role of stakeholders at Board level and how they might be managed.

For the latter, the thesis contributes because it develops knowledge of the way that a type of social enterprise is managed and the problems faced. The social enterprise academic literature is steadily accumulating but is at present quite disparate. Hence, the thesis contributes by providing an empirical study of governance in a type of social enterprise, and a conceptual model showing how governance problems could be minimised. Four constructs, transparency, accountability, sustainability and legitimacy were all developed and tested during the thesis. The outcome of testing these constructs has shown that they are internally consistent, and provide a useful starting point for future research to build upon them. In addition, the thesis provides evidence of an association between accountability and legitimacy, both of which are important in the governance of socially-orientated organisations. This association justifies the pursuit of more transparent, accountable governance, and should encourage Boards in social enterprise to pursue this agenda more vigorously. It also illustrates how important legitimacy is, and that Boards should take steps to ensure that their activities and performance can be judged transparently by primary stakeholders. Therefore, legitimacy can be acquired through accountable governance practices, and this should be the rationale behind all governance-related activities.

Finally, this study indicates that Social Firms may be adapting (possibly via isomorphism) to professionalisation of their organisations. This has been indicated in some of the recent literature in this area (Low, 2006; Reid and Griffith 2006). In order to create more social benefit, there is pressure on social enterprises to become more efficient and effective in meeting service-level agreements with their partners, clients and customers. This study showed that managers and Board members do have different perceptions of the primacy of social needs over business focus. This change in orientation is contrary to the normative definition of social enterprise, but does confirm the predictions about the direction that the social enterprise sector in the UK will take.

1.5 CHAPTER SUMMARY

This Chapter has provided an outline of the thesis that follows. The starting point was a background for the entire study that focussed on social enterprises, what they are and why the research of them was required. Following this, the research question and objectives were stated, and a summary of the entire thesis was outlined sequentially by Chapter. Finally, the contributions to knowledge that this exploratory study provides were given in the concluding section.

CHAPTER 2

LITERATURE REVIEW

2.1 INTRODUCTION

In the United Kingdom, the social enterprise sector is worth approximately £27 billion to the economy, with 55,000 such organisations accounting for not less than 1.2% of all enterprises in the country (Office of the Third Sector, Sector, 2006). Social enterprises are defined as: "A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community..." (DTI, 2002). These enterprises are beginning to form a significant part of the UK economy. Increasingly, social enterprises are involved in the delivery of public services and are viewed in the long-term as being able to compete with privately owned organisations operating within new or existing markets(Westall, 2001).

Allied with a new legal form, the Community Interest Company (CIC), created by the Companies (Audit, Investigations and Community Enterprise) Act (2004), the current and future role of social enterprise will be influenced by their success in procurement and delivery of public services. Also, they are expected to play an integral role in the regeneration of cities and towns in the United Kingdom (Robinson, Dunn and Ballintyne, 1998).

Given their growing value in the UK economy, the requirement for effective governance of these organisations is of importance (Borzaga and Defourny, 2001, Borzaga and Solari, 2001, Low, 2006, Mason, Kirkbride and Bryde, 2007). The furore caused by high profile mismanagement of large and / or multi-national private corporations has brought heightened media attention to corporate governance issues. These have included Enron, Parmalat, WorldCom and Barings Bank, though these examples are a small representation of the number of corporate governance failures. However, they do represent some of the most infamous and costly to shareholders and other relevant constituencies.

The development of the corporate governance concept has occupied many decades prior to the collapse of the above organisations. Furthermore, the term applies to other types of organisations, such as public and non-profit organisations. Social enterprises of all types are prone to governance problems, though the profile of such instances receives less coverage in the mainstream press (Mordaunt and Otto, 2004). In academic literature non-profit governance has been subject to a degree of development (Vinten, 1998). Also, in practice voluntary codes have and are being developed, such as the Corporate Governance code of Best Practice (CooperativesUK, 2005), to promote good governance in this sector.

It is integral that the governance structures of social enterprises are transparent, democratic and promote accountability to its defined stakeholders. Common methods employed to this end include social auditing and accounting, which measures the impact of the organisation in defined areas. Contrary to the 'private' view, that organisations exist to serve the rights of shareholders or financiers, social enterprise embraces a broader interpretation of the term, *stakeholder.* This contrasts the 'private' social institution conceptions of organisations (Parkinson, 2003). Social auditing and accounting measures impact on defined stakeholder groups to test organisational performance against predetermined (hence benchmarked) social goals.

The purpose of this literature review is to discuss the appropriate conceptual and theoretical basis for governance in social enterprise. The review begins by charting the development of corporate governance theory from an Anglo-American perspective of corporate governance. Furthermore, it examines the appropriateness of the social institution view of the organisation as a basis for studying the corporate governance arrangements of social enterprises. Consideration is given to the expediency of this approach compared with the prevailing 'private' conception of organisations (and their governance). Finally, it determines whether the social institution conception is a more appropriate lens through which to examine social enterprise governance.

Contemporary governance research is examined to provide a practical illustration of the impact of corporate governance mechanisms on organisation performance. Finally, it traces the development and current role of 'social enterprise' in the United Kingdom, and highlights the gaps in research in this area.

2.2 CORPORATE GOVERNANCE

Corporate governance is defined as: "... (A) set of relationships between a company's management, its Board, its shareholders and other stakeholders...also (providing) the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined." (OECD, 2004, p. 11).

Corporate governance maintains a high profile in the public domain, notably this is when corporate wrongdoing is exposed. In recent times, the demise of Enron and WorldCom in the United States and the recent Parmalat scandal in Europe exemplify the high-risk and complex governance issues that organisations can encounter. As Grant (2003) asserts, the profits of some corporations exceed the Gross Domestic Product of some of the world's nations. Given the scale of financial and human capital employed within organisations, the requirement for trust in companies on behalf of investors and the general public has become increasingly important. To this end, academic research in corporate governance has sought to develop methods of control and 'checks and balances' within the organisation. These controls aim to ensure efficacy of governance structure and processes, upholding the fiduciary duty managers and directors have to shareholders and / or stakeholders.

Formal study in corporate governance "is less than half a century old" (Tricker, 2000, p. 15), though practice predates theoretical development back to the creation of the corporate form. 'Corporate governance' is a fairly recent term, widely used since the end of the twentieth century. Corporations first surfaced in Europe in the seventeenth century, and their original, chartered purpose was to serve the public interest (Grant, 2003). Legislative changes in England in the nineteenth century, particularly the development of company law, facilitated a pro-entrepreneurial environment. For example, corporations were now enabled to define their own purpose and limit liability of shareholders (Grant, 2003). This expansion in the availability of capital for corporate enterprises fostered the spirit of entrepreneurship and the rise of the corporation in the United Kingdom during the industrial revolution. This period also saw the establishment of the corporation as legal 'entity', entitled to "...contract, to sue and be sued, to own property and to employ." (Tricker, 2000, p. 14). As corporations grew in size, and economic prosperity rose and fell (for example the US stock market crash of 1929), research in law, economics and the developing organisational sciences sought to understand more about the impact of the rise of corporations. This was, in part, founded in the economic and legal environment past and present, and the major role that corporations and capital markets had on the direction of national prosperity.

The development of governance literature has provided at least three major theoretical approaches to corporate governance: agency theory (Berle and Means, 1932, Coase, 1937, Fama, 1980, Fama and Jensen, 1983), transaction cost economics (Alchian and Demsetz, 1972, Williamson, 1979) and stakeholder theory (Dodd, 1932, Donaldson and Preston, 1995, Freeman, 1984, Freeman and Reed, 1983). Crucially, the theories can be attributed a shareholder or stakeholder perspective, and pertain to the Anglo-American corporate system (Weimar and Pape, 1999). International governance typologies, such as the Germanic, Japanese, and Latin systems typically diverge from the Anglo-American approach by virtue of their Board structure, stakeholder inclusion and the more prominent role of regulation. The Anglo-American system is defined by the reliance on the market to control, (or "discipline") corporations' inefficient management by the threat of merger or takeover by competitors (Weimar and Pape, 1999, p.155). In a modern context, one consequence of high-profile corporate governance failures is the increasingly prominent role of governance measurement and ratings systems (Strenger, 2004, Tsipouri and Xanthakis, 2004). They are a means of measuring the effectiveness of, not only corporate performance, but director effectiveness and management performance. In turn, this information is used to inform shareholder and (the more powerful) institutional investors, in making voting decisions and appropriate representation at Annual General Meetings. Such developments are illustrative of the drive for accountability and transparency, the evidence of which is an indication of good governance practice (Gray, 1992, Strenger, 2004).

Traditional debate has focussed on the appropriateness of governance arrangements within the organisation. These arrangements take various forms, dependent on the degree of shareholder / stakeholder orientation within the firm.

The theories alluded to above generally adopt the premise of the corporation as a private entity. However, the role of corporations in society is also of importance, and it is here that a distinction is drawn between concepts of the corporation and governance theories (Carroll, 1979, Preston, 1975, Shrivastava, 1995). The agency theory and transaction-cost economics perspectives take the shareholder primacy stance, and vindicate the role of the external market to control, regulate and discipline inefficiencies. This contrasts with the social institution view of the corporation, which posits the idea of the organisation as a social entity. Rather than focusing on profit and 'optimal efficiencies', there is a prominent holistic view of governance which involves the recognition and inclusion of stakeholders. This is not wholly dissimilar from alternative models of corporate governance, such as the Japanese model, which are markedly different from the Anglo-American model (Blair, 1995).

The following section analyses the historical and contemporary status of these three theories of corporate governance from the Anglo-American perspective. It discusses the appropriateness of this research and the implications of it for the monitoring of governance performance in corporate, non-profit and more relevantly social enterprises.

2.2.1 AGENCY THEORY

There are a number of diverse theoretical strands that make use of agency theory. These range from economics, to political theory and marketing (Eisenhardt, 1989). Agency theory "...identifies the agency relationship where one party, the principal, delegates work to another party, the agent." (Mallin, 2004, p. 10). It is in this sense that agency theory applies to corporate governance. The 'principals' are the legal-entitled beneficiaries of corporate activity in their role as shareholders. The shareholders delegate power to the agent, the corporation's management, for control of the corporation's financial, physical or human resource assets. They delegate this power to managers to run the company in the interest of the principal and optimise the productivity and profitability of the firm. This principal-agent relationship is central to agency theory, as is the metaphor of a contract to analyse it (Eisenhardt, 1989, Jensen and Meckling, 1976). The next section traces the development of the key concepts forming the basis of agency theory, which is fundamental to the predominant 'principal-agent' governance model (Letza, Sun and Kirkbride, 2004).

2.2.1.1 DIVORCE OF OWNERSHIP AND CONTROL

A seminal work by Berle and Means (1932) provides the theoretical underpinning for, what became, agency theory. In this work, they proposed the concept of the divorce of ownership and control. The historical context of this work is that, around the time of its publication, the United States had just experienced the stock market crash of 1929, following a decade of industrial growth (Kristie, 1997). Historically, investors were the key resource for the growth of the corporation, via the influx of capital from purchase and trade of company shares. Over time the requirement for large inputs of fresh capital from investors diminish as the corporation seeks other avenues for raising capital (Grant, 2003).

Their predominant assertion was that as the number of shareholders in a corporation increases and this group becomes geographically dispersed, the ability for shareholders to exert control over the running of the corporation diminishes. In turn, the locus of control shifts towards management, lessening the oversight and control shareholders have over corporate performance. This poses a problem for the investor, whether it would be in their interests at all to invest given the requirement for a preferential return on their investment, managed by individuals they have limited control over. This is the primary, delegated, responsibility of the Board of directors.

An implication of this scenario is that directors, whose duty to shareholders is to oversee the strategic direction of the corporation, are less likely to be held accountable for poor corporate performance (Aguilera, 2005, Huse, 2005, Roberts, 2001, Roberts, McNulty and Stiles, 2005). The role of directors is integral in what amounts to a governance triumvirate. As Mace (1972, p.38) explains: "Management manages the company, and Board members serve as sources of advice and counsel to the management." The role of director has been subject to controversy, notably for claims of excessive director remuneration, the effectiveness of directors and the presence of independent, non-executive directors (Baysinger and Butler, 1985, Conyon, Gregg and Machin, 1995, Estes, 1973, Mace, 1972). Without effective means of controlling the level of residual managerial power over corporate resources, shareholders have a reduced influence over the control of the corporation. Therefore, examination of the role of directors in the governance of organisations focuses on the areas outlined above. The directors, and the expectations associated with their role and performance by various parties, have a central place in the theory.

The key aspect of research in this area is the pressure to ensure that principal interests in an organisation's performance are protected. This results in seeking an optimal and workable solution that enables such protection of interests but also ensures that directors are properly remunerated *and* accountable (McNulty, Roberts and Stiles, 2003, Short, Keasey, Hull and Wright, 2005, Spira, 2001, Weir and Laing, 2001). In so doing, the process of governance can be seen to have integrity and maintain its legitimacy to internal actors and externally to key groups in society. The appropriateness of such a solution is the focus of ongoing debate on the corporate social responsibilities of corporations (Guay, Doh and Sinclair, 2004, Husted, 2003).

2.2.1.2 THE AGENCY PROBLEM

Agency theory is concerned with remedying the 'agency problem' and this is defined as "...(a) conflict of interest, involving members of the organisation – these might be owners, managers, workers or consumers." (Hart, 1995, p.678). Building on the divorce of ownership and control concept, agency theory deals with the management of the principal-agent relationship, as a way of marginalising the agency problem. The role of contracts between parties is the device for ensuring manager and shareholder interests are aligned leading to the conceptualisation of the corporation as a 'nexus of contracts'. In doing so, agency theory deals with the reduction of 'agency costs', which are costs "...resulting from managers misusing their position, as well as the costs of monitoring and disciplining them to try and prevent abuse" (Blair, 1995, p. 97). This issue of managerial self-interest, and the means of regulating behaviour and attitude towards risk, is the dominant theme in agency theory.

The means for achieving the required incentive and control structure to regulate the agency problem is conceptualised by the setting of contracts. Jensen and Meckling (1976, p. 310, italics in original) considered firms as "*...legal fictions which serve as a nexus for a set of contracting relationships among individuals*". They used an analysis of agency costs and the diffusion of the shareholder base to question the prevalence of a corporate form where investors bear the residual risk for their investments. In turn, this investment is entrusted to a management who are prone to self-interest, rather than delivering a maximised return.

Shleifer & Vishny (1997) outlined the difficulties encountered when proposing remedial action in instances of managerial abuse of power. They highlight the intractable problem of a wholly prescriptive contract to govern managerial behaviour. Such problems are exacerbated by an unpredictable set of future circumstances and the expert judgement offered by managers in their role in the organisation. Their discussion centres on the locus of control between managers and financiers, determining that control is often skewed towards managers. This, in part, is as a result of the dilution of share ownership where shareholders cannot exert viable individual influence on and regulation of managerial activity. This scenario is further complicated by the myriad ways managers can use their residual power of control to utilise funds for personal interest, rather than optimal corporate benefit.

They conclude that, though the agency problem is serious, there are several mechanisms which serve to protect providers of finance. Foremost is legal protection for this (often disparate) group, as well as large shareholding groups, as a "...nearly universal method of control that helps investors get their money back." (p. 774). They recognise that these methods do not satisfy the agency problem. They contend that further questions remain to be answered before a suitable approach can be accepted as a deterrent to managerial control of power. Highly incentivised contracts are proposed as one method of preventing misappropriation of wealth away from investors. However, whilst acknowledging the central role of law in corporate governance, they question the role of political (as well as economic) forces in the progression of efficient corporate governance systems.

An important feature in a dynamic governance environment is the role of institutional investors. These entities concentrate power through the control of large portions of corporate shares, and as such have potentially great influence in the shareholder-side control of the corporation (Davis, 2002).

2.2.2 TRANSACTION-COST ECONOMICS

Transaction-cost economics (TCE) asserts the firm as governance structure, as an alternative interpretation of the nexus of contracts view (Mallin, 2004). Initial to its development was work by Coase (1937) and the 'theory of the firm' concept, though other contributors include Hayek (1945), Simon (1985) and North and Davis (1971). Therefore, rather than being a theory of economics *per* se, it has developed from a variety of origins, from organisational theory and sociology to law. Later work in institutional economics, for example by Williamson (1979, , 1984) provided further development of the new institutional conception. The essence of this theory is to examine the unit of 'transactions' rather than contracts. TCE readily acknowledges the incompleteness of contracting, hence supporting the governance structure rather than nexus of contracting. The structure intends to mitigate against incomplete contracting, by way of minimising inefficiencies of transactions made by a firm. Transactions occur as a result of the firm's activities, for example with suppliers in the intermediate-product market. The efficient firm will transact internally, until the firm grows to such a size where equilibrium cannot be maintained. In the event of this, transactions are more favourable *externally*, and this can be used to explain the rise of large and multi-national corporations (Coase, 1937). Where raising internal capital is no longer a feasible (efficient) option for the firm, then external sources are sought in order for the corporation to remain viable and competitive. These transactions are examined according to three main qualities: there frequency, the risks incumbent upon them, and the assets to which they apply (Williamson, 1998). Governance then, is concerned with the structures in place to minimise the risk associated with transactions, factored by the value of the assets to which they apply. The better the structure is at managing transactions, the better it is likely to perform on a cost-transaction basis.

Within the governance structure, activity is moderated by the Board of directors, whose role remains one of control. The primacy of governance structure is what Williamson (1998, p. 26) refers to "the play of the game": the on-going management of the firm and control of sub-Board level actors.

TCE shares many common elements with agency theory, and primarily adopts a shareholder perspective (though allusion to stakeholder involvement at Board level is made in Williamson, 1984). Both agency theory and TCE focus on efficiencies of the corporation, the need to regulate management that in effect control the corporation, and the important role of contracting. Similarly, both face criticism by focussing too narrowly on creating efficiencies and the provision of shareholder value, rather than a broader consideration of corporate impact on stakeholders. Furthermore, both theories have an empathetic view of the *corporation*, with little scope for applicability to other organisational forms. Conceptually, both agency theory and TCE are concerned with the corporation in its private form, pertaining to ownership rights and the effective role of the market in moderating managerial activity. This contrasts with the subsequent section, which examines the origins and implications of the social institution conception of the corporation, and alternative theories of governance (Parkinson, 2003).

2.2.3 STAKEHOLDER THEORY

The third corporate governance theory under examination is stakeholder theory. This approach to governance departs from the neoclassical view of the firm, and has origins in organisation theory (Argandona, 1998). Stakeholders are defined by Freeman and Reed (1983, p. 91) as: "Any identifiable group or individual who can affect the achievement of an organisation's objectives, or who is affected by the achievement of an organisation's objectives". This definition encapsulates the broad sense with which the term is applied, though Freeman proposed a narrower definition, which highlights the role of such groups in the continual survival of the organisation. The stakeholder concept has become synonymous with the recognition of a range of groups, and also with a more holistic approach to business: for example, it is central in corporate social responsibility research (Carroll, 1979, Carroll, 1999, Preston, 1975). In terms of corporate governance, it provides the basis for the stakeholder governance model (Campbell, 1997, Daniels, 1993, Donaldson and Preston, 1995, Kakabadse and Kakabadse, 2003, Slinger, 1999). The stakeholder theory of governance contrasts to the previous theories discussed above, primarily due to the difference in conception of the corporation. As Parkinson (2003) makes explicit, the stakeholder perspective of the corporation is that of a social institution, rather than a private entity. This view recognises the broad influence of corporations in society, and vice versa. This has implications for the way that these organisations are governed.

In examination of the nature of trusteeship inferred on managers of the corporation, Dodd (1932, p.1149) underlined the challenges that faced the corporation given the legal and economic context of the time. He maintained that corporations had a "social service" as well as a profit-making one, and that it is only the law that allows business to serve society, rather than make profit. Dodd advocated business as a *profession* (as opposed to *trade*) and indicated that manager-owned business were more likely to uphold moral conventions and also be more responsive to public opinion (which at one stage, he asserts, eventually becomes law).

Favouring self-regulation over Government interference, Dodd claimed that corporations, who did not adopt a positive stance towards their social role, would be forced to do so by competitive forces. The historical context is crucial to

Dodd's line of reasoning, given the proximity of the Depression, and the favourable legislative conditions for corporations. These conditions had allowed them to accumulate wealth and face no impecunious legal provisions that would unfairly hinder their wealth creation function.

As Millon (1990, p. 216) notes, Dodd "...demonstrated how the natural (social) entity idea could provide a basis for corporate social responsibility." Using the entity concept as a starting point, Dodd argued that as corporations were bound by the same legal restraints as an individual, so they should be expected to perform the same moral obligations to society as individuals. Therefore, rather than managers acting as agents to shareholders, they serve to represent the corporate entity, and owe a duty to other citizens in a way that does not compromise moral obligations for profit maximisation.

One of the crucial features of the stakeholder theory of governance is the assertion that corporations have a moral duty to a range of groups. In this view the moral duty of the corporation is central to the legitimacy of corporate activity and existence. This element of stakeholder theory of governance has also become part of the problem. The reason for this is that there is debate over the proper, normative foundation of stakeholder theory. Argandona (1998), for example, persuasively claims that stakeholder theory lacks a solid foundation, and attempts to provide one by linking it with the theory of the 'common good'. The common good is that good which benefits or 'perfects' all of those members of a given society. The fulfilment of individual goals is secondary to the primacy of the common good; private good is not excluded, only where it is to the detriment of the common good.

For others, such as Campbell (1997), the matter is best seen in a pragmatic way. The stakeholder view is a common sense way to view the firm and that it makes good business sense to imbue a feeling of purpose in corporate activity that is relevant to the range of stakeholders that depend on the organisation.

Donaldson and Preston (1995) examined three commonly described bases of stakeholder theory, descriptive, instrumental and normative. They propose four theses, asserting the descriptive and instrumental value of stakeholder theory, yet most importantly the fundamental normative basis and its managerial nature.

The descriptive element relates to how stakeholder theory is described in reality, and how its descriptive application is evidenced by empirical studies. Instrumental centres open the role of proposed actions, and then how they relate to the achievement of corporate objectives. The normative foundation of stakeholder theory represents its moral core. The emphasis is on the decisions the managers *ought* to make, based on moral correctness and moral duties to stakeholder constituencies. They contend that agency theory is descriptively inaccurate and normatively unacceptable. Furthermore, the concept of property rights can be applied to legitimise stakeholder theory, as well as to invalidate it. For example, Coase (1960) asserted the complex nature of property rights and are intertwined with human rights. Therefore, the allocation of property rights amongst stakeholders, and the level of power managers have in making decisions to asset "distributive justice", has relevance to stakeholder theory (Donaldson and Preston, 1995, p. 84). A complex view of property rights invites support from utilitarianism, social contract and libertarianism, and can be used to interpret stakeholder property claims on the basis of "...need, ability, effort and mutual agreement." (ibid). They claim that no single theory of distributive justice is appropriate, which supports the use of a pluralistic theory of distribute justice. This allows for an "explicit" link between property rights and stakeholder theory. By establishing a link between a pluralistic theory of property rights and stakeholder theory justifies and legitimises the normative rights of stakeholders in corporate governance.

Gibson (2000) argues that instrumental stakeholder theory is amoral. According to Donaldson and Preston (1995) the instrumental basis of stakeholder theory determines "...the connections, or lack of connections, between stakeholder management and the achievement of traditional corporate objectives." Amorality arises as an issue if, as Gibson does, one asserts the morality of stakeholder theory. If the corporation takes consideration of both primary and secondary stakeholders as the ultimate beneficiaries of achieving corporate objectives, such activities are amoral. The lack of focus on delivering benefit to a single group makes it difficult to claim that any one moral cause or right is 'superior' to any other. In this way, stakeholder theory does not make a persuasive argument for the holistic governance of corporations. Corporations require clear, focussed strategies that identifies a key recipient of corporate activity. Stakeholder theory cannot offer this.

Freeman and Reed (1983) examined the role of stakeholder analysis, and considered the efficient practice of such analysis as a means to promoting a 'voluntary' approach to corporate governance. Rather than allowing legislation to provide the "elaborate balancing act" of constituency interests (p.103), proper analysis allows organisations to prioritise amongst legitimate claims. They assert that the stakeholder analysis they have conducted through their paper is useful for the development of policy *alternatives*, but do not offer practical support for the suggestions made.

Yet, they include a caveat, in that to counteract haste in governance reform, the full impact of future actions must be understood. They argue that to accommodate this, directors must make the necessary efforts to fully understand the issues, the required changes and future commitment. It is through this active engagement with the issues that allows all potential options to be considered.

This discussion has so far identified the core theoretical points within the stakeholder theory of corporate governance. It is now necessary to compare the relative merits of the dominant corporate governance theories. In a comparison of agency and stakeholder theory perspectives on Enron, Culpan and Trussel (2005) delineate the governance issues and consider the various management and financial implications, and how this impacted on Enron's stakeholders. They consider how agency theory examines the fiduciary commitments of the 'agents' (p. 74), whereas the stakeholder theory view posits, "balancing the interests of various constituents." (p.75). By considering the application of the two theories, they determined stakeholder theory provides a broader context for further impact analysis. The correct interpretation of the use of stakeholder theory in this way, classifies it as "instrumental stakeholder theory" (p. 75). This is treated in more detail by Donaldson and Preston (1995), with their analysis of the three constituents of stakeholder theory, discussed above.

Boatright (2002) asserts the viability of conjoining the nexus-of-contracts and stakeholder theories. He makes explicit the central tensions between stockholder / stakeholder theories of the firm, and considers the role of contracting to govern relationships where the stockholder is the bearer of residual risk. Furthermore, this analysis asserts that stockholders are not the only party to bear risk, and that stakeholders often are the subject of the discretionary power held by management (for example, in a situation where managers may 'lie' to employees, to their detriment).

Shankman (1999) states that the continued debate between agency and stakeholder theorists counterpoises the lack of moral implication of agency theory, and the central role of "ethical implication" in business ethics (p. 319). The author posits that agency theory, based upon such assumptions, can actually be subsumed into stakeholder theory.

In relation to the accumulating arguments in favour of the recognition of stakeholders in corporate governance, one of the most prominent and wide-ranging criticisms of stakeholder theory was presented by Elaine Sternberg (1997). The range of the criticisms includes the value of stakeholder theory to business in general, corporate governance, accountability and private property rights.

Sternberg (1997) maintains that the definition of stakeholders cited by Freeman and Reed (1983) has over time evolved into the reverse of its intended meaning. The claim here is that stakeholders, rather than existing to *affect* the organisation, are now seen as being affected *by* the organisation. This is a shift from *external 'forces'* (i.e. shareholders) influencing the corporation, to the *corporation* using resources to affect a broad range of constituents. This reinforces the view that the term originally applied to a "generalised view" of shareholders, rather than to the 'infinite' numbers of potential non-owner stakeholders.

This provides the basis for many of the further criticisms of stakeholder theory. By proposing a shift in meaning of the stakeholder term, Sternberg sought to undermine elements of the theory, implying that it has changed emphasis to the detriment of long term value of the corporation, thus it is not "...a model of, or even compatible with, business." (p. 4). Furthermore, attempting to balance stakeholder interests is an "unworkable" pursuit given the numerous stakeholder constituencies permissible using a broad interpretation of the term. Allied to this is the issue of which stakeholder claims to rank by way of "balancing benefits" (p.4). Sternberg asserts that there is no simple method of determining stakeholder interests, nor does the theory detail how managers are expected to rank and deliver these benefits to such a wide range of stakeholders.

The relationship of stakeholder theory to corporate governance is seen as "incompatible" (p.5), as it "explicitly (denies) that corporations should be accountable to their owners", rather they should be accountable equally to all stakeholders. This increased accountability actually makes the corporation less accountable, due to a reduced focus of resources on a limited number of specific (prioritised) owner stakeholders.

Moreover, stakeholder theory does not provide adequate mechanisms to restrict managerial aberrations, i.e. financial mismanagement, or any other 'self-serving' activity that ultimately works contrary to long-term value creation. By balancing stakeholder interests, managers "betray" owners who (by proxy) sanctioned their employment to best serve owners' interests.

In relation to accountability, Sternberg asserts that extraneous stakeholders, e.g. the environment, cannot be recompensed adequately by the corporation. A range of groups can be identified as stakeholders to an organisation, but the corporation should not reasonably be expected to serve them in return. Rather, this would be the role of the legislative body (and the welfare state) of the country concerned.

The rightful owners of the corporation are shareholders, and they are the sole constituents to whom the corporation is to be held accountable. There is a potential weakness in this position, as Sternberg admits that there is some value in the corporation implementing stakeholder focussed strategies (e.g. delighting customers, long-term relationships with suppliers). It is in the shareholders interests that long-term sustainable relationships are forged with customer, employees and suppliers, as they build long-term value. To reinforce the view that practical legitimacy does not infer acceptance of equitable stakeholder accountability, the author asserts the right of shareholders as property owners. This can be contrasted with Freeman and Reed (1983), and their proposition of an explicit link between a pluralistic theory of property rights and the normative basis of stakeholder theory. Therefore it is not an easy option to invoke property rights as a means to asserting shareholder primacy over stakeholder interests.

A further criticism is that treating stakeholders as an "end" rather than a means to an end is unjustifiable. This is made on the grounds that such an orientation is less likely to achieve corporate objectives. Furthermore, rather than supporting the emancipation of stakeholder interests, only "rational moral agents" are treated as ends in themselves. The inclusion of "abstract groupings" of stakeholders (such as the environment) would not be classified in such a way. Therefore through the application of Kantian moral logic, corporations are not restricted from treating 'abstract' stakeholder as a means to an end. By restricting "moral agents" from the activity of using stakeholders as a means to an end, stakeholder theory denies such persons from making rational choices that would impact upon them, either to their benefit *or* detriment.

Jensen (2001) posits that stakeholder theory is fundamentally unsuitable for providing managers with the opportunity to increase value maximisation. Central to his argument is that in order for corporations to be successful in their defined aims, there must be a *corporate objective function* which provides the impetus for managerial decision making. He maintains that placing one constituency over another is unsuitable, for example too much focus on shareholders encourages a short-term financial return focus in decision making. This, he claims, holds true for prioritising *any* constituency over another where it does not build long-term value creation. Conversely, the role of the corporate objective function is to avoid potential confusion amongst a myriad of potential variables in the decision-making process. By making this process more simplified and prioritising value creation (in financial form or otherwise), decisions made are more likely to be "optimal" and satisfy the needs of the market.

In relation to the validity of stakeholder theory, Jensen states that it is detrimental to how well a corporation can increase value. Rather than creating an egalitarian culture by embracing a range of stakeholder interests, he claims that this approach gives managers the opportunity to allocate corporate resources "selfishly" (either consciously or sub-consciously), in projects that assist organisations or activities that in no way create value for the corporation.

The concept of *value maximisation* is also seen as indicative of short term-ism and instead the emphasis should be on *value creation.* In place of this, Jensen proposes *enlightened value maximisation,* whereby the key to creating value is through the motivation of all participants in the organisation. By involving key stakeholders equally to achieve a primary corporate objective, enlightened value maximisation avoids prioritising constituencies. Further, if such choices have to be made, it encourages wider thinking by managers to choose based on value.

Enlightened stakeholder theory maintains particular aspects of stakeholder theory, for example, auditing and measurement practices. Central to this modified theory is the addition of the primary corporate function, or *objective function,* for example, "...to maximise long-term market value." (p.17). The measure of corporate success is the realisation of this objective. This approach encourages optimal decision making amongst managers, through the reduction of dissonance caused by the competing claims of stakeholders. By enabling managers to make decisions based on the objective function (one that encompasses relative equality amongst stakeholder groups) it encourages independence. By achieving this objective, Jensen maintains that in the long-term, greater social welfare will result, thus producing the most favourable outcome amongst stakeholder constituencies.

The three theories have each been discussed in application to corporations. Naturally, corporate governance theory and practice transcends the corporate sector and infiltrates the study of other types of organisations. Previous studies have applied these, and other theories of governance, to public (Ezzamel and Willmott, 1993, Lowndes and Skelcher, 1998, Verdeyen and Van Buggenhout, 2003) and nonprofit organisations (Alexander and Weiner, 1998, Cornforth, 2003a, Cornforth and Simpson, 2002, Golden-Biddle and Rao, 1997). These organisations have an overt social function, and are often aligned with stakeholder models of governance accordingly (Abzug and Webb, 1999, Kearns, 1994b, Laville and Nyssens, 2001, Saidel and Harlan, 1998). However, there are a number of other governance theories that have been developed around the core theses of the three dominant conceptions that apply to non-corporate organisations. These include managerial hegemony (Kosnik, 1987, Vallas, 2003), resource dependency (Lowndes and Skelcher, 1998, Rasheed and Geiger, 2001) and stewardship (Davis, Schoorman and Donaldson, 1997, Donaldson and Davis, 1991, Muth and Donaldson, 1998) theories of organisational governance (Hung, 1998, Turnbull, 1997). Nonprofit governance offers a well established body of theoretical and practical governance literature (Cornforth, 2003b). Yet, there are variant non-profit types that offer opportunities for further research, such as social enterprise. The emergent research in this area provides the focus for the remainder of this Chapter.

2.3 SOCIAL ENTERPRISE

Social enterprise is defined as: "A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community..." (DTI, 2002, p.7). According to Pearce (2003) social enterprises have six common elements:

- Having a social purpose.
- Engaging in trade.
- Non-distribution of profits.
- Holding assets in trust for community benefit.
- Democratic ownership.
- Accountability to a range of stakeholders.

Given this broad definition, it is worthwhile considering the types of organisation that can be classified as 'social enterprises'. They take a number of different forms, from co-operatives and housing associations, to leisure trusts, credit unions, Social Firms, charity trading arms and development trusts (Westall, 2001). As will be made clear in Chapter 3, of particular focus in this thesis is the Social Firm. These organisations are defined by their commitment to enterprise, employment and empowerment (Cox, 2006). They exist to provide employment for groups previously excluded from the labour market: at least half of the workforce must be from an excluded group. Also, it must raise at least half of its annual turnover from trade alone. These are the distinguishing features of the Social Firm. A good example of a Social Firm is Pack-It, an order fulfilment

Social Firm. Half of its workforce have Down's Syndrome, and so provides these individuals with the opportunity for paid employment and skills training. It has been particularly successful: turnover in 2003 stood at £1.3 million, with profits being returned directly to the Social Firm (Cox, 2006). Other notable examples include Dove Designs in Liverpool, offering training and development for people with mental health needs, and COPE based in the Shetland Isles which has a number of enterprise interests: from catering and coffee roasting, to soap manufacture. All of these examples pertain to successful Social Firms that provide employment and empowerment through enterprise.

Despite the variety of organisational types, three legal forms typically prevail: the co-operative, Companies Limited by Guarantee and Industrial and Provident Societies (Spear, 2001). Being neither wholly private nor public sector organisations, they belong with the 'third sector' or 'third system'. This is determined by Pearce (2003, p.28) as one that: "... (Embraces) the domestic economy of the family and the informal economy through to the more formally structured institutions of the voluntary sector and those of the social economy", the social economy being "that part of the third system which is on the trading side" (ibid).

They are not a wholly distinct form of organisation, bearing a striking resemblance to non-profits in terms of the social objectives they exist to achieve. Where they differ significantly to non-profits is that, as enterprises, they seek to provide a product or service that is the primary means of achieving the defined social objectives. Furthermore, non-profits are restricted from distributing their earnings, which Hansmann (1980, p.838) refers to as the "nondistribution constraint". Social enterprises can either reinvest net earnings, *or* redistribute surpluses to the primary stakeholder group. Also, non-profits are restricted in how they raise capital to grow. This constrains capital resources if the organisation seeks growth, thus making it heavily dependent on donations and grants. Social enterprise subverts this by trading, so though it may initially be established via the aid of a grant, in the long-term the social enterprise should become self-financing. Hence there is a need for entrepreneurial skill and managerial experience to guide this transition from grant-funding to trading.

Following a review of the third sector, the UK Government proposed a bespoke legal form for social enterprises, the Community Interest Company (CIC). This is now another recognised legal form for social enterprises to adopt. Spear (2001) asserts that the third sector is built around a number of long-standing organisations and newer, smaller enterprises. The role of social enterprise within the third sector, as a trading entity, is to contribute to the social economy. As political and legislative climates have changed, the role of the third sector has evolved. The current focus is on regeneration, and the enhanced profile of social enterprises for delivery of some public services. Previously, much of the activity from so-called non-profits was cause, rather than enterprise-based (Pearce, 2003, Spear, 2001, Westall, 2001).

According to Westall (2001) the essence of social enterprise is the entrepreneurial spirit, and this drives the sector. Furthermore, the choice of legal forms gives social enterprises options of legal structure, enabling the social enterprise to better serve its defined social purpose. This pragmatic, entrepreneurial attitude is encouraged in the UK Government's official strategy, which views these organisations as a catalyst in developing flexible, working solutions for social causes.

A prominent feature of the social enterprise sector in the UK is the work done by trade and support organisations, at both local and national levels. The Social Enterprise Coalition (SEC) and Social Enterprise London (SEL) are particularly vocal and proactive. There are a range of different organisations that support particular types of social enterprise, such as CooperativesUK, Social Firms UK, and the National Housing Association. Their influence is notable, not least in the creation and dissemination of support documents and developing training courses for individuals and groups (including Board members). In the latter category, the Cooperative College provide access to management and leadership training and qualifications. These organisations also attempt to connect with the *zeitgeist* of their sector, developing codes of conduct, for example the codes for governance developed by Cooperatives UK.

2.3.1 SOCIAL ENTERPRISE GOVERNANCE

Governance research and policy permeates the public and non-profit sectors. Brown (2002, , 2005) focused on the role and effectiveness of the Board in nonprofit organisations, and how Board performance impacts on organisational performance. Also, Carroll, Hughes and Lukseitch (2005) examined the role of managerial compensation in nonprofit organisations, concluding that managers should (and do) receive tangible (financial) rewards resulting from operational success. As mentioned earlier in this Chapter, the historical importance of charities and other organisations that operate for the public benefit stretches back to the origin of the corporation. The inclusion of an overview of some research in this area is relevant, as they share some principle commonalities.

In the United Kingdom, there have been numerous attempts by the Government that have either driven change or been a response to market-based changes in corporate governance (Dunn and Riley, 2004). One area of note is the changing role of service provision by private and public organisations; leading to "...corporate governance concepts entering into the public and charitable sectors...(appearing) to be in fluid interaction and mutual dependence." (Vinten, 1998, p. 419). Research in this area focuses on some of the more familiar organisations classified as social enterprises. For example, Davis (2001) studied the governance of co-operatives, finding that the increased professionalism of managers is as much an issue for future research as issues such as transparency and democracy.

2.3.1.1 DEMOCRATIC GOVERNANCE

Democracy in governance refers to how accessible governance processes for a specified stakeholder group. Dahl (1991) discusses democracy in a broader, political context, and as intertwined with two other concepts: liberty and equality. This exemplifies the inter-relatedness of democracy with ideals of fairness and freedom. Often, political democracy is recognised and interpreted as the process of enabling rational actors to influence the composition of state bodies through exercised volition. Democracy is a central part of corporate governance also, because it pays heed to notions of equity and trust that should exist in key, fiduciary relationships, where powerful internal actors represent the interests of external principals. For example, democracy is the instrumental rationale supporting all activities that promote and sustain the fair and honest election of board members. Indeed, many issues arise when considering the nature of democracy in organisational governance. In the corporate context, democracy refers to the achievement of specific objectives: including the nature of director recruitment, tenure, and voting rights. Directors of private and public limited companies will often serve for fixed terms, requiring re-election to the board as a procedural measure. The election process must be seen to be fair and transparent to ensure democratic accountability, and these activities are generally confirmed during Annual General Meetings (AGMs). Democracy is crucial to governance because it demonstrates that the board is managed appropriately, and that its members serve on the basis of approval conferred by key shareholders. Also, democracy is embedded in systems of voting, where all interested parties have allocated rights to influence the management organisation. Of course, allocation of voting rights must also be representative and ensure fair allocation according to investment in, or claim of organisational interests. Institutional investors are very influential in these instances, since they can control the voting rights for large blocks of shares in the largest public limited companies. Essentially, democracy in corporations is determined by the efficacy of voting procedures, the stated length of tenure for directors and the degree of control over power that shareholders have over recruitment of directors. In international governance models, such as in Germany and Japan, staff / stakeholder inclusion onto the board attempts to enhance democratic accountability through participatory consultation. This inclusive practice attempts to represent a broader set of interests, and of a range of stakeholder groups in the strategic management of the organisation. Such stakeholder models of governance are also a common feature of socially oriented organisations.

Public sector and nonprofit organisations share similar concerns over democratic accountability. As Eisenberg (2000, p.325) states, nonprofit democracy is concerned with: "...providing checks and balances to government, giving expression to minority voices, contributing to the public policy debates, developing an engaged citizenry, and leveling the playing field for all citizens." The major difference for non-corporate organisations is the principal motivation(s) of primary beneficiaries, which are predominantly social rather than financial. Within the general area of democratic accountability, issues such as the election and role of trustees (Jackson and Holland, 1998), inclusion of stakeholders (Brown, 2002, Brown, 2005, Steane and Christie, 2001), chief executives' perceptions of the board (Mole, 2003), and tenure of board members (O'Regan and Oster, 2005) are prominent. It is important that these issues are studied in more detail for social enterprises, since we cannot assume that such problems apply to these organisations in the same way (Robinson and Shaw, 2003). Issues relating to participation and inclusion are central to the social orientation of social enterprises, and important to understand when and how these problems are accommodated in social enterprise governance. The length of tenure of board members is also a contemporary concern in nonprofit and social enterprise governance, paralleling the corporate sector (Salancik and Pfeffer, 1980, Santora and Sarros, 2001, Vafeas, 2003). There are also problems surrounding the selection and availability of appropriate directors and trustees, as well as how socially orientated organisations should determine the *appropriateness* of board members.

According to Borzaga and Solari (2001), social enterprise governance is of the multi-stakeholder type. Also, it is critical that managers of social enterprises seek legitimacy both internally and externally. The nature of stakeholder groups involved in the social enterprise is a reflection of their "heterogeneous nature...and their different goals." (Borzaga and Solari, 2001, p.342). They consider this approach more effective in the context of social enterprise when compared against the attempts at a multi-stakeholder approach in the for-profit sector, for example. They state that a key challenge for social enterprise is the development of appropriate governance structures that reflect the local, unique mission of each one. The ultimate goal of this approach is to reduce the asymmetry of information between managers and stakeholders to achieve a balance between efficiency and social impact. However, one of the obstacles to achieving this is the variety of legal forms that can be adopted by social enterprises. Also, there is not yet a resolution to the problems of 'ownership' of the social enterprise, i.e. which stakeholders should be prioritised, thus perpetuating asymmetries of information between stakeholders and managers. It is evident that social enterprise Boards face a number of challenges, if research on nonprofits, cooperatives and voluntary organisations is a reliable marker. Yet, as Rochester (2003, p.119) notes, it is difficult for Boards to meet these challenges because they struggle to recruit new members, and those they do recruit "... lacked expertise and experience".

2.3.2 STEWARDSHIP THEORY

One of the alternative theoretical approaches mentioned previously, stewardship theory, has been advocated as an appropriate basis of social enterprise governance (Cornforth, 2003a, Harrow and Palmer, 2003, Low, 2006). Stewardship theory presents a view of governance that diverts from strictly economic interpretations of relationships within the organisation. This is the common application of agency theory in corporate governance and neglects the salient non-economic influences that guide managerial activity (Donaldson and Davis, 1991). There are predominantly psychological (such as identification and power) and situational (for example, management philosophy and culture) factors (Davis et al., 1997). The key assumption is that managers are trustworthy and 'pro-organisation' (Davis et al., 1997). They will seek to maximise principal interests to progress the overall goals of the organisation (into which their own interests are tied), working as partners in the organisations (Muth and Donaldson, 1998). Crucially, there must be a significant trust culture between the principal (or primary stakeholder) and managers to support this approach. In terms of its suitability to social enterprise, stewardship theory is more aligned with the ethos of social enterprise and the psychological and social profile of its managers. At management level there is support for the stewardship approach, where the manager / entrepreneur is actually from the defined community that the organisation serves.

Therefore, managerial decision-making is closely aligned with the required needs of that community. The success in prioritising, safeguarding but also balancing interests, where the manager has an empathy and clear focus on the recipient of social benefit, is increased. In this scenario, the Board of directors adopt a 'support' role to management to enable them to meet stakeholder expectations. Their function is to provide strategic direction, rather than "...(ensuring) managerial compliance or conformance..." (Cornforth, 2003a p. 8).

Furthermore, stewardship theory supports the notion that nonprofits, and specifically social enterprises are likely to shift to a much narrower business-focus (Dart, 2004). This narrow focus will result in the presence of a broader set of skills at Board level. In turn, this moves away from the inclusive representation at Board level of a range of key stakeholders regardless of their strategic utility, towards a skills-set that can more effectively manage the entire operation. In practical terms, the key aim is ensuring that Board composition is both representative and sufficiently skilled to enable the social enterprise to maximise its value to its defined communities.

To summarise, rather than adopting the stakeholder model of governance, one that is intended to be representative by its nature, it is appropriate that Board members are sufficiently able to deliver increasing productivity. Also, they enact this through a broad set of skills at Board level, and by supporting management in their activities. This view is emergent in the literature and could predominate as the social enterprise sector matures to become further distinguished from traditional non-profits (Low, 2006). However, for any theoretical approach to have utility it must be clear to those governing, managing and served by social enterprises where its value lies. There is potential, therefore, in exploration of the value of non-profit (and cross-sector) governance theories, which can illustrate the ways in which they explain and assist the process of delivering the maximum benefit to communities served by a social enterprise (Borzaga and Solari, 2001, Low, 2006). However, if the dynamic of the social enterprise sector promotes a narrower, business-focus, the likelihood is that governance systems will exhibit a hybrid of for-profit and non-profit characteristics (Dart, 2004, Low, 2006).

2.4 LEGITIMACY

A key aspect of the institutional environment is legitimacy, as are the processes that legitimise the existence of the organisation. Legitimacy is defined by

Suchman (1995 p. 574) as: : "...(A) generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Essentially, legitimacy refers to how well an organisation operates in its social environment, excluding material requirements and technical functions. Legitimacy is acquired when the organisation meets the required standards defined by key groups. These groups may be the recipients of benefit created by the organisation. Alternatively, they may have control over the allocation of resources needed by the organisation. In most instances groups with the authority to confer legitimacy play both roles.

The concept of legitimacy is predominately aligned with organisation studies, but has been applied across different fields of inquiry, notably in political science (Lipset, 1959, Meyer, 1999, Weatherford, 1992). However, for this discussion the focus reverts back to organisation studies and the role of legitimacy. Scott (2001) discusses legitimacy in terms of how it applies to the organisation's regulatory, normative and cultural-cognitive institutional environments. Each strand of these "pillars" of the institutional environment is intertwined to a greater or lesser extent in the organisation. Legitimacy is not "...exchanged but a condition reflecting perceived consonance with relevant rules and laws, normative support, or alignment with cultural-cognitive frameworks." (ibid, p.59). Most organisations are bound by regulatory constraints, and also the normative expectations of internal and external 'actors'.

Yet, it is the cultural-cognitive element that provides a much deeper understanding of individual and group actions and activities in the institutional environment and legitimacy. Conceptualising the organisation as a social entity supports this approach. It helps to explain how *governance* activities play such a central role in achieving legitimacy. All internal actors have specific roles and function that are predefined according to the set of constitutive rules. Constitutive rules enable this by defining the ontological reality of the social structure that internal actors perceive and subjectively experience. These rules also establish the intrinsic behaviours and activities associated with each role. Hence, individuals involved in governance (i.e. Board members and staff) must act in a way concordant with the institutional environment of the organisation. So doing enables legitimacy, whereas activities contrary to the basis of the institutional environment de-legitimises. Therefore, it is necessary to understand further how influential these cultural-cognitive elements are in controlling individual behaviour. This counterpoises an alternative perspective of governance to the four theories discussed above. This approach focuses on 'controls' that are determined by social values rather than legal prescriptions of duty to core groups.

Institutional theory examines a range of factors that influence the organisation. It provides the central conceptual grounding for alternative studies of governance. This approach prompts examination of the influence of shared values and meanings on behaviour and performance of Board members, in a way that prior studies in this area have not.

There is an emergent debate about the governance of social enterprise that is contingent on the maturation of the social enterprise sector. The way that social enterprises evolve to meet the changing (or static) needs of their communities will be central to the usefulness of either (or neither) of the theories outlined above. With this in mind, the core focus of the remainder of this Chapter is to examine the common, expected outcomes of governance. The next section draws these themes out. Focussing first on social enterprise governance and legitimacy, attention shifts to the measurement of governance performance and common goals that unite the various theories of governance, rather than divide them.

2.4.1 LEGITIMACY AND SOCIAL ENTERPRISE GOVERNANCE

In examining the role of legitimacy in social enterprise, Dart (2004) outlined how Suchman's categorisation of legitimacy could be applied to this context. For example, pragmatic, moral and cognitive legitimacy, provide interesting perspectives on the nature of legitimacy in social enterprise. Further, these explanations offer insight into the ascendance of social enterprise as a direct result of them being a more effective type of organisation to meet social needs. Pragmatic legitimacy has merit as it focuses upon organisational performance as a means of legitimisation. However, in cases where the requisite performance is not achieved, legitimacy of the social enterprise is compromised (Dart, 2004). Moral legitimacy posits that legitimacy is attained when activities are conducted as they *should be* done. Legitimacy is attained provided that all activities are in the interests of the group that provides legitimacy, namely primary stakeholders. Cognitive legitimacy is a more subtle form, reflecting upon the 'preconscious' subjective standards of how activities should be performed. This has value in analysis of governance because legitimacy is contingent upon whether managerial activities fit (or otherwise) with implicit expectations of performance and behaviour. Utilising Borzaga and Solari's (2001) assertion that social enterprises seek legitimacy both internally and externally, we can adopt an institutional perspective of governance to explain how certain governance arrangements arise. In addition, this aids an understanding of how governance arrangements may have been developed as a result of endogenous and exogenous institutional pressures.

Therefore, a key challenge for social enterprises is developing appropriate governance structures that suit the needs of primary beneficiaries. This is important for matching the local needs of primary stakeholders with a governance process that enables managers to do this, whilst remaining transparent and accountable. Therefore, reducing asymmetries of information between managers and stakeholders should achieve a balance between efficiency and social impact. However, social enterprises vary in the degree to which they are 'business-focused' in achieving social aims. As such, it must be determined whether this balance is maintainable. This corroborates the predicted shift towards a business-orientation, aligning with a stewardship perspective of the Board in social enterprises (Cornforth, 2003a, Dart, 2004, Harrow and Palmer, 2003, Low, 2006). Therefore, the first of a series of propositions for further testing can be established:

P1: The Social Firm Board must successfully balance social aims with business-focus.

This 'hybridisation' involves conjoining two opposing outcomes: maximising social benefit using business methods. The recruitment of 'experts' at Board level, who share interests with managers, is intended to provide entrepreneurial flexibility whilst protecting the interests of beneficiaries. The mechanisms of this partnership approach to governance require further explanation and support. For example, there is little guarantee of regular dialogue between different levels of staff, the Board of directors and stakeholder representatives. directors must also exhibit the required skills to manage such an organisation. The presence of suitably skilled directors, with good experience, is at a premium across the social enterprise sector (Thompson and Doherty, 2006). Therefore:

P2: The Board of directors should have the skills required to govern the social enterprise effectively.

The governance system needs to be adaptable to ensure that actors can legitimise their activities. This means that stakeholders should be fairly represented in decision-making to ensure normative legitimacy. Spear (2001 p. 253) asserts that many of the successful cooperatives in the UK may have achieved this success at the cost of eroding "their guiding values". A crucial aim of the governance of social enterprises is to guard against this erosion in the long-term, and achieve the appropriate balance between competing claims upon resources. The act of seeking and achieving normative legitimacy is achieved via the efficiency with which the social enterprise prioritises and delivers social benefit (Dart, 2004). As noted previously, the methods for achieving this have previously been framed in a stakeholder theory context, though alternative approaches (such as stewardship and institutional theories) exist. The outcome of social enterprise governance is producing an *ethical* organisation. Importantly, it is expected that social enterprise, given their constitution, *should* be more ethical than corporations. The primacy of their social orientation determines that their performance should have positive social ramifications (Mason et al., 2007, Pearce, 2003). Therefore the maintenance of ethical standards in social enterprises is expected and should be confirmed:

P3: Social enterprises should be more ethical than their for-profit competitors.

2.4.2 SOCIAL ENTERPRISE PERFORMANCE MEASUREMENT

The importance of the measurement of governance performance transcends the boundaries between the for-profit and non-profit sectors. Furthermore, the development of effective measures of performance is no less important for non-profits and social enterprises than for corporations. For example, Kaplan (2001) presented the application of the Balanced Scorecard for non-profits in the United States. He adapted the Scorecard to account for the different measurement priorities for non-profits. A recent paper by Somers (2005) highlighted the need for an effective performance measurement system for social enterprises. In a similar vein to Kaplan (2001), the Balanced Scorecard can be adapted to fit the particular needs of the social enterprise, though no empirical work is offered as a means of verifying the applicability of this approach.

The Balanced Scorecard is not the only tool used to measure performance in social enterprises. Social accounting builds on the purely quantitative aspects of traditional 'accounting' with qualitative, contextual elements. Social accounting is defined as: "A systematic analysis of the effects of an organisation on its communities of interest or stakeholders, with stakeholder input as part of the data that are analysed for the accounting statement." (Richmond, Mook and Quarter, 2003, p. 3). Rather than focussing on financial data to gauge performance, social accounting builds a contextualised report of the impacts of organisational activities. This is useful as the collected information can be reported back to key stakeholder groups via the Board of directors. Social accounting is merely one approach to the effective measurement of social enterprise performance. There are a range of techniques available for measuring social impact, for example the Social Return on Investment (SROI) method. This approach utilises knowledge of stakeholder objectives and organisation performance as a "...useful way of illustrating the economic value of the social and environmental impacts of organisations that may otherwise look unviable" (New Economics Foundation, 2004).

Paton (2003) highlights the need for further research in measuring social enterprises. Due to the hybrid nature of these organisations, design of a governance measurement system will need to reflect their unique constitution and goals. For example, the overarching social objective for such enterprises is concordant with that of non-profits. However, their requirement to trade (and eventual goal of reducing of grant dependency) draws them more towards the for-profit, rather than the non-profit organisation as they seek to become self-financing. Therefore, bespoke performance measurement systems that effectively aid the social enterprise in monitoring its operations are crucial for its growth and value-creation. This is because of an asserted link between governance and organisational performance. Brown (2005) explored the link between Board and organisational performance in non-profits, and offers support for a significant association between the two factors. Brown (ibid) determined the criteria by which Board effectiveness of non-profit organisations can be studied and suggests that the research reinforces factors such as Board diversity strengthening Board performance. This has implications for the study of social enterprise governance, given the shared heritage between some social enterprises and non-profits. This might be enforced through greater democracy at Board level and stakeholder inclusion in Social Firms, which is a central feature of social enterprise (Pearce, 2003). Furthermore, democratic governance could encourage stakeholder inclusion at Board level, which is an element of transparent and participative governance practice (Huse, 1998, Luoma and Goodstein, 1999). Yet there is little empirical evidence to indicate its presence or usefulness to social enterprises. This was highlighted as an issue from the exploratory interviews with key informants from the social enterprise sector (see Chapter 3). Representation encompasses a range of stakeholder groups, and should be an expected feature of Social Firm governance (Owen, Swift, Humphrey and Bowerman, 2000, Owen, Swift and Hunt, 2001). Therefore:

P4: Democracy is an integral part of Social Firm governance.

P5: Stakeholder inclusion at Board level is a feature of Social Firm governance.

2.5 THE OUTCOMES OF GOVERNANCE

In the midst of discrepancies between the governance theories presented above, there are key links shared amongst them that apply to social enterprise. These are features and outcomes of governance, irrespective of business orientation and constitution: transparency, accountability and sustainability. When present, these three concepts are considered to be a sign of good governance practice. The nature of these three concepts is explained below. Furthermore, one particular element features most prominently, namely accountability. The importance of this concept, in relation to transparency and sustainability is explained. In keeping with an institutional view of social enterprise, the role of accountability in relation to legitimacy is also discussed.

2.5.1 TRANSPARENCY, ACCOUNTABILITY AND SUSTAINABILITY

Transparency occurs when "...an organisation, in the interests of being accountable, openly discloses the findings of its social accounts so that stakeholders have a good understanding of how the organisation performs and behaves...." (Pearce, 2003, p. 191). Making organisation activities and decision making processes transparent encourages trust in them amongst the relevant stakeholders to that organisation. Often, ensuring transparency and efficacy of such activities is achieved through subjecting them to external scrutiny for verification. In the corporation, this is particularly useful for investors in ensuring the business is run properly and in their interests (Strenger, 2004, Tullberg, 2005). The aim of transparency is to 'open-up' the organisation and allow its workings to be monitored and scrutinised by external sources. Transparency is recognised as a central feature of good governance across sectors, to nonprofit organisations and social enterprises (Aguilera, 2005, Gray, 1992, Kirkbride and Letza, 2003, Paton, 2003, Strenger, 2004, Tullberg, 2005, Turnbull, 1997). Also, research on transparency in corporate governance has focused across geographical (and legislative) boundaries (Berglöf and von Thadden, 1999, Black, Kraakman and Tarassova, 2000, Bushman, Piotroski and Smith, 2004, Mallin, 2004). Other prior research has examined the influence of transparency upon performance (O'Neill, Saunders and McCarthy, 1989, Verschoor, 1998). This should be tested for social enterprises:

P6: Transparency indicates better governance performance.

The value of transparency is in fostering trust and confidence in key stakeholders about the governance of the organisation. The level of commitment to transparent governance processes indicates that the Board of directors is performing better than if they were not achieving expected standards of transparency. This has been shown in the literature in private corporations and non-profit organisations (Nobbie and Brudney, 2003, Zand, 1972, Zandstra, 2002). This is yet to be tested in the context of social enterprise governance, therefore:

P7: Trust is an indicator of Board transparency

The audit process should enhance transparency, and ensure financial disclosure. This process enables the efficacy of governance and business operations to be examined. As Bushman *et al* (2004) make clear, there are two types of transparency: financial and governance transparency. The former refers to the full disclosure of appropriate financial information to investors and other relevant bodies. Previous studies have asserted disclosure as a central part of transparency (Bushman et al., 2004, Bushman and Smith, 2003, Patel, Balic and Bwakira, 2002). Transparency is expected of different types of organisation, as an indication of good governance. This should be expected of social enterprise, but is yet to be tested empirically:

P8: Disclosure is a facet of transparent governance in Social Firms.

The drive for greater transparency across sectors confers ethical standards of conduct upon directors. They are bound by a fiduciary duty to ensure that the ethical standards within the organisation align with the expectations of primary beneficiaries (Davis, 1994). Attaining and maintaining ethical standards is central to achieving accountability. Hence:

P9: Ethical performance is a responsibility of Social Firm directors.

The role of independent directors must also be considered here. The presence of independent directors on the Board is considered to be important in increasing transparency of Board decisions and activities (Aguilera, 2005, Johnson, Daily and Ellstrand, 1996, Roberts et al., 2005, Short et al., 2005, Weir and Laing, 2001). In governance literature, their role has been examined and discussed, and is linked to better transparency (Beasley, 1996). Currently, there is little evidence of their role in social enterprises, particularly the Social Firm. Therefore:

P10: Independent directors enhance transparency in Social Firms.

In the institutional view, transparency is represented by the formal and informal safeguards and pressures that ensure the proper running of an organisation. Formal, or regulative, safeguards can be presented as laws that cover the organisation, and define the legal duties of its managers and directors. For example, the new legal form of social enterprise in the UK, the CIC, 'locks' assets to protect them from misuse. Informal safeguards of transparency include normative and cultural-cognitive pressures that together with regulative pressures, influence the creation and maintenance of the institutional environment (Scott, 2001). Both formal and informal elements are integral to ensuring that governance is transparent, and ensure legitimacy.

The central importance of performance measurement of governance to social enterprises is to indicate a level of accountability. Notions of accountability vary from extremely broad (world-level), to narrow (individual-level). Accountability is defined as "[The] duty to provide an account (by no means necessarily a financial account) or reckoning of those actions for which one is held responsible" (Gray, Owen and Adams, 1996, p. 38). The relevance of accountability in governance is as a representation of the level to which directors and managers uphold their fiduciary duties to stakeholders. This applies to private, public and nonprofit governance contexts (Ezzamel and Willmott, 1993, Kearns, 1994a, Sternberg, 2004, Young, 2002). It is important because it represents the overall purpose of corporate governance. The essence of the subject is to hold individuals to account for the actions. This is particularly pertinent following instances where organisations have failed as a result of poor management by executives and directors. The context is also important for accountability in corporate governance. More often, it is interpreted broadly, focussing on more than just financial accountability. This is true for for-profit as well as nonprofit organisations. The pressure for greater public, as well as shareholder, accountability has prompted many large corporations to implement social auditing and executive positions for 'social responsibility'.

The appreciation of accountability to an increased number and variety of stakeholders, other than merely shareholders is a fundamental principle of social enterprises (Pearce, 2003). Such practices are yet to become formalised as legislation or policy, so remain implicit manifestations of the 'social contract' of the organisation (Gray et al., 1996, Moir, 2001). Thus, to achieve accountability, social enterprises must embed the systems and processes that enable them to be held accountable. Board accountability is the central feature of good governance across sectors (Deakin and Hughes, 1997), and accountability is an indicator of governance performance. It is unclear in the literature whether accountability improves or impairs performance (Aucoin and Heintzman, 2002). Therefore, to seek clarity on this matter, perceptions towards accountability should be tested:

P11: Accountability indicates better governance performance.

Given that business orientation is an element of social enterprise, there is an expectation that they should be competitive and efficient. This highlights the dichotomy of social enterprise governance: maximising social benefit through competitive business focus. As explained previously, this balance is the expected role of the Board of directors (Dart, 2004). Yet within this remit, Boards must monitor and manage staff to ensure they are sufficiently focussed on delivering on social objectives (Baysinger and Butler, 1985, Miller, 2002): Thus,

P12: Boards should ensure that they are accountable for performance.

P13: Boards should ensure Social Firms are competitive in their chosen markets.

An important role of the Board of directors is the development and implementation of strategy. The social enterprise is intended to be collaborative at Board level, and the development of strategy should occur in such a way (Westphal and Fredrickson, 2001). Yet the directors assume responsibility for strategic success or failure, and this is typically expected of directors serving on Boards. They should be accountable for their performance for both social *and* business performance, consistent with the accepted definition of social enterprises. Hence:

P14: Boards should provide strategic direction to enable business sustainability

In keeping with the rationale of social enterprises, any strategy developed for the progression of the business must also account for maximising social benefit. Part of this task will necessitate supporting managers in their roles to enable this to happen. It is an expected part of governance for directors to maintain internal conditions that will progress overall objectives. This is true for all organisations; corporations seek the optimal conditions to maximise shareholder value. Non-profit and social enterprises seek the optimal internal environment that produces the maximum social benefit. This should be enacted in a way that is sustainable over time, in keeping with the holistic aims of social enterprise (Stead and Stead, 2000). Therefore:

P15: Boards should support managers to deliver on social objectives

The unique facet of social enterprise is the way that they mix business-orientation with the achievement of social goals. As such, it would be expected that their ethical nature is in fact a distinctive unique selling proposition for their products and services. It has been suggested that social enterprises will continue to develop a keener business edge and become more competitive in their chosen markets (Dart, 2004, Dees, 1994, Dees, 1998, Low, 2006, Mason et al., 2007). Therefore, as social enterprises become more market-focused, it could be predicted that they will use their ethical principles in such a way. This is typical of successful social enterprises, such as the Day Chocolate Company (DCC), who have based their positioning strategy in this way. This been enforced by the Board of directors, a significant number of whom are from the farmer cooperative who benefit from the surpluses the DCC accrues (Doherty and Tranchell, 2005, Thompson and Doherty, 2006). Therefore, we can expect that the ethical aspect of the organisation is an integral part of the business model, and should be effectively managed at Board level (Davis, 1994). This needs to be examined for social enterprises, to determine whether Boards should build in an ethical advantage in their product / service offerings:

P16: Boards should communicate their ethicality as a competitive advantage.

There is a well established body of literature examining the relationship between performance director and executive tenure. There is some variety in the area of director tenure and its relationship with: CEO succession and performance (Hermalin and Weisbach, 1988, Santora and Sarros, 2001), Board diversity (Erhardt, Werbel and Shrader, 2003), non-executive directors and Board performance (Dulewicz and Herbert, 2004, Vafeas, 2003), and organisation performance (Cowan, Rohe and Baku, 1999, Preston and Brown, 2004). This research indicates that the length of director tenure has an influence on performance, though this is yet to be examined for directors of social enterprises:

P17: Short tenure improves director effectiveness.

In the corporate sector, executive and director remuneration is a controversial topic (Conyon et al., 1995). Incentivised contracts and their relationship with performance is a common source controversy given the sums of remuneration involved. Research in this area has focused across sectors, and common themes include: director pay linked with performance (Main, Bruce and Buck, 1996), and the role of remuneration committees (Laing and Weir, 1999, Weir and Laing, 2000, Weir and Laing, 2001), levels of compensation for nonprofit directors

(Oster, 1998). director remuneration is also an integral aspect of the Higgs and Greenbury reports on corporate governance in the UK (Mallin, 2004). Therefore director remuneration is also a valid area of interest for social enterprise governance research. There is little specific evidence to indicate how director pay would influence social enterprise performance. However, nonprofit literature suggests that level of *compensation* (for posts that are often voluntary) depends on factors such as: organisation size (Oster, 1998), tenure (Cowan et al., 1999), CEO incentives and agency control (Brickley, Van Horn and Wedig, 2003), and nonprofit / for-profit director pay comparisons (Hallock, 2000). Therefore, the study shall determine the validity of the following proposition:

P18: director Remuneration is not linked to their performance.

Sustainability is often considered to be the ultimate, long-term aim for all organisations (Pearce, 2003). Corporate and related economic activity is (and continues to be) a considerable drain on the world's natural and human resources. It has long been recognised that organisations need to be held accountable for the impact of their operations. Hence, there is considerable political pressure on all organisations to consider how they can reduce their global impact. The rhetorical emphasis is on organisations that are effective now and sustainable in the future. Clearly, there is a link here with the pursuance of corporate social responsibility (CSR) and corporate citizenship. The concept of sustainability comprises three elements: economic growth, environmental protection and social progress (DTI, 2006). The achievement of these three 'pillars' of sustainability are essential to the continuous existence of organisation, at no or little permanent cost to limited natural resources. Such developments have caused an increase in sustainability 'audits', notably through triple-bottom line reporting (Bebbington and Gray, 2001, Bebbington and MacGregor, 2005, Zadek, 1999). These practices, though more common, increase the burden of accountability on organisations, and have attracted criticism (Henriques, 2004, Norman and MacDonald, 2004, Owen et al., 2001). Corporate governance is integral to notions of sustainability. As 'monitors' of performance and use of resources, directors are key actors in ensuring that organisations persist over time (Johnson and Greening, 1999, Lazonick, 2000).

Corporations might be more concerned with *economic* sustainability. However attitudes in this arena are changing as strategic decision makers see the value of investing in a broader conception of sustainability (Dunphy, Ben and Griffiths, 2002, Hockerts and Moir, 2004). Social enterprises appear well placed in the pursuit of sustainability. They are intended to be economically-sustainable, have a neutral-environmental impact and pursue social missions. At such a descriptive level, these characteristics certainly fit with the notion of a sustainable organisation. The role of social enterprises in achieving sustainability is well documented (Alter, 2004, Dees, 1994, Dees and Emerson, 2001, Harding, 2004, Paton, 2003, Pearce, 2003). Less clear is the importance given to sustainability as part of a long-term strategy for social enterprise:

P19: Sustainability should be a key long-term objective of a Social Firm.

In the institutional view of organisations, governance is the vehicle which enables legitimate activity. Prior literature suggests that the key factor in achieving governance legitimacy is accountability (Berglöf and von Thadden, 1999, Kearns, 1994b, Roberts, 2001, Van Kersbergen and Van Waarden, 2004, Westphal and Zajac, 1998). Hence, it is necessary to test whether accountability is a predictor of legitimacy in social enterprises:

P20: Accountability enhances legitimacy.

Institutional elements have been shown to be influential in governance (Elsbach and Sutton, 1992, Johnson and Greening, 1999, Judge and Zeithaml, 1992, Luoma and Goodstein, 1999, Roberts, 2001). Legitimacy in social enterprises should be achieved through adherence with institutional norms: shared meanings and values between internal actors (Mason et al., 2007). This is consistent with the cultural-cognitive view of institutional theory. Recognition of the importance of shared values will indicate they are influential in maintaining the social mission. This could also show how important they are as informal 'controls' of managerial and director activity, so these groups remain focused on the social mission (Edmunds and Wollenberg, 2001). To do otherwise would be 'unthinkable' (Scott, 2001, Zucker, 1977). Thus:

P21: Legitimate governance is linked to the influence of shared values upon Board-level decisions.

In a similar vein, to acquire legitimacy social enterprise must evidence that they are producing the social benefit required by their defined communities. Without this social benefit, the impact (and existence) of the organisation is in doubt. The main group that provides legitimacy is the defined community the social enterprise serves. Without their consent, organisational legitimacy is contrived. There are likely to be other bodies from which social enterprises acquire legitimacy (e.g. funding bodies, other stakeholder groups). However, defined communities are the reason that social enterprise arise in the first place. Thus, as primary beneficiaries, directors and managers are responsible to them for the outcome of the activities:

P22: Legitimacy is acquired by maximising social benefit.

There is evidence to suggest that the presence of transparency and accountability enable the achievement of sustainability in the long-term. If this view is embedded within social enterprises, it might explain how *ethical* business can equate to *sustainable* enterprise.

P23: Transparency and accountability equate to sustainability.

Finally, the role of institutional carriers (such as scripts and rituals) are little understood in the social enterprise context. These can be manifested as processes that frequently occur within the organisation to reinforce institutional values. For example, the social audit / accounting process could be viewed as a ritual that shows external (and internal) actors that the organisation is accountable, thus legitimate.

P24: Board processes and decisions are based on institutional norms.

2.6 OUTCOMES OF THE REVIEW – GAPS IN THE LITERATURE

The above literature review highlights that research in corporate governance is well developed, and also that governance is important in non-profit organisations. Furthermore, it has identified the importance of measuring governance, and that performance measures can be used to this end. Investors (particularly institutional investors), and other primary stakeholders can gain access to governance ratings to guide investment decisions. Thus efficacious governance systems to control and regulate management reduce the risk-bearing function of the investor.

A central issue is how the governance theories included pertain to social enterprise. Agency theory and transaction-cost economics are dominant theories in the 'for-profit' corporation and generally adopt a shareholder perspective; in the UK and USA corporation shareholders are the dominant stakeholder group. This does differ in other countries, for example the Germanic corporate system where employee inclusion at Board level is legislated for. Despite moves by industry leading public limited companies such as Tesco and BP in the UK to embrace a form of corporate social responsibility, it remains a strategic decision based on extra-market pressures and broader shareholder concerns over unethical corporate activity. Therefore, though stakeholder theory is a credible view of corporate governance, it plays a subsidiary role to the dominant governance theories that resonate with the economic orientation of the USA and the UK.

Conversely, research into the governance of non-profit organisations more inclined towards stakeholder theory. This is partly due to the absence of profit-seeking activity; however it is fundamental to the existence of such organisations that they can manage relations between different stakeholder groups. Non-profits established for a particular cause will find that stakeholder groups have stronger competing claims on the resources of the organisation, than either agency theory or TCE will permit. The governance problem is how non-profits (who employ staff but also rely on volunteers) manage the claims of stakeholder groups. This applies to any organisation attempting to prioritise stakeholder claims.

The stakeholder debate refers to the organisation in its 'private' form. The organisation has a moral (and often legal) duty to many constituencies. Managers need to balance the competing claims of defined stakeholder groups, to fully account for their duty to employees, suppliers, the community, *and* owners. Stakeholders need to be managed at every level of decision-making, and there are claims for their representation at Board-level. As outlined in the review, this approach faces many criticisms, including how managers prioritise between competing claims, and how this approach actually *improves* governance.

Stakeholder theory is more implicit in organisations, such as social enterprises, where profit and maximising financial return are not the primary focus.

Furthermore, as non-trading entities (such as charities), non-profits often rely on different funding streams to ensure the continuation of their work. Donors have little (if any) legal entitlement to realise a financial return on their donations, and are reconciled that their donation does not entitle them to financial benefit, even as a primary stakeholder. Rather, the primary stakeholder constituency is that group whose well-being and best interests the non-profit serves. The donor (as well as fundraisers, support groups, volunteers and local and national political bodies, for example) forego their claims on the organisation *in kind* as their primary interests reside with the well-being of the non-profits primary stakeholders. Stakeholder theory is readily adopted in research of non-profits, and it has been applied to social enterprises.

Due to the relatively small corpus of social enterprise governance literature, the inclusion or exclusion of any corporate governance theory cannot be dismissed too readily. Further research is required to examine the implications of the governance concepts which prevail. Social enterprises may employ staff and the role of prescriptive contracts may be a pertinent issue to explore. Alternatively, there is no specific evidence to suggest that social enterprise governance can or cannot be viewed as an efficiency-seeking entity, or that the concept of transactions is irrelevant in this context. There are a number of opportunities to study social enterprise governance. It is worth noting that the exploration of the mainstream corporate governance theories would also be valuable and offer insight to social enterprise governance. However, for the purposes of discriminating between the competing approaches, two theories, one of governance and one of organisational theory, are more naturally inclined to the nature of social enterprises. Stewardship theory posits the Board as holding expertise in running the enterprise, and as stewards of the primary beneficiaries interests. In this capacity, they are ideally placed to run the organisation in the pursuit of these interests. This approach is emergent in the social enterprise governance literature. It is useful because it explains how managers and Board members can reconcile two core functions effectively. They can focus on pursuing enterprise objectives, because they know that doing so will contribute to the overarching social focus of the organisation. Stewardship governance facilitates this by setting and maintaining the optimal internal 'conditions' for managers to perform their roles effectively.

Institutional theory also counterpoises the organisation as a *social*, rather than a private entity. Stakeholder theory is linked within the institutional model of the organisation. Yet the broader institutional theory allows greater consideration of the social and cultural values or social enterprises. This negates being drawn in to 'property ownership' debate and the competing claims of stakeholders. The debate between shareholder and stakeholder primacy are typically based on the legal and moral priorities of the corporation. However, the broader institutional view indicates that non-legal forces, such as cultural norms, are a more powerful force in the characteristics of governance arrangements. Since social enterprises are founded on the principle of service to aid a social cause, there is likely to be a close affinity between some (or all) of the internal actors, and a strong moral ethos embedded throughout. Therefore, using institutional theory as a basis to explore these variables and other measures of governance performance (such as financial data) would appear to suit the dualistic philosophy of the social enterprise: " (the achievement of) primarily social objectives and reinvest surpluses for that purpose in the business or in the community..." (DTI, 2002, p.7).

Adopting the institutional approach for the purpose of further research would contribute to the body of knowledge. Such an approach is not typical of mainstream governance research. Further, social enterprise governance is under-researched and institutional analysis will help to identify some of its key components. This method also considers the impact of governance on organisational performance. In the context social enterprise, performance entails the delivery of value to the primary stakeholder group, as the central focus of social enterprise activity. The method of monitoring performance in social enterprises (where present) is through the adoption of performance management functions, such as social accounting and social auditing. These processes of accountability feed into strategic decision-making, informing managers and key stakeholders about how well the enterprise is operating. Therefore, in order to study the governance of social enterprises, it would be a logical step to analyse the performance data collected and comparatively assessing the presence of significant linkages between the governance structure and performance of the social enterprise.

This chapter highlights gaps that are worthy of further investigation. Despite the acknowledgement of the multi-stakeholder model of governance in social enterprise (Borzaga and Solari, 2001), there is a need to further investigate the dynamics of formal or informal institutional factors in regulating managerial activity. The prevailing view for stakeholder theory is that stakeholders should be involved in the governance of their organisations. The difficulty of representation at Board level is that there must be clear recognition of which stakeholder group(s) should fulfil this influential role. Furthermore, given the variety of legal forms that social enterprises can adopt, it is difficult to generalise this approach even within sub-fields of the third sector. For example, Social Firms are a particular classification of social enterprise, but can adopt a variety of legal forms. Maximising the effectiveness of stakeholder inclusion in governance will "vary according to the prevalent nature of specific social enterprises" (Borzaga and Solari, 2001, p.343). If this is so, then it would be logical to examine the influence of elements of the institutional environment in specific social enterprise types. This is because there is more scope to find an area that is relatively under-researched.

As Chapter 3 will show, the exploratory interviews confirm an appropriate social enterprise type for the study. The methodology and analysis of the exploratory interviews can be found in Chapter 4. Social enterprises such as cooperatives and housing associations are already covered by governance research (Chaves, 1994, Cornforth, 2004, Gorton and Schmid, 1999, Hart and Moore, 1996, Kearns, 1992, Malpass, 2000, Malpass, 2002). One particular type of social enterprise that remains under-researched is the Social Firm. Social Firms are unique because they are founded to provide employment opportunities to disabled people, and their business interests can comprise anything from job brokerages to advertising agencies. Presently, research does not address the role of governance in these organisations, thus detracting from the potential insights such research may offer. Social Firms provide services to the public and private sector, thus engaging in bridging *between* sectors. For example, one Social Firm's business activity is the fulfilment of on-line orders, and it offers this service to a range of private and public clients. With a turnover of in excess of £1 million, they are significant organisations. The growth of the Social Firm is contingent on its commitment to defined stakeholder groups and acquiring the skills to manage sustainable growth. In this case, there are key governance issues:

- How the Board of directors ensure that stakeholder benefit is not compromised by the growth of the business function.

- How the Board of directors control managerial activity to focus on maximising benefit to the defined community.

- How managers reconcile the competing claims on resources.

- How the process of governing this social enterprise conforms to the key governance outcomes of transparency, accountability and sustainability.

Social Firms are an ideal form of social enterprise, in that they most suitably represent the expected characteristics: they utilise business activities to provide benefits to a defined community. Research of these organisations would provide valuable insights into the 'local' governance arrangements and, as part of the aggregate of social enterprise governance research, produce a worthwhile contribution to the existing body of knowledge. Also, the institutional approach presents an alternative perspective of governance that is (at least) not wholly structural and analyses the informal influences that may play a significant role in legitimising managerial activity. There is potential for further analysis, in a way that applies existing neo-institutional theories to the social enterprise organisation form. For example, the governance arrangements in Social Firms could be examined using DiMaggio and Powell's (1983) typologies of institutional isomorphism. This approach has already been conceptualised for social enterprises (Reid and Griffith, 2006). Examination of regulative and constitutive rules, using data derived from internal actors in social enterprises, would show whether and / or how these informal mechanisms operate alongside conventional, structural mechanisms. In general then, the institutional analysis of social enterprise governance would contribute to the body of knowledge by determining how the institutional aspects of governance influence processes. At present, this field is ripe for further study.

2.6.1 RESEARCH QUESTION

Do attitudes to governance influence perceptions of performance in Social Firms?

Following this research question, research objectives are outlined below:

- To examine the influence of accountability on the legitimacy of social enterprise governance.
- To determine the role of the social mission in facilitating ethical practice by managers of Social Firms.
- To determine and analyse the significance of any relationship(s) between transparency, accountability, sustainability and legitimacy.
- To develop a model of governance that represents a holistic view of the formal and informal governance arrangements in Social Firms.

2.7 CHAPTER SUMMARY

The purpose of this Chapter was to outline the dominant theoretical positions in corporate governance. In recognition of the key role the view of the organisation has in corporate governance theory, agency theory, TCE and stakeholder theory were introduced in terms of private property, nexus-of-contracts and social institution organisational models. Further, the Chapter made clear the applicability of the social institution model to organisations that serve a range of stakeholders, rather than giving primacy to shareholders (or where this group is not present). Institutional analysis offers a different perspective on the meaning and importance of corporate governance. This view fully embraces the influence of informal aspects of the organisation, and the degree to which they affect governance. The activity of shared meanings and values, and the routines and scripts as carriers of these meanings interpret institutional effects. Social enterprises are run to produce social benefit from an efficient, effective business model. Appropriate analysis of their governance will examine the influence the institutional environment has.

A key outcome of this Chapter was establishing that there are *at least* three facets of social enterprise governance: transparency, accountability and sustainability. Adopting an institutional view indicates that the outcome of good corporate governance will be legitimacy. Legitimacy is conferred on the organisation, permitting the continued allocation of resources and existence of the organisation. The relationship between these elements needs to be tested. Transparency forms part of accountability, and the latter was recognised to be the most likely predictor of attitudes towards legitimacy. Testable propositions were formed for the expected elements of each aspect of social enterprise governance.

Social enterprise governance research is relatively new and requires more development. As such, this Chapter does not focus the research on a particular social enterprise type. To improve research focus, an exploratory interview stage was deemed necessary to clarify the type of social enterprise to be used for further research. The outcomes from the exploratory interviews are discussed in Chapter 4. Chapter 3 provides a discussion of the methodological design and implications for the next stages of the study.

CHAPTER 3

METHODOLOGY AND OUTLINE OF METHODS

3.1 INTRODUCTION

This Chapter details the methodology adopted for this research. In so doing, it provides a rationale for the adoption of the postpositivist paradigm. This choice is made, mindful of the alternatives and their strengths and weaknesses. Also, the implications of this choice upon methods and research design are considered. Furthermore, attention is paid to the prevailing methodological norms from previous research in corporate governance and institutional theory. Details of the exploratory study (Stage 1) are provided in Chapter 4. Discussion of research instrument development, sampling technique, data analysis, ethical considerations and limitations of the methodology and methods are provided in Chapter 5.

3.2 RESEARCH METHODOLOGY

Methodology is defined as "...the analysis of, and rationale for, the particular method or methods used in a given study, and in that type of study in general" (Jankowicz, 2000, p. 214). The development of research methodology is driven by the selection of an appropriate research paradigm. Paradigms are defined as: "...a general metaphysical world outlook" (Blaug, 1992, p.28). Paradigms guide research through the acceptance of key assumptions by the inquirer, related to ontology; epistemology; axiology; generalisability; causation and logic (Firestone, 1987, Lincoln and Guba, 1985). Their importance is marked by how they identify the motivations of the researcher and suit the research to be undertaken. It is of importance to understand the relative merits of each paradigm. The stages of their development, particularly in the past century, have been critical in establishing the range of paradigm options available to aid inquiry of social phenomena. A discussion of the key similarities and differences amongst the major paradigms is provided below in order to present a thorough methodology. Also, consideration is given to the methodological norms in related fields of inquiry.

3.2.1 POSITIVISM

There exist a number of classified paradigms that are used to frame research inquiry. However, one paradigm, positivism, has long been the driving force of scientific research. From the 'positive philosophy' of Comte to logical positivism, this approach continues to play a central role in formalising the process of scientific discovery (Giddens, 1978). The positivist paradigm asserts key beliefs as 'facts' about reality, knowledge, values and logic of inquiry. Adoption of this paradigm poses implications for how the inquirer seeks to conduct and accomplish the research process. Positivism invokes the idea of a shared reality, which can be explored through experimental, controlled inquiry. This empirical study "...formally tests nomothetic propositions...towards creating enduring theoretical structures." (Rist, 1977, p.43). These *a priori* statements are verified by results of inquiry and can therefore be generalised across time and space (Lincoln and Guba, 1985). This in turn advances theory and knowledge building in the chosen area of inquiry. This is crucial to positivism; that observations of phenomena, once verified, represent 'real' facts that are true in any context. Positivism provides the world with the truth about "how things *really* are" (Guba, 1990, p19: italics in original). To this end, quantitative analysis is conducted in order to manipulate and test the data to prove its factual qualities. For the positivist, *objectivity* is integral to the relationship between the researcher and the subject of the research. The researcher stands independently from the subject of investigation (Smith, 1983). This means that inquiry is *value-free* and not subject to influence by the researcher. The qualities of positivism are well documented, though they also form the basis of criticisms of this paradigm in the latter part of the 20th century (Tashakkori and Teddlie, 1998). These criticisms expose weaknesses in positivism as the primary methodological paradigm.

The period of debate that resulted in positivism being discredited has been referred to as the 'paradigm wars'. The outcome of this debate was the emergence of competing (or accommodating) paradigms to guide research based on different core assumptions to those of positivism. Positivism was undermined by the changing view of how to study the social world, as something distinct from the study of the physical and natural sciences. Firstly it has been contended that the preoccupation within positivism of observation leading to theory building is untenable, amounting to 'naïve realism' (Lincoln and Guba, 1985). Also, historical analysis of the nature of scientific progress has challenged the positivist notion of advancement by steady accumulation of theory (Kuhn, 1970). Secondly, the claim of value-free study of society is complicated in sociological inquiry, where the values of the researcher influence the type of research to be conducted. Therefore this asserts the '*value-ladenness*' of inquiry (Tashakkori and Teddlie, 1998). Furthermore, objectivity cannot be assured where research occurs outside of laboratory conditions, or where the researcher engages with the subject under investigation. This allows the notion of subjectivity as a requirement for interpreting the social world, something that could not be achieved through objectification.

Consequently, other paradigms were developed that either accommodated the criticisms of positivism (postpositivism), diverged from the traditional view (critical theory, constructivism) or reframed the issue to 'what works best' (pragmatism). The utility of these alternative paradigms is to provide philosophical underpinning for research in 'new' or non-scientific fields.

3.2.2 CONSTRUCTIVISM

The paradigm most distinct from positivism is constructivism (or phenomenology). The constructivist paradigm presents a world-view that is directly opposite to positivism, from an *absolute* to a *relative* world-view. Constructivism was developed as a response to the dominance and dissatisfaction with positivism (and postpositivism). Its origins lie in the interpretive / hermeneutical methodology of Dilthey (Smith, 1983, Smith and Heshusius, 1986). Constructivism possesses a number of qualities that present a different view of the world and of the nature of inquiry to the prevailing positivist view. Primarily, the divergence is ontological where multiple realties are created and exist, and change as their creators change (Tashakkori and Teddlie, 1998). Both Dilthey and Weber asserted that the positivist / realist approach cannot enable an understanding of a complex social reality. This type of reality is constructed temporally and is honed by individual values, beliefs, experiences and contexts. This provides the rationale for the basic assumptions of constructivism, including the intertwining of the 'knower and the known' (epistemology), the accepted influence of values upon inquiry, and the impossibility of generalisability across time and contexts. Furthermore, constructivism advocates inductive, rather than deductive reasoning (Janesick, 2003b).

Constructivist inquiry works from particular findings related to phenomena, leading to general theorising – where this is applicable in a given time and context. Its methodology is hermeneutical, rather than experimental and aims to "distil a consensus construction that is...informed and sophisticated." (Guba and Lincoln, 1994, p. 111) Clear division between proponents of the prevailing positivist paradigm and the constructivists, led to the *incompatibility thesis.* This prompted a period where debate amongst proponents of either paradigm seeking superiority (Firestone, 1987, Gage, 1989, Lincoln and Guba, 1985, Rich and Patashnick, 2002, Smith and Heshusius, 1986). The outcome of this was détente, where the debate was seen to be inimical to progress in methodological research. This signified the emergence of pragmatism as a viable paradigm, hence a *compatibility thesis* (Howe, 1988, Rist, 1977).

In this view, traditional divisions between paradigms are seen as out-dated and unhelpful in tackling research problems (Howe, 1988, Johnson and Onwuegbuzie, 2004). Rather, the focus is on accommodation of paradigms to suit the research question, and the orientation and values of the researcher. This tailors research on the basis of methodological assumptions that enable an examination and understanding of the natural and social world. Thus, there is no 'best' methodological paradigm to adopt for the research, and the implications this has for choice of methods. Given the outline of methodological development above, the choice of methodology was made on the basis of suitability with the research question, and the methodological norms in institutional analysis and governance research. Mindful of this and the need for depth and quality of data and rigorous analysis, the orientation and values of the researcher prompt the acceptance of postpositivism, rather than pragmatism. A detailed explanation of and rationale for this choice is provided in the next section.

3.2.3 POSTPOSITIVISM

Postpositivism represents the modified view of modern science. The rationale for postpositivist inquiry is to accommodate the criticisms of positivism, without losing some of its key elements. Postpositivism is marked by key works, such as Kuhn (1970) and Popper (2002 [1959]), altering how we should understand the use of science in investigating the world. Kuhn's historical analysis of the nature of scientific progress altered the way that many researchers understand how progression is made in science. Popper's considerable influence is felt mainly through the concept of falsification – a key part in discrediting verificationism and positivism in the latter part of the 20th century. Further, Popper (1981, p.113) determined that his version of falsificationism modified elements of 'scientific' methodology. For example, propositions are "'basic statements' rather than factual, spatio-temporally universal theories...". Therefore, it has almost become the default option for scientific-orientated social research to adopt a postpositivist framework. Another key development of postpositivism came from Campbell and Fiske (1959), who pioneered the use of both quantitative and qualitative research methods, whilst carefully adhering to key assumptions of the positivist orthodoxy.

Central to the development of postpositivism is the acceptance of three key assumptions: value-ladenness of inquiry, nature of reality and theory-ladenness of facts (Tashakkori and Teddlie, 1998, p.8). First, the value-ladenness of inquiry relates to the belief that research (particularly of the social world) cannot be devoid of influence by those who investigate it.

Postpositivism asserts that all inquiry is influenced by values, including choice of research and the methods used, and in the analysis and understanding the outcomes of this research. In this relativist outlook, such outcomes can include theory that is *probably* true but cannot claim to be generalisable across contexts. As Alexander (1990, p.532) comments: "Theoretical knowledge can never be anything other than the socially rooted efforts of historical agents." In postpositivism, the researcher accepts the theoretical framework they seek to progress, and the guarded limitations that any outcomes can have. This diverts from the positivist view of inquiry being value-free, and that observation is "the final arbiter of what can be believed." (Phillips, 1990, p.32). Instead, the researcher must also accept that in the study of constructed social realities, values are important to understand why the phenomenon presents itself in the way it does. This is a concession to the criticisms made of positivism about its suitability for studying the social world. Also, this concession infers the presence of more than one reality, which is a central aspect of positivism. Hence the postpositivist paradigm modifies the traditional scientific basis of 'fact' through the proposition that findings are 'probably true', that are subject to falsification (Guba and Lincoln, 1994).

The key assumption is that there is not one single reality shared by all, where fact is the outcome of our rigorous and objective analysis of quantities data. Rather there are multiple, constructed realities that upon investigation are influenced by values relative to the subject under inquiry. These investigated phenomena are then presented in the context of the identified existing theoretical framework, and this develops grounded theory (Strauss and Corbin, 1998).

Postpositivism has been criticised on the grounds that it does nothing more than accommodate the failings of positivism, rather than present a completely new paradigm (such as constructivism). Furthermore, critics argue that postpositivism remains much the same as positivism: an inadequate 'realist' lens with which to study social phenomena. The same exclusions apply in this case, that attempting to state things as 'true' or even 'probably true' are untenable on the grounds of multiple realities advocated in the idealist paradigms. A further criticism is that the development of postpositivism (and other paradigms) hastened the 'détente' in the paradigm wars and the ascent of other relativist paradigms, stymieing a valuable debate amongst paradigms (Smith and Heshusius, 1986). Therefore this infers that the schism between paradigms was helpful (rather than inimical) to the development of solid belief systems of opposing world views. Nevertheless, the popular belief is that the debate is no longer valuable as a means to developing methodological theory or the dominance of any one paradigm (Patton, 2002, Tashakkori and Teddlie, 1998). In place of a détente, there now exists a period of *compatibility* between paradigms. The value of paradigm choice is how a variety of methods fit the assumptions of the researcher, together with the demands of the research question and the practical limits imposed upon the research project (Patton, 2002).

3.2.4 RECONCILING POSTPOSITIVSM

Social enterprise governance is an under-researched area of inquiry, and exploratory research is a valuable approach in assisting theory building by researchers in this area. As such, a multi-method approach should be adopted to enhance the scope of the study. This is useful because it facilitates the establishment of research themes and concepts (in the first instance), and enables researchers to focus further research more effectively (Tashakkori and Teddlie, 1998). Therefore, postpositivism is an appropriate methodological choice because it accommodates multi-method research. The conceptual nature of postpositivism – placed between positivist and interpretivist methodologies – causes some issues related to how the two approaches are reconciled against each other. Further, it must be evident where this accommodation has taken place: where one approach has evidently informed the use of the other.

The first element, the conceptual divide, is difficult to resolve. This is because, at ontological and epistemological levels, the nature of inquiry rests on a relativist form of positivism. This causes an issue because it is not possible to justify the methodological choice without conceding its limitations. With the extreme positivist and interpretivist methodologies, we accept one in rejection of the other, thereby justifying our choice based on the critical limitations of the alternative. However, with postpositivism the inquirer has to reconcile limitations of one approach whilst accepting the further limitations of the other methodology, tempering the view that limitations of opposing paradigms are 'cancelled out' (Patomaki and Wight, 2000, Phillips, 1990).

However, there are practical benefits to utilising two methodological paradigms, and the following justifies why this approach has been adopted for the research study. Adopting a mixed-methods approach, designed within a postpositivism framework, enhances inquiry via utilising both qualitative and quantitative methods. Instead of the qualitative and quantitative approaches 'cancelling out' their respective limitations, the postpositivist approach maximises the usefulness of both methods. This provides an opportunity to triangulate findings on a 'between-methods' basis (Denzin and Lincoln, 2003). This type of triangulation is considered to be very useful for analysis in exploratory research, because it utilises different types of data to uncover and interrogate social phenomena (Jick, 1979). These phenomena are best explained following a full and proper examination of both qualitative and quantitative data to garner the most comprehensive view. However, by embedding a scientific, quantitative stage into research, there is scope for a systematic process of 'falsification' of findings and theory building that enables further, detailed analysis of social phenomena.

3.3 METHODOLOGICAL NORMS

The persuasiveness of the postpositivist paradigm is that it encourages acceptance of aspects of both positivism and constructivism. Therefore the subsequent research can utilise both quantitative and qualitative methods in the duration. Where it differs from pragmatism is the fixed primacy of scientific method over qualitative techniques. Pragmatism asserts that the requirements of the research question takes priority over epistemological and ontological assumptions about the nature of reality and inquiry.

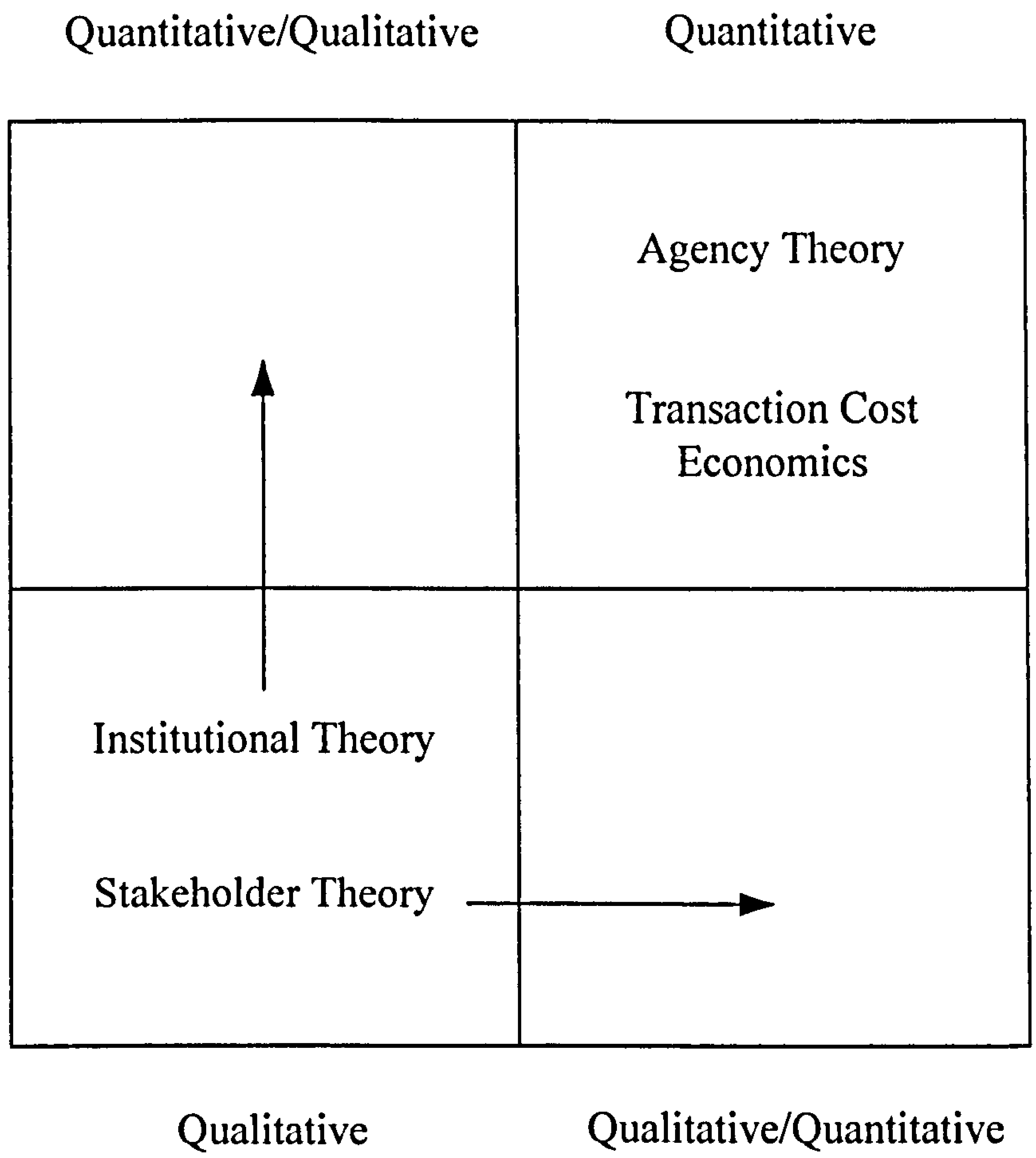
An important factor was establishing the normative methodological approach in the study of institutions and of governance. Scott (2001) claims that the study of institutions is best achieved with a postpositivist approach. This is explained in terms of how postpositivism facilitates investigation of phenomena that fall between the metaphysical and the empirical: reconciliation to the realist-idealist dichotomy. Models, concepts and propositions can be placed at various points on a continuum, relative to the metaphysical and empirical environments at either end of it (Alexander, 1983). Essentially this means that each point along the continuum represents a certain "*admixture of both elements*" (Scott, 2001, p. 62 emphasis in original). Postpositivism advocates such 'admixtures', to enable research that provides the optimum balance of strengths from either end of the continuum. There are further issues related to the investigation of social reality. Such investigation is based on the assumption that though there are multiple socially-constructed realities, they can be (to a certain extent) determined using empirical measurement and analysis. This is linked with the fundamental division between truth and reality. Institutional analysis is supported by the postpositivist paradigm due to the central role of "both social and physical sciences" (Scott, 2001, p. 63). Institutions are human constructions and are maintained by human behaviour and belief systems. However, to understand them, it is normatively appropriate to test general statements relating to them, and subjecting them to rigorous analysis to produce general theory (Alexander, 1990).

To illustrate this, previous research on institutions has utilised a variety of methods and techniques to accomplish the task. From the industry analysis methods employed by Meyer and Rowan (1977), to the historical analysis of March and Olsen (1989) and the financial analysis of Deephouse (1996), a variety of methods have been employed to accomplish such research. It is common in institutional analysis to present *a priori* statements, hypotheses or propositions, for testing using statistical analysis (Aldrich and Fiol, 1994, DiMaggio and Powell, 1983). Alternatively, there is evidence of qualitative explanation for institutional phenomena, particularly in the analysis of culture (Geertz, 1973, Scott, 2001, Wuthnow, 1987). Furthermore, the institutional analysis of isomorphism in organisations has followed similar methodological paths, for example historical and social network analysis (Galaskiewicz and Wasserman, 1989, Rowley, 1997, Wasserman and Faust, 1994).

Previous empirical governance research has employed both positivist and postpositivist methodologies (Clarke, 1998). The methodological tendency in the dominant nexus-of-contracts view has been to focus primarily on financial / economic analysis methods to study governance (Fama, 1980, Fama and Jensen, 1983, Jensen and Meckling, 1976). This includes the scientific analysis of agency and contract setting in governance (Freeman and Evan, 1990, Williamson, 1979). However, despite emerging from predominantly economic and legal fields, and the prior use of positivist methodologies, corporate governance research utilises postpositivist methodologies in empirical work. As the mapping grid (**Fig. 3.1**, p. 93) shows, prevailing theories tend to align with positivist methodologies. Agency theory, traditionally a concept within sociology, is used as grounding for seminal 'financial' analysis of governance arrangements (Fama, 1980, Jensen and Meckling, 1976).

The mapping shows how mixed paradigms fit within governance research. Usefully, it shows how stakeholder and institutional research can be positioned to different mixed method orientations. Stakeholder theory is generally examined using a constructivist methodology (Jones and Wicks, 1999, Winn, 2001). However, there is a growing body of literature that adopts quantitative, or a mix of qualitative and quantitative methods (Jones, 1995). As previously noted, institutional analysis adopts a quantitative/qualitative (postpositivist) methodological stance. As a result, the constructivist influence from sociological study, the postpositivist position is rooted in the requirement for a balance of evidence types to test propositions about social phenomena (Alexander, 1990, Scott, 1987). This variety justifies the choice of postpositivist for this study. It is an acceptable methodology for the theoretical grounding of the research. Furthermore, it is a recognised methodology in the study of governance and institutions (Clarke, 1998, Luoma and Goodstein, 1999).

Figure 3.1 Mapping methodological norms in governance research



3.4 OUTLINE OF RESEARCH METHODS

Research methods are defined as the "systematic and orderly approach taken towards the collection and analysis of data so that information can be obtained from those data." (Jankowicz, 2000, p. 209). Postpositivism advocates a mixed-methods approach to research. This enables the integration of quantitative and qualitative methods into the research design. Importantly, there is a tendency to use qualitative methods to add to quantitative findings (Brewer and Hunter, 2006, Tashakkori and Teddlie, 1998). Hence, the primary data collection method is quantitative, given the critical-realist belief assumptions of postpositivism. The fallibilities associated with positivism are accommodated in postpositivism, and as such qualitative methods are used to add contextual depth to the body of data collected. This poses implications for research design, particularly the order in how to deploy the different methods in a mixed methods research project.

In line with the methodological norms explained previously, the chosen method of collecting quantitative data is via survey techniques. The questionnaire instrument will be developed and deployed to a chosen sample of the chosen study population, to collect profile data and perceptions of governance performance. Previous studies that have utilised this approach include those focussing on aspects of Board performance (Forbes and Milliken, 1999, Westphal and Zajac, 1995, Westphal and Zajac, 1998). A specific requirement of the research is to understand managerial perceptions, and using survey-based techniques allows for the collection of this information. In addition, a survey that utilises a structured questionnaire presents the opportunity to standardise and quantify this data, thus enabling the required level of statistical analysis. This satisfies epistemological requirements for building theory based on testable propositions. However, traditional research of the social environment utilises qualitative methods (either alone or in combination with quantitative methods). As this research is concerned with institutional influences on governance, it is reasonable to incorporate methods that can enable exploration of the social world.

Qualitative research "(studies) things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them." (Denzin and Lincoln, 1992, p. 2). Qualitative methods can be implemented in a variety of ways; in fact the range of qualitative tools is extensive and continues to grow (Patton, 2002). The traditional antipathy for qualitative research (producing 'soft' data) is outdated, with a growing availability of qualitative analysis software packages to robustly interrogate data (Denzin and Lincoln, 2003, Miles and Huberman, 1994). The key informant interview technique will be adopted for this research for the exploratory stage, to add further quality to the data obtained during the survey stage.

It is important that the choice of quantitative and qualitative methods must complement each other. This is also relevant with a view to analysis of the collected data (Caracelli and Greene, 1993, Firestone, 1987). Thus, in relation to the types of quantitative and qualitative methods adopted, the development of an appropriate research design is the next stage in ensuring the proper implementation is achieved.

3.5 IMPLICATIONS FOR RESEARCH DESIGN

The preceding section informs research design by validating the use of a mixed methods approach. Building upon the accepted assumptions of postpositivism, both quantitative and qualitative techniques are employed in order to corroborate findings and present a rich and statistically valid data set for further analysis (Johnson and Onwuegbuzie, 2004).

The review of literature highlights a gap in the body of knowledge concerning the lack of governance research in social enterprise. However, the lens of research needs to be more closely focussed on a particular type of social enterprise. As the classifications of social enterprise are quite diverse, an exploratory phase will be conducted (Stage 1). This first phase consists of a series of semi-structured interviews with key informants from the UK social enterprise sector. The rationale for this approach is to encourage emergent themes to arise. Analysis of these interviews will produce a legitimate course of action for Stage 2 of the research.

Stage 2 of the research will be quantitative, focusing upon the social enterprise type identified from Stage 1. Central to this research is the measurement of attitudes towards the governance of Social Firms. Attitudes can be measured quantitatively through the use of attitudinal-scale statements, and qualitatively via interviews, case studies and critical analysis. Quantitative techniques are employed in Stage 2, to provide the main set of findings for further interpretation. The design presented for this research project is an adaptation of the typologies presented in Tashakkori and Teddlie (1998, p.44) and is shown in Appendix 6. Full details of the two research stages are discussed in Chapters 4 and 5.

The data collection instrument used in the quantitative element will collect perceptions of respondents and nominal data on the characteristics and performance of the social enterprise where the respondent is employed /

volunteers. Using 5-point Likert scale statements, it will collect participant responses to the statements relating to the effectiveness of the Board of directors related to the predictor variables (Jankowicz, 2000). The predictor variables are those factors by which governance is determined: transparency; accountability and sustainability. These variables that are identified in the literature are key to social enterprise in achieving and maximising positive social impact (Paton, 2003, Pearce, 2003). They will also be discussed during the exploratory interviews, to affirm their appropriateness.

The dependent variable (DV), legitimacy (in the achievement of social aims), will be measured by the degree of response to the attitudinal statements in the survey. The appropriateness of the construct of legitimacy will also be confirmed from Stage 1 of the research. As is consistent with a postpositivist methodology, propositions will be developed and tested, the confirmation or disconfirmation of which is contingent upon the significance of the results. The questionnaire will be administered in electronic form via email, and in hard-copy, delivered by post to the participants. Full details of the research instrument, sampling technique, validity/reliability and ethical limitations are presented in Chapter 5.

Finally, data analysis strategies in mixed-method studies vary according to the order in which stages are executed, and the mix of data types collected (Caracelli and Greene, 1993). The sequential design of this study will enable progressive analysis of data, the result of which informs the next phase of the study. Therefore the outcomes of the exploratory stage provide direction for the quantitative element of Stage 2. The findings from the quantitative stage will inform the development of the interviews for the qualitative stage. The quantitative data will be used to test the propositions formulated from Chapter 2. These propositions were developed to be 'basic statements' rather than universal truths. This is in keeping with the postpositivist methodology (Popper, 1981). Further details of qualitative and quantitative analysis strategies are provided in Chapters 4 and 5.

3.6 CHAPTER SUMMARY

The purpose of this Chapter was to present the methodological foundations for the research. In so doing, it discussed the role and choice of an appropriate paradigm for the research. A discussion of the 'paradigm wars', and the bases of positivism and constructivism, provided the context for explaining the chosen methodological paradigm, postpositivism. This paradigm has many proponents and critics, and its use in social science was examined. Further, explanation was given for the influence of methodological norms from the theoretical framework upon which this research is based. There are a variety of methodological positions used in corporate governance research. For an institutional view of governance, postpositivism is an acceptable methodology to adopt. Mapping of these methodological traditions was provided to show where the existing theory is aligned with particular paradigms. Finally, it provided an outline of the methods chosen and implications of them upon research design. There are implications for validity, generalisability, sampling, and analysis which are discussed in Chapter 5. However, before a more in-depth treatment of the methods, it is necessary to explain the process and outcomes from Stage 1, particularly how this stage narrowed the research focus. The following chapter (Chapter 4) examines this stage in more detail.

CHAPTER 4

OUTCOMES OF THE EXPLORATORY INTERVIEWS

4.1 INTRODUCTION

This Chapter outlines the development, deployment and findings of Stage 1 of the research. Consideration is given to the methodological justification for exploratory stages. Also, it explains the practical rationale for Stage 1, the methods adopted for data collection and analysis, and the outcomes for the key informant interviews. Attention is given to the implications these outcomes had for the development of propositions in Chapter 2. Finally, there is a discussion of the influence these elements of the study will have on the next stage of the research project.

4.2 THE USE OF EXPLORATORY INTERVIEWS

The exploratory interviews are needed to provide a focus on one type of social enterprise for Stage 2. The literature review established that corporate governance in social enterprises is under-researched. The exploratory stage (Stage 1) is useful because it provides clarification for theoretical grounding to progress the research (Patton, 2002). Being phenomenological by design it matches the ontological basis of the research project. The fundamental orientation of the research is the exploration and examination of social institutions, as constructions, and their influence on governance practice. The exploratory interview allows the interviewer to better understand the nature of phenomena present in a particular context (Fontana and Frey, 1994). They also enable further research to be built on "...sound conceptualisation and instrumentation..." drawn from the exploratory investigations (Oppenheim, 1992, p. 65). To enable this, expert input was required to narrow down the research focus. Therefore, Stage 1 aimed to identify an appropriate social enterprise type (hence a sample) for Stage 2. Exploratory research is ideal for "confirming and disconfirming cases", as well as determining patterns emerging in the field of study (Patton, 2002, p. 329). Furthermore, it is an accepted method for adding depth to propositions drawn out of previous scholarly work (*ibid*). In contrast to the *standardised* form, exploratory interviews are suited to small samples where the outcomes of the interview are not pre-determinable. In the context of this research, the literature review exposed the need for further governance research in the social enterprise sector. However, it did not indicate how the research should be focused. The exploratory interviews are well suited to the task of providing direction to research where literature surveys do not suffice.

Essentially, this exploratory stage is a stakeholder consultation: giving key informants from the sector the opportunity to contribute to and / or direct research in their sector. This responsive evaluation is interpretive by design, thus representing the first stage of the *mixed* method design used for this project.

4.3 SAMPLING

In this study, the sample will consist of key informants from the social enterprise sector, each with particular expertise relating to a given type of social enterprise. An important requirement is that the key informants held posts that meant they should have a good level of knowledge relating to their particular area of the social enterprise sector (Jankowicz, 2000). For this purpose, key informants were contacted from 'umbrella' organisations that represent each of the types of social enterprise identified from the previous sources. The sample size for these interviews is recommended to be no more than six participants (Morse, 1994). The population that the sample was drawn from was determined thus:

- Locating the umbrella organisations for the classified types of social enterprise (DTI, 2006, Paton, 2003, Pearce, 2003).
- 'Social Economy' periodicals in the United Kingdom, confirming the relevance of their activities.

Initial approaches were made via email and telephone to contact points at each organisation. This information was located through access of the websites of each organisation. Contact details were provided and this served as the initial point of contact. The organisations contacted were:

- CooperativesUK

- National Housing Federation (NHF)
- Social Firms UK
- Social Enterprise Coalition
- Social Enterprise Network (Liverpool)
- Association of British Credit Unions (ABCUL)
- Development Trusts Association (DTA)
- National Council for Voluntary Organisations (NCVO)

Following this stage, letters were sent out to the appropriate individuals identified from the first phase. An example of the letter sent out to the respondents can be found in the Appendices section. Written responses to the formal letter confirmed interest in the research and acceptance for a short semi-structured interview, at their convenience. Eight letters were sent out, and four responses were received (50% response rate). Arrangements for in-person interviews were made with 50% of the respondents (with Cooperatives UK and National Housing Federation). Where this was not possible, a telephone interview was arranged (with Social Enterprise Coalition and Social Firms UK). The interviews took place between June and November 2005, at the convenience of the interviewees.

4.4 INTERVIEW STRUCTURE

Prior to the interviews, a structure was developed by the researcher to facilitate the interview. A decision was made that the semi-structured interview format gave enough control to the interviewer (the researcher) to direct the flow of the interview. However, this approach also presents the interviewee with enough freedom to elaborate on their answers where they see fit. The semi-structured format was chosen because it is a flexible and informal style of interview technique. It is advantageous to the interviewer because it creates an informal, exploratory mood in the interview. This enables the interviewer to engage and empathise with the participant, which is useful when inquiry relates to participant attitudes towards a subject. The semi-structured format also allows the interviewer to tailor the questions asked differently each time depending on the answers given by the interviewee. This flexibility provides more useful outcomes from the interview that more closely reflect the unique perspective of the interviewee.

During the interview, answers were elicited by asking general, projective questions relating to the key areas for exploration identified below. The interviewee was given as much time as they required developing their answer and the interviewer noted salient points. An important part of the interview was moving from the 'general' (introduced by the interviewer) to the specific (achieved by the interviewee). The semi-structured format allowed the interview to be paced appropriately and encouraged the participants to reflect on their answers (Jankowicz, 2000). The interviewer's role in exploratory interviews is one of 'guidance' and minimal interference in the flow of the interview. This enables the interviewee more scope to answer in their way. Also, it should reduce the likelihood of interviewer bias, through 'prompting' particular answers

(Oppenheim, 1992). With 'subjective' data collection forms, bias is always likely to be present in some way. Yet, minimising interviewer influence and couching the discussion in general terms allowed the interviewee to decide the specific direction of the interview in the way that they determined. This was influenced by their particular experience and knowledge of their organisation, members and the social enterprise sector.

4.4.1 DATA COLLECTION AND ANALYSIS

The interviewer took notes to record interviewee responses. This method is dependent on accurate notation of the key point made by the interviewee. Furthermore, notes must accurately reflect the perception of answers given at the time of the interview. This entails further reflective analysis immediately after the end of the interview (Fontana and Frey, 1994, Patton, 2002). The notes taken during the interviews were based on interviewer perception of the responses by the interviewee to the questions posed. This method is useful because the interviewer reflects on accounts post-interview to confirm / disconfirm perceptions noted at the time. The method is considered accurate in qualitative research (Macan and Dipboye, 1994). To verify their accuracy, notes were sent back to the interviewee to ensure that their views have been correctly represented as a result of the interview. This method of recording data is a useful strategy because it allows the interview to be paced appropriately. It also enables questions to be tailored to the context and 'mood' of the interview, and this is typical in the semi-structured format (Patton, 2002).

After the interview, notes were summarised into a separate document which served as the 'sense-making' element of the exploratory interview analysis. These summary documents can be found in Appendices 1 to 4. From these notes, latent content analysis identified the commonalities and disparities between key informants' accounts. This form of analysis is common in qualitative research. It is a more detailed, though subjective version of manifest content analysis (Patton, 2002, Tashakkori and Teddlie, 1998). The latter focuses on the descriptive content of qualitative data. Latent content analysis classifies data into units, then condenses the meaning from the units into identifiable themes (Graneheim and Lundman, 2004). Such an approach enables the identification of themes, thus suiting the requirement of this stage of the research project. The latent content analysis grids for each interview can also be found in Appendices 1 - 4, following each of the interview notes accordingly.

The inherent limitation of this recording technique is that it does not provide a verbatim account of the progress of the interview. This would be useful for accuracy and a more in-depth analysis of the data collected through the exploratory interviews. Also, note-taking has a practical limitation whilst in interviews. Focusing on notes detracts from maintaining eye-contact with the interviewee. Thus, the skill of the interviewer is required to make notes at moments during the interview where there is a natural 'pause' (Conway and

Peneno, 1999). Research on the validity of note-taking as a data collection method is inconclusive (Huffcutt and Woehr, 1999). The analysis of the outcomes from the exploratory consultation found that it was appropriate to utilise a descriptive technique to ascertain themes. Clarification of themes from the literature review was the objective of this stage. This determined the focus for the next stage of the research. The methods adopted achieve this, contingent on the interviewees verifying that the accounts were an accurate account of their views.

4.4.2 ETHICAL ISSUES

There were a number of ethical issues to be considered by the researcher before the commencement of data collection. Consideration of these issues enhances the credibility of research outputs (Fontana and Frey, 1994, Janesick, 2003a, Jankowicz, 2000). Qualitative research is heavily reliant on the level of trust between researcher and participant. The amount and quality of data acquired from research is contingent upon trust. Therefore, to increase the likelihood of a productive (and credible) interview, certain assurances were offered to the participants involved.

Firstly, researchers are bound by the ethical codes of their profession (as well as their own conceptions of moral 'appropriateness'). This research is guided by the Ethical code of Practice at Liverpool John Moores University, the researcher's affiliated institution. This document outlines the key areas for ethical consideration, including:

- Consent
- Volunteer rights
- Confidentiality
- Professional standards
- Honesty
- Openness
- Documenting results and storing data

Ethical consent was not required from the University prior (or following) the interviews, as the participants involved were not considered to be vulnerable or at risk as a result of the interviews. This was confirmed following the acceptance of research proposal and 'transfer' document from MPhil to Ph.D. that passed before the Research Committee at the University. The latter document was also independently verified. However, the researcher built important ethical considerations such as (Jankowicz, 2000): informed consent, the right to anonymity, careful interpretation, controlling the risk of deception, and upholding the expected professional standards of the University.

Consent was given by individual interviewees upon acceptance of the request to take part in the research project. The interviews required no personal or confidential information to be imparted, only a description of their perceptions of social enterprise governance. In addition, their attitudes towards areas of importance for future research were required. All interviewees were informed of their right to withhold their identities if they so wished, and to indicate whether any responses made were in a professional or personal capacity. They were also given notice that they could withdraw themselves, and any interviewee data they had provided, at any time. To date, no such requests have been made.

4.5 DEPENDABILITY, CREDIBILITY AND TRANSFERABILITY

Dependability refers to whether the research is "...consistent, stable over time and across researcher and methods." (Miles and Huberman, 1994, p.278). To enhance dependability for this qualitative stage of the research, there are some issues that need to be accounted for, including:

Table 4.1 Dependability Issues and Justification

Dependability Issue	**Justification**
Clarity and connectedness of theoretical underpinning.	Propositions elucidated in Chapters 2 and 3.
Role / implication of investigator during research.	Planned interview 'strategy' prior to interviews taking place. Impartial. (Discussed in Chapter 4).

Check for bias / interviewer knowledge.	Collation of notes and checking these with interviewees. (Discussed in Chapter 4).
Use of peer / colleague review.	Through supervisory team and publication.

Adapted from Miles and Huberman (1994)

The table details the checks established during Stage 1 to enhance the reliability of the data. The conceptual orientation for the study was made clear in Chapter 2, culminating in several propositions to guide the exploratory research. The key informants were chosen on the basis of their knowledge of the social enterprise sector. All interviews were conducted by one researcher, and used the same semi-structured format. This enabled a consistent approach through this stage. All notes were verified with interviewees as a check of reliability.

Credibility is often described as the qualitative description of validity, used in quantitative research (Graneheim and Lundman, 2004). This issue is the examination of "...whether or not the explanation fits the description." (Janesick, 2003a, p.69). It aims to ensure that agreement is reached over the correct interpretation of the qualitative data collected. In so doing, it legitimises the research process by ensuring that findings are representative of the participants involved in the study. This enhances the findings of qualitative research, because it reinforces the credibility of inferences made by the researcher about the findings. To achieve this, findings from the interviews were offered back to the interviewees so they could verify and agree with this interpretation.

Transferability is equivalent to generalisability in quantitative research. This concept refers to the trustworthiness (external validity) of qualitative data (Miles and Huberman, 1994). Furthermore, it represents the likelihood that dependable and credible findings are applicable across different contexts. Many writers have discussed how this is difficult to apply in qualitative research (Kennedy, 1997, Patton, 2002, Stake, 1978). Transferability occurs not through exact replication of findings over time. Instead, it takes the form of applying experiences and learning from one context to another. The scientific connotations of generalisability are therefore dispensed with and replaced by naturalistic generalisations (Robinson and Norris, 2001, Stake and Trumbull, 1982). Therefore, the importance of transferability is how implications are drawn from the qualitative data to apply to other situations in a useful way.

4.6 KEY OUTCOMES FROM EXPLORATORY STUDY INTERVIEWS

Interviewees confirmed that governance is one of the most pertinent areas for further research of social enterprise. Other areas require attention, such as the impact of variant legal forms adopted by social enterprises. However, interviewees distinguished between the governance of social enterprises and their adopted legal form. The rationale for the research of social enterprise governance and exclusion of legal forms *per se* is provided below. The importance of governance was defined by three clear themes from the exploratory interviews:

- The role of directors.
- The role of stakeholders at Board level.
- The need for appropriate skills across the Board.

The respondents, the position in their organisations are shown in the table below. Each interviewee was labelled accordingly, and these labels are used to identify the origin of quotes used in the following section:

Table 4.2: Interviewee Characteristics

Label	Interviewee	Position	Organisation	Focus
A1	Jonathan Bland	Chief Executive	Social Enterprise Coalition	Sector-wide
A2	Kathy Baker	Quality Support Manager	Social Firms UK	Specific
A3	Stephen Bull	Head of Membership and Governance	National Housing Federation	Specific
A4	Dr. John Butler	Secretary	Cooperatives UK	Specific

4.6.1 THE ROLE OF DIRECTORS

Each of the respondents urged an investigation into the role of directors and the impact they have upon managers in social enterprises. One issue is how social enterprises can implement standards of transparency in a way expected of them. This was seen to be pertinent at a time where corporate governance is of increasing importance to the public, stakeholders and customers. This is borne out of a need to show transparency and accountability, rather than any reaction to governance misdemeanours by social enterprises. It was questioned whether long-tenured directors were 'in-touch' with the pressing needs of a dynamic social enterprise. directors who have been serving on the Board for longer than five years offer resistance to change, particularly when the change is proposed by managers. This was evident from the interviews, particularly Social Firms UK and CooperativesUK. The latter interview identified that:

"... [many] cooperatives have long-serving directors. It is typical that directors will be re-elected with little opposition. This causes problems where cooperatives 'stagnate', or if change is required and resistance at Board level is found."

(Source: A4)

Paradoxically, directors who are long-serving have experience of the role and governance procedure. This is valuable to the social enterprise because it offers knowledge acquired through many years of serving on the Board, and also provides stability at that level of the organisation. Therefore, the role of directors is an important area for investigation because the dynamic social enterprise needs leadership and experience that is relevant to the requirements of stakeholders. At present, the consensus between those interviewed was the Board of directors does not possess both of these characteristics. Experience is valuable but other attributes are required to offer effective strategic leadership to the organisation.

It was clear that accountability is a key part of governance processes. directors are expected to be held accountable to stakeholders. The methods for achieving this centre around encouraging directors of 'member' organisation to adhere to voluntary codes, for example that developed by CooperativesUK:

"CooperativesUK have worked with its members in ensuring that they send this annual review of their governance performance. This process is self-administered by the Board of each member cooperative."

(Source: A4)

4.6.2 THE ROLE OF STAKEHOLDERS AT BOARD LEVEL

It was acknowledged that stakeholders should be represented and active at Board level. Respondents explained how their particular organisations recognise the value of stakeholder input at Board level, and actively encourage its adoption by members. CooperativesUK encourage such inclusion through the code of Corporate Governance. One area of concern is attracting stakeholders to be involved at Board level:

"Social Firms are encouraged to adopt an inclusive approach to Board recruitment. This should ensure an open and democratic governance process. The degree to which this is enacted is open to question."

(Source: A2)

Though inclusion is ideal for improving stakeholder dialogue, not all stakeholders want to (or can be) represented at Board level. Also, stakeholders that do represent their groups, do so voluntarily. There is no financial incentive available to compensate for the time spent attending Board meetings and "contributing". So the subsequent problem for support groups and representative bodies is how to encourage inclusion and a collaborative governance environment.

This issue is obviously an important one for social enterprises. Stakeholders *should* be represented but the interviews indicate that this is difficult to achieve in practice. Trade / umbrella organisations can do no more than recommend it as 'good practice'. CooperativesUK linked stakeholder inclusion with accountability, yet did not make clear how they would foresee it to be implemented. One possibility is diverting from unitary Board structures and instead promoting the establishment of secondary, co-determination Board comprising key stakeholders.

4.6.3 THE NEED FOR APPROPRIATE SKILLS AT BOARD LEVEL

A third pertinent issue was the need for appropriate skills at Board level. This applies not only to directors, but stakeholders who join the Board. The concern is that many organisations do not recruit any stakeholders to Boards. Furthermore, when they are recruited, the stakeholders are represented in presence only. They are not seen to (or are unable to) contribute to the strategic and procedural governance of the social enterprise. Many of the interviewees explained Corporate Governance codes that they had developed for their members, and training courses they offer directors, trustees and stakeholders. For example:

"The key element of the code is that members 'sign-up' to the code and report on their progress each year. CooperativesUK have worked with its members in ensuring that they send this annual review of their governance performance. This process is self-administered by the Board of each member cooperative"

(Source: A4)

These codes are an indication of the level of importance that governance has for these organisations. They recognise the general lack of business / management skills of new directors as symptomatic of the governance problems that social enterprises face. In the case of CooperativesUK, there appears to be a significant 'push' for greater adherence to ethical principles of governance. Clearly, whilst the system is self-administered there are likely to be legitimacy issues for the process. However, it does represent an important step in establishing support for social enterprises in this area. NHF have followed in a similar vein to CooperativesUK, finding similar problems:

"Aspects such as director tenure, skills and representation at Board level are all important issues. However, to the NHF they are seen as barriers to the implementation of a Corporate Governance code"

(Source: A3)

It is accepted in both theory and practice that stakeholders should be involved at Board level. This is because diversity at Board level should enhance decision-making, and focus it more effectively on the needs of primary beneficiaries. Yet the voluntary nature of Board membership does not encourage the *type* of individual with the skills to contribute at that level. Therefore, 'umbrella' and support organisations have to encourage Board member training or 'tools', such as that run by CooperativesUK at their Cooperative College and the Performance Dashboard developed by Social Firms UK.

4.6.4 THE EXCLUSION OF LEGAL FORMS

A clear distinction was made by respondents between a focus on governance and legal forms. From the interviews, (with the exception of Social Enterprise Coalition) respondents elaborated that any research of social enterprise governance should focus more on *governance* and not necessarily on legal forms. Upon further questioning as to the reason for this distinction, respondents asserted that the legal form *choice* for social enterprises is relatively clear and not a pressing issue for further research. In light of the recent introduction of the Community Interest Company (CIC), social enterprises adopt one of two legal forms: Company Limited by Guarantee (CLG) or Industrial and Provident Society (IPS). The choice between which form to adopt is a pragmatic one, and assistance for this choice is provided by the 'umbrella' or trade organisations for each social enterprise type. Furthermore, the CIC was viewed as less important than the need to tackle some key governance issues. The CIC was considered as a 'fix' for long-overdue changes to the pre-existing law regulating CLG and IPS legal forms. As the Social Enterprise Coalition explicated, a flexible and supportive legal framework is required for the social enterprise by the social enterprise sector. Further research *is* required here, though this can be separated from examination of the dynamics of the Board of directors and its effects upon performance for this research. Stephen Bull of NHF noted:

"directors tend to serve for a long time on the Boards of housing associations. Their view of housing associations, and of social enterprises, represents the 'old' view, rather than as dynamic organisations (the 'modern' view of social enterprise)."

(Source: A3)

From their perspective, though long-serving directors have provided stability for housing associations over a number of years, they (housing associations and the NHF) face the challenge of evolving the skills set and outlook of Boards to adapt to the changing environment in which they operate. Hence, the legal form choice is a less pressing issue for social enterprises than ensuring that existing Boards are effective in their roles.

The timing of the research project coincided with the launch of the CIC legal form. In its infancy, it appears that the participants in Stage 1 of the study were particularly dismissive of its importance. It should be noted that this is unlikely to be the case in the coming years. Once the CIC was been 'embedded' as an established legal form for social enterprise, and its benefits become clear, attitudes are likely to become more positive towards it. As Social Firms UK made clear:

"...Social Firms can adopt whichever legal form suits their needs best. The CIC legal form was viewed as useful, complimentary option for Social Firms."

(Source: A1)

4.7 CHOICE OF SOCIAL ENTERPRISE

The final outcome of Stage 1 was the choice of social enterprise to focus upon for Stage 2 of the research. All of the interviewees acknowledged their enthusiasm for research in the area. However, only two, CooperativesUK and Social Firms UK indicated that their members would be supportive of any research they would be asked to be involved in. CooperativesUK offered the well-trodden path for further research. Prior research on the cooperative form and its governance is well established (Carpenter, 1988, Chaves, 1994, Cornforth, 2003b, Cornforth, 2004, Spear, 2000). However, the primary concern was whether the research project in this area would significantly add to the body of theory.

Alternatively, Social Firms are under-researched as a type of organisation. Adopting this type for the focus of Stage 2 would be beneficial in terms of originality and contribution. However, there is a lack of grounding literature available. This would position the subsequent research project as exploratory, rather than focussed on a particular aspect of governance.

Yet, the decision was made on the basis of that the Social Firm would provide the most unique contribution to the body of corporate governance theory. The exploratory nature of the research could be advantageous, if key concepts of social enterprise governance can be clarified and tested during the project.

4.8 LIMITATIONS

The exploratory stage of the research was intended to gauge which were the key areas for further social enterprise research. In particular, whether governance was one of those areas and the key issues that may require particular attention. It was crucial that the chosen sample contained individuals with the requisite knowledge and experience of the social enterprise sector. Therefore, a purposive sampling approach was taken. Efforts were made to contact a suitable number of experts in the sector who could inform the research. However, the representation of the sample is, of course, open to interpretation. Efforts were made to ensure that a broad spectrum of experts in the field had the opportunity to contribute for a study on this scale.

4.9 CHAPTER SUMMARY

This Chapter provided the rationale for the exploratory stage of the research (Stage 1). Furthermore, it detailed the methods used for collecting and analysing the qualitative data obtained from the semi-structured interviews. The primary outcome from Stage 1 was the confirmation of governance as an area for further research in social enterprises. This builds upon the outcomes of the Literature Review and confirms the development of the general propositions therein. Specifically, the interviews raised a number of themes, which were extracted using latent content analysis grids (Appendices 1 to 4).

Three major themes were found: The role of directors, the role of stakeholders at Board level, and the need for appropriate skills across the Board. Opinions tended to coalesce around these factors, though some other pertinent issues are relevant to the sector as a whole. These included the role of Government and the new CIC regulator being central to the continued development of the sector. Also, general dissatisfaction was shown over the Government's past history with the sector, and its reluctance to modernise the two predominant legal forms (with belated introduction of the CIC form). The CIC is generally viewed as an interesting alternative to the predominant forms (CLG and IPS). The interviewees were keen to see how the take-up of CIC's across the sector (as well as in their own) over the coming years. The choice of social enterprise type, the Social Firm, was made on the basis that these organisations are under-researched. It also presents an opportunity to add significantly to the existing bodies of corporate governance and social enterprise theory.

CHAPTER 5

RESEARCH INSTRUMENT DEVELOPMENT

SAMPLING AND ETHICAL ISSUES

5.1 INTRODUCTION

This Chapter details the methods used to develop the research instrument. Also, it explains the consideration given to key issues, such as analysis techniques, validity/reliability, triangulation, sampling and ethical issues. The choice of nominal categories is justified, in relation to previous research and the outcomes from Stage 1. The Chapter concludes with a discussion of the limitations of the approach adopted, and justification for the methods to be used mindful of these limitations.

5.2 INSTRUMENT DEVELOPMENT

This section examines the development of the research instrument from the propositions identified in Chapter 2. These propositions were developed following a review of the relevant theory. Each proposition relates to the aspects of social enterprise governance: transparency, accountability and sustainability. These three concepts represent the predictor variables. Furthermore, they are included to establish the institutional influences upon governance, a fourth set of propositions relate to the Dependent Variable, legitimacy (DV), particularly as it relates to the identified facets of social enterprise governance. A table of the propositions, the related statements and the supporting literature for each is provided in Appendices 7 and 8. The propositions are tested by the respondents' level of agreement (attitude) towards each of the corresponding set of 5-point Likert statements. Chapter 2 explained how these propositions were developed from the reviewed literature.

5.3 TRIANGULATION

Triangulation is "...a strategy that (aids) the elimination of bias and allow the dismissal of plausible rival explanations (of) a truthful proposition about some social phenomenon..." (Mathison, 1988, p. 13). Triangulation is a means of verifying collected data via corroboration of results from different sources, investigators or methods. The value of triangulation is to reduce the impact of methodological bias upon research. Utilising a single research method (for example only quantitative methods) allows the inherent bias of that approach to prevail throughout the research. Greene *et al* (1989, p.259) state that triangulation can "...increase the validity of constructs and inquiry by counteracting or maximising the heterogeneity of irrelevant sources of variance...". Triangulation encourages proper verification of findings and reduces the likelihood of alternative explanations for the outcomes of the research. It is frequently invoked as a verification strategy in mixed methods research.

Denzin (1978) asserts that the use of across-methods triangulation, rather than within-methods is a more suitable way to verify data. A within-methods strategy utilises only one method of data collection, therefore a between-methods approach (utilising more than one method) is more suitable for triangulation. According to Mathison (1988, p.14), this approach assumes that the inherent bias can be "cancelled out" when combined with alternative methods, and that any results produced would "...be a convergence upon the truth about some social phenomenon." Crucially, this involves the use of mixed methods as "different methods produce different understandings of a social phenomenon." In addition, the *equal* deployment of different methods (quantitative and qualitative) enhances the quality and understanding of each.

However, it must be noted that triangulation rests on some key assumptions – principally that each method measures the same phenomenon independently and simultaneously (Greene et al., 1989). As these authors elucidate, there exist alternatives to triangulation where key factors such as method independence, simultaneous deployment and paradigm congruence are different to the conventional requirements for triangulation. These include *complimentarity* and *developmental design.* In a similar vein to choice of methodological paradigm, the appropriateness of each mixed method design is contingent upon assumptions, as mentioned above. A key task of the research is interpreting findings from an across-methods approach to align *towards* convergent findings.

In this study, the set of *a priori* statements in Chapter 2 represent the outcomes from the review of relevant literature. The exploratory stage was required to provide empirical reinforcement for the basic propositions from this stage. Thus, the final aspect of triangulation is via the quantitative stage of the research. Where the first two stages have produced convergence of findings, the third stage will test whether the predictions from the literature and key informants are valid.

5.4 QUESTIONNAIRE FORMAT

The questionnaire was designed to facilitate ease-of-completion for the participants from the sample population. A further consideration in design was to make the completed form suitable for the researcher to input the data into an SPSS data form. The structure of the questionnaire placed all category questions on the first two pages. The logic of the question sequencing was to feature the Likert scale questions to make the structure clear and unambiguous (Oppenheim, 1992). Initial contact with the sample frame was made via a 'standardised' email. This email introduced the researcher and the research topic to the sample frame, and contained an attached questionnaire. This represented the first of three stages to the deployment of the questionnaire - electronic deployment, which also served as a small scale piloting of the questionnaire. The second and third stages entailed mailing hardcopies of the questionnaire to every member of the sampling frame. Each stage was allocated a two week completion period. The electronic version reached all members of the sample. Feedback from the participants resulted in the re-development of parts of the questionnaire, including some style and formatting changes. For the next two stages of deployment, all forms were sent out with a covering letter together with a Freepost envelope to minimise cost and inconvenience to respondents, and encourage completion (Tashakkori and Teddlie, 1998). It was anticipated that the hardcopy deployment would produce a better response rate than the first, electronic, deployment. Stage three of deployment was a 'reminder' to the sample and to improve the response rate to nearer the required level. It was important that, given the relatively small sample frame, a minimum number of responses could be acquired. For management and organisation research, an acceptable response rate is 36% +/- 13 (Baruch, 1999). This is a key factor in the choice of statistical analysis for the collected data. Meeting this target range will allow parametric analysis of data, and enhance the potency of further analysis.

5.4.1 NOMINAL DATA CATEGORIES

The questionnaire contains a series of nominal category questions. These questions have been included to explore the presence of significant relationships between them and the DV and predictor variables. Each of these categories is discussed in turn below, specifically in light of the theoretical support for its inclusion in the questionnaire.

5.4.2 JOB ROLE

This category has been included to distinguish the sample into one of two elements: whether respondents classify as managers or directors. Previous research indicates that directors are crucial to implementing governance, therefore exerting influence over managers to ensure they maintain governance standards (Wang and Dewhirst, 1992). Furthermore, there is evidence linking job role to achievement of legitimacy (Aguilera, 2005, Cohan, 2002, Goodijk, 2000). The normative view of director remit is further implied in the corporate governance literature (Forbes and Milliken, 1999). The contractual responsibilities of managers and directors outline where the boundaries of executive power begin and end. In the corporate context, governance is managed in environments where internal actors have close, contractually-defined terms of responsibility (Cohan, 2002). Managers and directors in social enterprises should be expected to have a broader conception of responsibility, where ethical (rather than pragmatic) decisions are the norm. Stage 1 of the research indicated that the particulars of the director's role should be examined, mainly due to a lack of communication to managers and / or strategic leadership. There is a lack of previous social enterprise governance research and the realities of operating social enterprises, thus warranting further examination in Stage 2 of the study. This will determine where respondents indicate the significant differences are.

5.4.3 ORGANISATION CHARACTERISTICS

Previous studies have indicated that the age and size of the organisation are linked to governance performance as well as legitimacy (Coles, McWilliams and Sen, 2001, De Jong, 1997, Deephouse, 1996, Haleblian and Finkelstein, 1993). Stage 1 provided evidence that 'older' social enterprises had longer-serving directors. This was seen to be problematic, given their perceived ineffectiveness and 'stagnation'. Therefore it is worthwhile exploring whether this is a factor in significantly different attitudes amongst the sample.

Organisation size can be determined in a number of ways, including by turnover and number of employees. For this study, organisation size is signified by both of these factors. Previous work has shown that organisation size has been used as a variable in studies of corporate social disclosure and performance (Cowen, Ferreri and Parker, 1987, Fombrun and Shanley, 1990). Furthermore, Stanwick and Stanwick (1998) report that organisation size does indeed correlate with performance, and they used annual turnover as representative of 'size'.

Meanwhile, the number of staff has also been used to determine organisation size, and represents a key organisation characteristic. For example, studies such as Mytinger (1968), and Pierce and Delbecq (1977) both advocated this category *as part* of a measure of organisation size. Therefore, it is appropriate that it should be combined with another established measure of organisation size.

5.4.4 PERFORMANCE

The role of performance and its influence on governance legitimacy has been linked to accountability and sustainability (Van Kersbergen and Van Waarden, 2004). Performance influences legitimacy because the social enterprise needs to provide evidence that it is achieving agreed strategic objectives. It may also influence, or be influenced by isomorphic pressures on the organisation (Deephouse, 1996). A common method of assessing performance is through financial data, profit and / or turnover. Profit is not a suitable term for the study of social enterprise, where the preference is for the term 'surplus'. Irrespective, social enterprise 'performance' can be measured by level of turnover, similar to other organisations (Kacmar, Andrews, Rooy, Steilberg and Cerrone, 2006, Kaplan and Norton, 1992). However, to use this alone as an indicator of size is insufficient (Kaplan, 2001, Paton, 2003). Typically, there are social and environmental goals for these organisations and these are discussed below.

5.4.5 SOCIAL AUDIT

A common method of testing performance in social enterprise and nonprofit organisations is through social auditing / accounting (Paton, 2003, Pearce, 2003). This combines methods to capture organisational performance on social, environmental and financial grounds, testing the so-called 'triple-bottom line'

(Elkington, 1997, Gray, Owen, Evans and Zadek, 1997, Gray, Owen and Maunders, 1991). The social audit is seen to be vital to accountability and part of what social enterprises do (Paton, 2003). However, this is more of a stated assumption than supported by a broad palette of empirical evidence. Social enterprises should conduct a form of social audit on a regular basis, but there is no empirical evidence indicating that they actually do this, or whether it influences conceptions of performance. Therefore, it has been included as a nominal category for this study to provide some evidence whether it is significant to attitudes towards governance legitimacy.

5.4.6 STAFF

In unison with assessing the number of staff employed, the research instrument also investigates the type of staff employed. Type of staff indicates whether employed staff are salaried, volunteers, or a mixture of both. It is common in organisations such as social enterprises to employ a varied mixture of both types of staff (Cunningham, 1999). In fact, directors, Board Members and trustees are also commonly voluntary rather than salaried (Callen, Klein and Tinkelman, 2003, Hall and Banting, 2000, James, 1983, Saidel and Harlan, 1998). Given it apparent relevance to the nonprofit and social enterprise sector, it is included in this exploratory research to determine any significant relationships this variable may have.

5.4.7 BOARD SIZE

There are many previous studies that have examined Board size and composition and links with governance performance. Seminal work in this area is Baysinger and Butler (1985), though there is a swath of research here (Bhagat and Black, 1999, Core, Holthausen and Larcker, 1999, Daily and Dalton, 1993, Dalton, Daily, Ellstrand and Johnson, 1998, Goodstein, Gautam and Boeker, 1994, Kosnik, 1987). For example, van der Berghe and Levrau (2004) included both academic and more practical determinants of 'good' Board composition and the impact on performance. Similarly, the effect of Board size on performance has been studied in some depth in other sectors (Eisenberg, Sundgren and Wells, 1998, Goodstein et al., 1994, Luoma and Goodstein, 1999). The former work is particularly useful here as it examines the efficacy of the range of functions the Board has, from governance to strategic (Goodstein et al., 1994). Conyon and Peck (1998) further demonstrated the negative impact that Board size has upon performance. Hence this category should be included in this study, as prior evidence suggests that it is relevant in studies of the Board, and its role in the organisation.

5.4.8 DIRECTOR TENURE

There has been extensive research on director tenure and performance, either as a single variable or as part of a combined study on Board composition and effectiveness. Seminal work here includes Salancik and Pfeiffer's (1980) study focusing on corporations in the US and the determinants on tenure of key executives. Further work has developed the understanding of whether and how director tenure influences performance, control and (Daily and Dalton, 1993, Finkelstein and Hambrick, 1990, Johnson, Hoskisson and Hitt, 1993, Kosnik, 1987, , 1990). Other important studies that have examined this factor in a 'combined' approach include Hermalin and Weisbach (1988) and Westphal and Zajac (1995). Both combined a variety of Board-related variables in their studies of corporate Boards.

In the public and nonprofit sectors, existing research can be aligned with a number of alternative theories of corporate governance. These include stewardship theory (Muth and Donaldson, 1998), agency and institutional theories (Young, Stedham and Beekun, 2000), and stakeholder theory (Finkelstein and D'Aveni, 1994, Saidel and Harlan, 1998). There is yet to be empirical investigation of this Board characteristic in the context of social enterprise. Therefore it is included in this research instrument to explore any relationships that may exist.

5.4.9 DECISION-MAKING AUTHORITY

The locus of decision-making, as well as how decisions are made are both important factors to consider in Board research. In any organisation, the role of the Board carries responsibility for strategic direction and an executive function (Forbes and Milliken, 1999). Prior studies have focused, for example, on the determinants of effective decision-making at Board level (Carpenter and Westphal, 2001, Kosnik, 1987, Westphal and Fredrickson, 2001, Westphal and Zajac, 1995). Nonprofit Boards have also been the subject of a variety of studies, notably in relation to their performance (Nobbie and Brudney, 2003) and strategic role in the organisation (Markham, Johnson and Bonjean, 1999, Stone, Bigelow and Crittenden, 1999). Evidently, the Board should provide the strategic impetus for organisation activities, and some previous work has applied institution analysis to study Board decision-making (Galaskiewicz and Wasserman, 1989). Thus we can appreciate that determining how important (Board-level) decisions are made is a necessary category for inclusion in this exploratory study.

The Likert statements were developed to relate to key propositions as outlined in Appendix 7. Furthermore, the table in Appendix 8 exemplifies how each of these statements relates to the specified theory.

5.5 PILOT TESTING

The piloting of the survey instrument is split into two stages. The first stage involves a small scale review of structure, presentation and coherence conducted amongst the supervisory team. Following this, any alterations to the questionnaire will be executed. The next stage involves deployment of the questionnaire via e-mail contacts sourced from Social Firms UK. Initial deployment of the questionnaire yielded six responses, and some amendments were made to the form. These were predominantly format and style alterations to improve the readability of the form.

5.6 ANALYTICAL METHODS

As noted in Chapter 4, data collected from Stage 1 was analysed using latent content analysis of interview transcripts and field notes. The qualitative data from this stage indicates a suitable choice of social enterprise, and this was explicit in the key-informant interviews. Also, given there was limited time to access the interviewees this type of analysis was deemed appropriate.

The design of the questionnaire provides both nominal and interval data. This facilitates the use of parametric statistical tests. The first stage of analysis will test which of the predictor variables influence the DV. Multiple regression analysis will be used to test for the presence of relationships between the variables. This stage will be preceded by testing for normality (Kolmogorov-Smirnov test), to reduce the likelihood of multicollinearity. Of course, the actual (rather than assumed) normality of distribution must be confirmed before the range of further statistical tests are attempted. The statistical analysis software SPSS has been chosen to perform the identified statistical tests. This decision has been made on the grounds of its suitability to perform such operations, its prior use in professional and academic research, and researcher familiarity (Brace, Kemp and Snelgar, 2007).

Data will be tested against the predictor variables and DV in a number of ways. Initially, the composite scores for each variable will be tested by multiple regression analysis. This will indicate which of the DV are likely to be predictors of the predictor variables. For nominal data split into two classifications, independent t-tests will be conducted to a minimum significance level of 95% (0.05). These results will enable the acceptance or rejection of formulated hypotheses (H_1 and H_0). For nominal data with more than two categories, Analysis of Variance (ANOVA) tests will be performed. This will provide confirmation whether there is a difference between the respondents' level of agreement for each statement. In the case of significant differences, (posthoc) Duncan tests will be performed in order to distinguish where the difference lies. Posthoc tests can be problematical in quantitative research where further analysis is conducted on unplanned outcomes. In this exploratory study, propositions are the sole general predictions for the quantitative analysis. Hence the findings are not anticipated according to detailed hypotheses, rather to be explored posthoc using the available tests.

5.7 VALIDITY AND RELIABILITY

There are important considerations with regards to internal validity, such as sampling error and sampling bias. As the sampling method is non-random, the likelihood of more trustworthy results is determined by the selection of participants based on their suitability to the study. Sampling bias can be reduced by achieving a sample that represents the chosen sub-sector, as closely as possible. Sampling error can also be reduced by focussing on one social enterprise type, thus the research is intended to be generalisable only within that sub-sector, not the sector as a whole. This restricts the cross-sector applicability of findings; however it is supported by the methodological paradigm adopted for the research. Furthermore, it enhances the 'usefulness' of the findings through "particularisation" and focusing on depth rather than breadth of knowledge (Miles and Huberman, 1994, p.278).

In Stage 2, it was vital that the outlined method measures the appropriate variable and does so without (or minimises) error. Therefore it was important that the variables involved have agreed operational definitions, and the measure has convergent or divergent validity. A constraining factor in the development of a valid set of scales for the identified constructs was the lack of prior studies examining them in this context. This exemplifies the exploratory nature of the research, and a key outcome will be determining the validity (and utility) of measurement scales for further research. Hence, where no prior measures are available, there are alternative methods for ascertaining measurement validity. Construct validity was tested by examining previous studies of governance and legitimacy. Findings that converge with expected (and previous) findings indicate valid measurement (DeVellis, 2003). Also, once the measurement scale was constructed, it was verified by three experts in the identified research fields, who were present on the supervisory team. This was to further ensure that confidence was found in the Likert statements that they would measure the defined constructs. Reliability scaling analysis tests, including Cronbach's Alpha and split-half correlations (Cronbach, 1951) will be conducted on the predictor variables scales to ensure that their measurements are internally consistent and accurate. Furthermore, measurement reliability is to be achieved through the use of between-methods triangulation, as outlined in the research design earlier in this Chapter.

As discussed previously, triangulation enhances the validity and inference quality of the data by attaining convergent validation between-methods (Jick, 1979, Mathison, 1988). The use of triangulation is a common approach in the social sciences where mixed methods are often employed, to improve validity and reliability (Althuser and Heberlein, 1970, Campbell and Fiske, 1959).

5.7.1 MINIMISING BIAS

An important consideration when conducting primary research is recognising and minimising bias. Given that the methodological approach in this study had a dual-focus, there are different types of bias issues that arise during the course of such research. In general terms, bias can manifest and potentially subvert research quality, in a number of ways. These include sampling bias (both qualitative and quantitative), interviewer / interviewee bias, and questionnaire design bias and piloting issues (Saunders, Lewis and Thornhill, 2006). Sampling bias is the result of obtrusive researcher influence on the actual constituency of the sample chosen for a study. This is detrimental to research because results cannot be held to be representative of a sample population. The risk of 'sampling error' is particularly acute in quantitative research, where research is tested scientifically and relies on probability sampling to minimise the chances of sampling error (Bryman and Bell, 2003). Interviewer / interviewee bias is a problem on two counts in qualitative research: interviewers are at risk of 'leading' interviewees to particular answers through poor question development and / or interviewing style. Also, interpretation of interviewee responses is often subjective and reliant on reflective analysis of interviewee responses. This reflective analysis is the product of interviewer understanding of such responses, which naturally indicates a lack of objectivity in understanding social phenomena. The following sections section focus on how issues of bias were accommodated in the qualitative and quantitative stages of research (Stages 1 and 2).

5.7.2 ISSUES OF BIAS IN QUALITATIVE RESEARCH

The first stage of the study employed qualitative research to provide data from semi-structured, key informant interviews. The study utilises a purposive sampling method, which was chosen because of the exploratory nature of research. This sampling method, as discussed below (4.3, p.122), was appropriate for the choice of key informants, and is based on the tenets of 'theoretical' sampling (Corbin and Strauss, 1990, Glaser and Strauss, 1967). This sampling approach involves the researcher in selecting informants through non-probability sampling. This guides the study through collecting and analysing data which guides theory-development and research design (Mays and Pope, 1995). The issue of bias in this sampling method arises because the participants are selectively chosen from the sample population, rather than at random. This infers that meaningful analysis of data is not reliable, since the researcher determined the source of the qualitative data. Therefore, because participants were chosen on the basis of what they might think and say, this is in fact the researcher manipulating outcomes to suit their own predictions for the study. However, in qualitative (and especially exploratory research), purposive sampling is an accepted, appropriate method for key informant interviews. The participants' involvement in such research is intentionally subjective: the study is heavily reliant on their particular expertise to guide the remainder of the study. The issue of bias in the qualitative stage is reduced by triangulating findings with the outcomes from the literature, and quantitative data. This highlights the importance of research design as a strategy for reducing bias (Mays and Pope, 1995).

Interviewee bias, in qualitative research, is complicated by the interpretative nature of study. However, analysis of key informant interviews is heavily reliant on the individual responses and opinions of a chosen subject (Tashakkori and Teddlie, 1998). Therefore, to minimise misinterpretation of qualitative data as well as sampling bias, interviews were requested from a range of potential key informants from the social enterprise sector in the UK. Only those interviewees who consented to an interview (i.e. self-selection) took part in the study. Furthermore, all notes taken from interviews were sent to interviewees to confirm their accuracy. This proved an effective strategy for confirming the salience of qualitative data with study participants.

Interviewer bias was accommodated and limited through interview design. The interviews were semi-structured, leading to question development intended to provoke interviewee elaboration, rather than direct them to closed answers. This reduced potential bias because it allowed the interviewee to respond around a general question, rather than be lead to talk about a particular issue. This was in keeping with a semi-structured interview format. A second potential bias issue arises, that of interviewee bias. If sector-specific interviewees are involved in a study about the given sector, then it is arguable that they are likely to provide data that only reflects well on themselves, their organisations or on the sector as a whole. Naturally, these interpretive methods aim to uncover and explore expert views, however they can be contentious and unrepresentative. This issue was also accommodated via the semi-structured interview format (prompting elaboration on themes rather than specific organisational issues). Having outlined the strategies for minimising potential qualitative bias, the next stage is to consider quantitative bias that can arise in research and how they can be negated.

5.7.3 ISSUES OF BIAS IN QUANTITATIVE RESEARCH

In quantitative research, issues of bias take different forms to those that impinge upon qualitative research methods. Principally, these potential biases concern sampling strategies, researcher bias, research instrument design and piloting processes.

Firstly, having focused on the Social Firm type of social enterprise (as determined from Stage 1), a simple random sampling strategy was employed for the quantitative stage. This strategy is recognised as an effective method for minimise selection bias, since all participants in the sample population had an equal chance of being included in the study sample. In this study, all Social Firms UK members were asked to participate, and indicate their willingness to become involved in the research study. The influence of the researcher in selection was therefore minimised because participants 'self-selected'. Furthermore, this approach was appropriate given the relatively small sample population, and the difficulties associated with the generalisability of social enterprise research.

Secondly, there is a potential issue regarding the bias inherent in respondents' answers to questionnaires. Researchers must seek to nullify the possibility that respondents will answer 'normatively' regarding their position or their organisation. This is a particular concern with research on ethics, and self-reporting on ethical attitudes causing social desirability bias (Randall and Fernandes, 1991). Social desirability bias can be minimised to some extent by ensuring respondent anonymity, however it is recognised as being very difficult to completely mitigate for this influence in ethics research. Therefore, a second approach was taken to contextualise the questionnaire data obtained in Stage 2 of the study. From the qualitative stage of the study, it became clear that one theme for consideration in social enterprise governance research is the divergence between managers and board members. Therefore, it was expected that responses of managers and board members might differ, casting this potential issue of bias in a different light. The quantitative stage sought to contrast participants' responses to determine a realistic picture of Social Firm governance: confirming divergent views between participant groups in Social Firms.

Concerning question development, efforts were made to ensure that each set of questions related to the variables identified from the qualitative stage of the study. The questionnaire was piloted on a small scale, using a simple random sampling approach, with participants from the sample population. Feedback from this stage allowed for a slight redesign of the form (for ease of use for the slightly visually impaired). Further checking of the questionnaire was achieved via checking experienced academic researchers to analyse the form for appropriateness. These experts were drawn from the academic institution where the researcher was based (Liverpool John Moores University). In particular, this stage focussed on the type of questions set, how these questions were developed, and the efficacy of these questions (and Likert statements) with the propositions made following the literature review and Stage 1 of the study. This type of panel-based piloting is a recognised and useful method for minimising bias in questionnaires and other researcher instruments (Tashakkori and Teddlie, 1998). Therefore, it is clear that steps were taken before and during the quantitative stage of the study, to ensure that the influence of any potential biases were minimised. Any other issues relating to influence of bias upon data and analysis is dealt with in more detail in the Limitations section (**Section 7.28, page 319**).

5.8 ETHICAL CONSIDERATIONS

This research adopted two main forms of interaction with participants from the sample population. Thus, there were a number of ethical considerations relevant to planning the execution this stage of the project. It is common practice in research to adopt strategies during research design and data collection that conform with the expectations amongst the broader research community (Brewer and Hunter, 2006). Principally, the research is bound by the ethical guidelines asserted by the code of Good Practice for Research at Liverpool John Moores University, which covers non-ethical and ethical standards (LJMU, 2007). This section details the ethical issues pertaining to this project, including confidentiality, informed consent, data protection issues and beneficence. The strategies adopted by the researcher to accommodate them properly are explained.

5.8.1 CONFIDENTIALITY

Firstly, the right of confidentiality is addressed. The LJMU research regulations state that:

> *"Confidentiality (Regulation 14):*
>
> *The confidentiality of the volunteer must be maintained at all times. If the viewing of case notes is a necessary part of the study, the confidentiality of the subject (and the institution) must be maintained."*
>
> *(Liverpool John Moores University Code of Practice for Ethical Approval, 2007, p.1)*

The individual respondents in the survey were made aware of their automatic rights in this area, and all data collected was treated on the basis of anonymity and privacy. Issues of confidentiality were addressed through communication with Social Firms UK. An agreement was reached that member details would be released to the research on the condition that the information would be used solely for the defined research.

5.8.2 INFORMED CONSENT

As the research relied on volunteers to take part in the survey, informed consent was required. Volunteers have the right to know for what purpose they are being contacted, how their information has been released, and by whom. Initial contact was made by Social Firms UK, through a standardised email that reached each of their registered members. This email explained the rationale for the research, and asked for volunteers for their assistance with the survey. If members wished to partake in the survey, *they* could complete the attached questionnaire and return by Freepost to the named researcher. This enabled Social Firms UK members to 'opt-in' to the research if it interested them sufficiently to do so. Clearly, this 'risk reduction' strategy was in place to encourage volunteers without implying any coercion (i.e. that it was member's 'duty' to take part). In line with Regulation 12 of the code of Practice, volunteers have the right to withdraw their information and / or contribution at any time during or after the research process. This right was elucidated on the questionnaire.

5.8.3 HOLDING DATA

The Data Protection Act (1998) sets out the guidelines applicable for the duration data can be held for, and the methods suitable for its storage. All information used in the study was stored on a private-use computer used by the researcher only. Furthermore, this information held on databases and other programs (such as SPSS) were password-protected and inaccessible to other users. No information was stored on public-access machines or networks, including those in the University.

5.8.4 BENEFICENCE

A key part of the research process is to impart something 'good' or useful as a result of it. For Social Firms, as part of the social enterprise movement, there is a strong ethos of wanting to contribute to something, or making an improvement to current standards. It was made clear that this research will contribute to the ongoing understanding and development of Social Firms and may suggest ways of governing them better.

5.8.5 TRUST AND CREDIBILITY

In order to clarify the credibility of the research described to Social Firms UK members, efforts were made to encourage any of those interested (or unsure) of the motives of the researcher, to contact the University, and the director of Studies. This information was prominent in the questionnaire and contact details of the named individuals provided.

5.9 SAMPLING

The choice of sampling methods is important because it has ramifications upon validity. Furthermore, it is important because it should enable the acquisition of a representative sample in the study. The purposive sampling method advocated in Stage 1 of the study ensures a channelling of participation through the relevant trade or 'umbrella' organisation. This should allow access to a large proportion of the selected social enterprise type that are members, and also with a variety of characteristics.

For Stage 2, the sample frame will consist of the social enterprise selected from the former exploratory stage. This was identified as Social Firms. To facilitate access to the chosen sample, cooperation was sought from Social Firms to acquire consent and assistance is accessing the sample. Contact details of the sample constituents were acquired through cooperation with Social Firms UK. They held records of 118 members who were classified as either full or emergent Social Firms. Initial contact was made with the sample via email, followed up by two hardcopy deployments. The simple random sampling approach was used so that results could be generalised to the Social Firms sector specifically. The very nature of this sampling exercise excludes the possibility of 'representative' sampling to a wider population (Patton, 2002). This method may be limited by restricting the application of findings to other social enterprise types that are established with similar legal forms or display similar governance structures. However, this study is intended to be exploratory and unearth findings that can be tested further to a range of social enterprises. Key to this will be the use of random sampling with a much larger sample frame than has been used here.

5.10 LIMITATIONS

There are limitations associated with the methodology and methods outlined in Chapters 3 to 5. In this section, they are discussed in respect to the potential influence they may have on the outcomes of Stage 2 of the research. This section attempts to draw together the range of limiting factors associated with both stages of the research. It also seeks to outline remedial strategies for nullifying the negative impact of these limitations.

5.10.1 METHODOLOGY

The mixed methodology / methods approach is flawed by its epistemological and ontological relativism. Postpositivism diverts from the strict bounded-rationality epistemology and ontology of positivism, and embodies aspects of relativism as a result. This relativist position is often criticised on the grounds that it seeks to find a suitable position between opposing views of the world, and knowledge. In so doing, it actually does neither and leads to research that is "loose and imprecise" (Smith, 1990, p. 172). Postpositivism remains rooted in the belief that there are some truths that can *probably* be unearthed, though imperfectly. This position falls foul of the positivist and interpretivist paradigms for not making any definite claims about the nature of reality, science or truth.

However there are various claims of paradigm superiority by a number of leading theorists in this area (Hammersley, 1992, Johnson and Onwuegbuzie, 2004, Thorne, Kirkham and Henderson, 1999). The current situation posits a 'pragmatic' approach to research – adopting the methodological paradigm that suits the research question and also the requirements of the researcher. However, the postpositivist approach used in this study suits the requirements of the area under investigation. With little previous research to build upon on this area, it must be exploratory in nature, featuring a strong scientific component. This provides a robust scientific platform on which to interpret and apply the study's findings.

5.10.2 STAGE 1

There are limitations applicable to Stage 1 of the study. In qualitative research the principal limiting issue is the central role of interviewer and the problem of bias. Efforts were made to ensure that the role of the interviewer was to 'set the scene' of the interview, and allowed the respondents to elucidate their thoughts on key governance issues, applicable to each of their sub-sectors. The intrinsic subjectivity of interviewing is asserted as one limitation of the interview process.

Purposive sampling has been criticised as a suitable sampling method, due to the assumed increase in non-random sampling bias as a result of selection. As discussed previously in this Chapter, the 'selection' of interviewees for this stage was necessary to ensure that a suitable range of experts were contacted for their input. However, the onus was placed on each respondent to volunteer through their own volition. Therefore, any actual sampling bias during this stage was minimised because the researcher was not actively involved in choosing the interviewees. Rather they had the option of enforcing their right to not participate in the study.

Latent content analysis, though a verified choice for many qualitative researchers, *could* have been improved through the use of available qualitative software packages (such as NVivo). However, given the relatively small sample size used in Stage 1, the adopted approach was sufficient for the level of analysis required. To have used a sophisticated software package would only have automated the same processes used in content analysis. Furthermore, the *quality* of analysis by such software is questionable, specifically in terms of data loss issues (Crowley, Harré and Tagg, 2002).

5.10.3 STAGE 2

Stage 2 features the quantitative part of the mixed methods approach, in tandem with the prior use of qualitative methods in Stage 1. There are a number of qualifying limitations applicable to this stage. In particular, this section will focus on construct development, sample size and analytical methods. Following Chapter 2, it became clear that the choice of constructs for this study were relevant but had not previously been used for governance studies. Therefore, efforts to develop a set of measures to properly measure these constructs (i.e. the predictor variables) lacked the support of prior attempt to measure them. Hence following construct development, questionnaire deployment and reliability analysis, the usefulness of the developed scales could prove to be unreliable. The use of internal reliability scales tests will provide an indication of whether the scales developed are consistent enough to be used in further analysis.

The exploratory nature of the study raises some important issues here. In particular, the choice of a social enterprise *type* limited the likelihood of achieving a very large sample size. Importantly, the sample population (of all Social Firms) needed to be large enough to produce the minimum response rate required to utilise the statistical tests described above. However, in tandem with the purposive sampling approach used in Stage 1, the sample remains too small to be able to draw out generalisations to other types of social enterprise. Also, in Chapter 2 attention is draw to the fundamental problem of generalisation across a sector that has a large variety of *types* of organisation.

5.10.4 ISSUES WITH MEASURING MANAGERIAL ATTITUDES

Attitude measurement is a key part of social research. Seminal, developmental research such as Thurstone (1928), provided critical insight into the value of robust analysis of attitudes from participants in such research. There are, however, some issues relating the measurement and validity of managerial attitudes have been noted (Mezias and Starbuck, 2003). One concern is the level of awareness managers have regarding long-term organisational issues. Where managers are concerned more with day-to-day 'concrete' matters, there is an assumption that they will composite these matters accurately into attitudes of strategy and performance. This poses a difficulty for researchers where the manager is seen as possessing expert knowledge relating to their experience in industry (Jose and Thibodeaux, 1999). The 'critical gap' is the difference between managerial perception of a given phenomenon, and the actual (empirical) value of the same item.

5.11 CHAPTER SUMMARY

This Chapter has provided further rationale for the choice of methods in this study. It has given details of the various factors that have influenced development of the research instrument. Issues such as reliability, validity and triangulation have been discussed and methods to compensate for, or reduce the likelihood of sampling bias / error. A range of potential limitations to the methodology and methods were raised and discussed in terms of how they can be minimised. An outline and explanation was provided for the range of statistical techniques that will be used to analyse the data collected. Importantly, some discussion is given to the conditions applicable to the data before these tests can be executed. Several ethical factors were detailed and justification was provided for how these issues have been carefully considered during the development of the study. Particular attention was given to the role of the human subjects used in the study and the primacy of their rights during the research process.

CHAPTER 6

QUANTITATIVE FINDINGS AND ANALYSIS

6.1 INTRODUCTION

In this Chapter the outcomes of the data analysis are reported. Firstly, descriptive analysis outlines the characteristics of the sample and data set. This sets out the profile of the data collected from the defined sample of Social Firms. Furthermore, means are presented for the set of Likert statements for the entire sample. Following this, the findings of a range of identified statistical tests are provided and explained. The further implications of the analysis presented below are covered in the next Chapter.

6.2 DESCRIPTIVE ANALYSIS

This section outlines the characteristics of the sample used in this exploratory study. In so doing, it presents mapping of the salient features of the sample. This acts to further illustrate and distinguish descriptive analysis of the sample.

6.2.1 SAMPLE CHARACTERISTICS: RESPONDENTS

The sample was drawn from an overall population of 118 Social Firms UK members. The number of usable forms returned was 37, thus the response rate for Stage 2 of the research was 31%.

The respondents from sample were divided into one of two job categorisations: managers (57%, n = 21) and directors (43%, n = 16). The sample consisted of a slightly higher number of managers to directors. It was important to achieve a fair balance of managers and directors in the sample. This was because the exploratory research indicated that managers and directors are likely to have opposing views towards governance of their Social Firm. Furthermore, it was predicted that directors may be less likely to receive the questionnaire; therefore managers are more likely to respond. There was slight skewness towards managers in the sample, indicating that this may indeed have been the case:

Table 6.1 Frequency Table: Job Title

	Frequency	Percent
Manager	21	57
director	16	43
Total	37	100

The 'time in role' category showed that predominantly respondents had been in their present role between one and five years (57%, n = 21), and six to ten years (27%, n = 10). Cross-tabulation shows that a higher proportion of managers to directors in the sample had been in post for a shorter time. Managers had a tendency to be in post for one to five years (66.7%, n = 14). On the other hand, directors were in post for longer (six years or longer, 56% n = 9) compared to managers (six years or longer, 19%, n = 4). On a descriptive level, this may indicate that one of the core findings from the exploratory stage holds true: that directors tend to be in post for a long time. However, this does not indicate whether attitudes of both groups differ towards social enterprise governance.

There was a tendency in the sample towards non-membership of the board (59%, n = 22). Between managers and directors, the findings indicated that only a small proportion of managers are represented at Board level (14%, n = 3) indicating that this type of Board level inclusion is not a prevailing feature of Social Firms UK members. Again, it does not provide any indication of why this might be the case, pending further analysis.

A large proportion of the sample, both managers and directors, held positions of responsibility and budgetary control (92%, n = 34). This shows that a considerable proportion of the sample have financial responsibilities to the organisation and stakeholders. Also, cross-tabulation of job role and perceived Board effectiveness showed that, as predicted, directors would perceive their performance positively (75%, n = 12). Alternatively, managers provided a divisive view of perceived Board effectiveness, with a slight majority of managers indicating that the Board is not (52%, n = 11).

Furthermore, respondents identified as Board members gave different views on Board effectiveness compared with non-members. A large proportion of board members in the sample considered the Board to be effective (80%, n = 12), compared with a lower figure for non-members (45%, n = 10):

Table 6.2 Cross-Tabulation: Board Membership vs. Board Effectiveness

			Is the Board of directors effective?		
			Yes	No	Total
Board member?	Yes	Count	12	3	15
		Expected Count	8.9	6.1	15.0
	No	Count	10	12	22
		Expected Count	13.1	8.9	22.0
Total		Count	22	15	37
		Expected Count	22.0	15.0	37.0

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	4.416(b)	1	.036

a Computed only for a 2x2 table
b 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.08.

Chi-squared analysis confirms that this is an association between board membership of respondent and perceptions of the effectiveness of the Board (χ^2 = 1.416. df = 1, p = 0.036). This suggests that non-Board members in the sample have a higher frequency of negative perceptions about Board effectiveness compared with Board members. This is perhaps unsurprising given the view of managers and directors given by Social Firms UK in the exploratory stage, that managers will perceive the Board negatively. In fact, the degree to which managers feel the Board is ineffective (55%, n = 11) is less than might be expected. However, the cross-tabulation confirms that Board members are unlikely to have a negative opinion of their own Board and the work that they do. Yet, the difference between views of managers and directors intimates that the former group judge Board effectiveness differently to the way directors perceive themselves.

Table 6.3 Cross-Tabulation: Job Title vs. Board Effectiveness

			Is the Board of directors effective?		Total
			Yes	No	
Job Title	Manager	Count	10	11	21
		Expected Count	12.5	8.5	21.0
	director	Count	12	4	16
		Expected Count	9.5	6.5	16.0
Total		Count	22	15	37
		Expected Count	22.0	15.0	37.0

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.824(b)	1	.093

a Computed only for a 2x2 table
b 0 cells (.0%) have expected count less than 5. The minimum expected count is 6.49.

The above tables show the results of cross-tabulation of the two nominal categories. Chi-square analysis shows that there was no relationship between job role and perceptions of effectiveness of the Board of directors effectiveness (χ^2 = 2.824, df = 1, p = 0.093). This confirms the assertion from the exploratory stage: there is a difference in perception of effectiveness in Social Firms. However, this statement is qualified by Board membership, rather than job title *per se*.

6.2.2 SAMPLE CHARACTERISTICS: ORGANISATION

The Social Firms in the survey represented a range of sizes and embodied a number of different characteristics. This is important because it aids further explanation later in the statistical analysis of the data. The Social Firms in this study have been established and serving their markets between two and nine years (70%, n = 26). This suggests that the sample comprised more 'fully recognised' (as opposed to emergent) Social Firms. The Social Firms in the sample are located throughout the UK. Their locations include England (57%, n = 21), Scotland (32%, n = 12), Wales (8%, n = 3) and Northern Ireland (3%, n = 1). This is generally a representation of the location of Social Firms throughout the UK, according to the Social Firms Mapping Study produced in 2005. The distribution of their membership is: England 80%, Scotland 12%, Wales 7% and Northern Ireland 4%. The response rate from Social Firms based in England is lower than expected (though a larger number of these are located here, in proportion to the total number of Social Firms). Of the 92 Social Firms based in

England in 2005, 21 responded to the questionnaire. This is a response rate of 23%. Conversely, the frequency of responses from Scotland was much higher than expected. The 2005 mapping shows 14 Social Firms based there. In this study, 12 Social Firms responded to the survey. This represents an 86% response for Scottish Social Firms. Response rates for Social Firms based in Wales and Northern Ireland closely correspond with the figures from the most recent Social Firms mapping exercise. A sizeable number of the sample achieve annual turnover of £100,000 or more (60%, n = 22), with 27% (n = 10) generating this revenue through trade, without the need for grants. The product and services they provide to achieve this are quite diverse. Manufacturing, recycling, distribution, retail and professional services represent the most frequent products and services offered by the Social Firms in the sample. The ultimate business goal for social enterprise is a situation where they are entirely self-financing without the need to apply for grants and other forms of equity to make up revenue. The majority of the sample (73%, n = 27) raise income through a mixture of trade and grants (though not less than 50% through trade):

Table 6.4 Frequency Table: Source of Income

	Frequency	Percent
Trading income	10	27
Mixture of trading and grant income	27	73
Total	37	100

Cross-tabulation shows the Social Firms that have been established for the longest period of time (10 years or more: 22%, n = 8), had a higher level of turnover compared to other Social Firms in the sample who have been established for fewer years:

Table 6.5 Cross-tabulation: Years in Operation vs. Annual Turnover

		Annual turnover			**Total**
		Less than £50,000	**£51,000 - £100,000**	**£100,000 or more**	
Years in operation	**Less than 1 year**	3	0	0	3
	2-5 years	3	2	9	14
	6-9 years	2	4	6	12
	10 years or longer	0	1	7	8
Total		8	7	22	37

The majority of Social Firms in the study employ both salaried and volunteer staff (65%, n = 24). Very few of the Firms in the sample employ volunteers alone (5%, n = 2), and the majority of the sample employ 50 staff or less (95%, n = 35). Of those organisations in the sample that produce turnover of £100,000 or more, 91% (n = 20) employee 50 staff or fewer:

Table 6.6 Cross-tabulation: Number of Staff Employed vs. Annual Turnover

		Annual turnover			Total
		Less than £50,000	£51,000 - £100,000	£100,000 or more	
Number of staff employed	Less than 10 staff	8	4	9	21
	11-50 staff	0	3	11	14
	51-100 staff	0	0	1	1
	100 or more staff	0	0	1	1
Total		8	7	22	37

Board size varies across the sample. The sample indicated that Board size fell into one of two categories. The most frequent response amongst the sample was 'one to five directors' (60%, n = 21), followed by 'six to ten directors' (37%, n = 13). Cross-tabulation of these findings with duration of director Tenure shows that 48% of Boards with up to six members in the study serve for longer than five years.

Table 6.7 Cross-tabulation number of Board members vs. Length of Tenure

		How long do Board members serve?			Total
		One year or less	2-5 Years	Longer than 5 Years	
Number of Board members	One to Five	2	7	6	15
	Six to Ten	3	2	8	13
	More Than Ten	0	0	1	1
Total		5	9	15	29

Further analysis of the number of Board members serving on the Board showed no relationship between this nominal category and perceptions of the Board's effectiveness ($\chi^2 = 1.944$, df = 1, p = 0.163).

Findings for the social audit question report that a large number of respondents do not partake in the social audit process (65%, n = 24). This is in contrast to the rhetoric from the third sector and indications from the appropriate literature. The social audit is seen as integral to social enterprise, so it is in some ways surprising that so many in this study do not partake in it. There may be a number of reasons for the frequency of negative responses. These could include strain on resources, failure to see benefit of the process, that the respondent is unaware of what this process entails or is not in a position to know (especially where the respondents are managers without Board membership). Inferential analysis shows that annual turnover ($\chi^2 = 0.36$, df = 1, p = 0.850), years in operation ($\chi^2 = 0.0001$, df = 1, p = 0.985), number of Board members ($\chi^2 = 0.199$, df = 1, p = 0.656) and perceptions of director effectiveness have no relationship to whether the Social Firm conducts a social audit.

A majority of the sample reported that the ultimate decision making authority in their organisation lay with the Board of trustees (70%, n = 26). The alternative options provided drew a smaller frequency of responses. In light of their perceived effectiveness, cross-tabulation shows that respondents were evenly spread between those who perceived the key decision-making group as effective. For example, marginally more respondents believed that the Board of trustees was more effective than thought not (58% vs. 42%). The other categories contained very few responses (less than two), so any meaningful inferences cannot be made reliably. It should be noted that both Chief Executive (50 %,) and those with Alternative Arrangements (60%) had mixed feelings over Board effectiveness. The questionnaire included an open-ended question after Q13 (Ultimate Decision Making Authority) for respondents to add any supplementary comments regarding their previous answers. These comments, where present (27% of responses, n = 10) were quite insightful. For example, one respondent claimed that the Board of trustees was the *notional* body of authority, whereas in practice it was a Board of directors. This is interesting because it elucidates the pragmatic nature of the Social Firm. Either by design or through necessity, power is handed to directors who are perceived to be more 'in-touch' with the requirements of governing the organisation. It is a common perception in the social enterprise sector that Boards (particularly the Board of trustees) do not pro-actively govern these organisations. This resonates with the findings from the exploratory interviews, that managers often feel alienated from Boards who do not understand the management requirements of a growing organisation. Those organisations that responded to the 'Alternative Arrangements' option (14%, n = 5), indicated that a Volunteer Board of directors or steering group had the ultimate authority in their Social Firms. Inferential analysis shows no relationship between ultimate decision making authority and perceptions of the effectiveness of the Board ($\chi^2 = 1.13$, df = 1, p = 0.736). This is interesting because it signifies that the assumed manager / director difference in perception is actually determined on the basis of Board membership. This could imply that those directors / managers without Board membership perceive director Effectiveness differently to Board members, or that managers allowed access to the Board have negative perceptions of the Board.

This descriptive analysis has proven to be a useful method of describing the presence of relationships present in the nominal data collected. It details the salient governance characteristics of Social Firms in the sample, and presents a general perspective of what these organisations are like. The Social Firms in the sample provide a range of products and services, and their revenue has a tendency towards £50,000 and above. As is consistent with the Social Firms UK 2005 Mapping Report, Social Firms tend to deliver niche products and services. Also the sample shows that the location of Social Firms in the UK is predominantly in England and Scotland, with smaller number in Wales and Northern Ireland. In general, they employ a mixture of salaried and volunteer staff, and largely do not partake in the social audit process. With some exceptions, the Social Firms have a Board of directors comprised of trustees, ranging in size from one to nine members. Typically, Board members serve for a minimum of two years, but this is likely to be longer. It might be normal for the trustees to serve in a representative or oversight function, with executive directors / managers responsible for hands-on governance on a day-to-day basis. Inferential analysis showed that, generally, relationships did not exist between the nominal categories and perceptions of the Board's effectiveness. However, one category (Board membership), did show a relationship with Board effectiveness.

As the next section will explore in a more robust fashion, managers and directors view the effectiveness of Social Firms Boards quite differently. From the descriptive analysis, managers in the sample are divided regarding the perceived effectiveness of the Board of directors. Conversely, directors almost overwhelmingly support the Board in perceiving it as effective. At this point, it is now that we turn to an examination of the characteristics of the Likert statement data. Furthermore, statistical testing for significance of difference and association of these nominal categories of the Likert responses is reported in the following sections.

6.3 LIKERT STATEMENT MEANS

This section examines the responses to the Likert statements in-depth. The means for the Likert statements are broken down into the order each statement appeared on the questionnaire. The statements have been delineated by variable, and will be discussed in turn.

Table 6.8 Transparency Statement Means

Transparency Statements	**N**	**Mean**
1. Board clearly understands needs of stakeholders.	37	3.8
2. Transparent Board decisions indicate Social Firm run properly.	37	4.2

3. The more transparent our organisation, the better we will perform.	37	4.1
4. Democratic election of directors is more important than business skills.	37	3.1
5. Performance results are disseminated to all staff by the Board.	37	3.4
6. Staff members are represented at Board meetings.	37	3.6
7. Board member elections are democratic and externally scrutinised.	37	3.6
8. directors consult range of stakeholders before making important decisions.	37	3.9
9. Independent directors likely to improve Board effectiveness.	37	4.1

Statements One to Nine refer to the transparency statements include in the exploratory questionnaire. The mean responses from the sample present interesting findings. In general terms, the sample showed a tendency towards agreement with the premises of transparency statements (numbers 1 – 3, 6 – 9). Statements 6 and 7 showed a weaker tendency towards agreement than the other statements; whilst statements 4 and 5 presented a tendency towards the mid-point of the attitude scale (neutral).

Attitudes towards the Board understanding the needs of stakeholders showed a general trend towards agreement that the Board in fact does understand the needs of key groups. The sample showed agreement toward the importance of transparency as a signifier of a properly run Social Firm. Also, they concurred with the asserted link between transparency and improved performance. Further agreement was observed in relation to the presence of consultation as an element of Board decision-making, and also that the introduction of independent directors would improve the effectiveness of the Board.

Issues such as staff representation at Board meetings and the external scrutiny over Board elections presented a weak tendency toward agreement within the sample. Furthermore, the sample showed a stronger neutral tendency on the primacy of democracy in the Social Firm.

Table 6.9 Accountability Statement Means

Accountability Statements	**N**		**Mean**
	Valid	Missing	
10. directors meet ethical standards.	36	1	4.3
11. directors monitor staff to maintain ethical standards.	37	0	3.6
12. Trust is important in Board effectiveness.	37	0	4.2
13. directors should monitor job role and performance.	36	1	4.4

14. The process of auditing can improve our performance.	37	0	4.1
15. Social enterprises should have better ethical performance than expected of for-profits.	37	0	3.3
16. Frequent review of directors would improve control and performance.	37	0	3.8
17. Important that Board informs stakeholders about performance.	37	0	4.2
18. Board significantly influences how I do my job.	36	1	4.0
19. Board promotes professional standards to improve the standard of work.	37	0	3.7
20. Ensuring Board accountability is key aspect of good governance.	37	0	4.4
21. Paying directors a competitive salary would improve their performance.	37	0	3.3
22. Board change if not competitive.	37	0	3.4
23. Importance of proper procedure.	37	0	3.4

The responses to the accountability statements showed more variety in the range of tendencies within the sample. There was a strong tendency towards agreement for several of the statements (10, 12 – 14, 17, 18 and 20). A weak tendency towards agreement was shown in statements 11, 16 and 19. The remaining statements showed a tendency towards the neutral mid-point of the scale (statements 15, 21 – 23).

The means in the above table show that respondents agreed with the premise of several statements, principally that directors meet the ethical standards inferred upon them in their role. Respondents agreed that trust is an important factor in ensuring Board effectiveness and that Board accountability is a central facet of good governance. Furthermore, the sample mean indicates that the Board should disseminate performance related information to key stakeholders. The sample agreed that the Board is influential in the performance of roles undertaken by Social Firm employees, and that the Board *should* monitor the performance of staff. The sample of respondents agreed that auditing plays a part in improving Social Firm performance.

Respondents were less in accord over the issue of Board member financial remuneration and improvement in their performance. Finally, there was an indication of uncertainty in the sample relating to the expected ethicality of social enterprises compared with 'for-profit' corporations.

Table 6.10 Sustainability Statement Means

Sustainability Statements	N		Mean
	Valid	Missing	
24. Sustainability as part of strategic direction.	37	0	4.2
25. directors have promoted awareness of business strategy of Social Firm.	37	0	3.8
26. Board provides strategic direction to better serve stakeholders.	37	0	3.9
27. directors maintain balance between business and social objectives.	37	0	4.1
28. Board are supportive.	36	1	3.6
29. Board understands how manager adds value.	36	1	3.5
30. directors should ensure the Social Firm is efficient to compete in chosen markets.	37	0	3.8
31. Board has clear vision of how to sustain stakeholder benefit.	37	0	3.8
32. Board has range of skills to sustain social benefit we deliver.	37	0	3.9
33. Sustainability is a key long term objective of this firm.	37	0	4.3
34. Important that our Social Firm performs well compared to our competitors.	37	0	4.4

35. My organisation is successful at meeting the needs of its customers.	37	0	4.2
36. directors communicate distinct ethical approach as a competitive advantage.	37	0	3.8
37. Transparency and accountability affect sustainability.	37	0	4.1

For the set of sustainability related statements, the sample showed less variety in the range of means, with a general tendency towards agreement on the majority of statements (statements 24 – 27, 30 – 37). The two exceptions to the emergent theme were statements 29 and 30. Generally, respondents felt that sustainability was a key element of Social Firm strategy, and directors have made clear their strategic vision to staff. Furthermore, respondents agreed that the directors can deliver more value to stakeholders as a result of the strategic direction adopted. directors maintain an appropriate balance between business-focus and social objectives set for the Social Firm. The sample indicated agreement that a key part of the director's role is to ensure that the Social Firm is competitive in its chosen markets. Also, the sample agreed that the Social Firms in the sample are successful in meeting the needs of their customers. Agreement was less clear in terms of the Board being supportive of staff, and understanding how managers add to stakeholder benefit through service delivery.

Table 6.11 Legitimacy Statement Means

Legitimacy Statements	N		Mean
	Valid	Missing	
38. Reconciling business and social objectives is important task for the Board.	37	0	4.1
39. Staying true to our mission is central to future success.	37	0	3.5
40. Board acts in a way that is faithful to our guiding values.	37	0	3.6
41. Social Firm has strong set of values allowing us to fulfil obligations to stakeholders.	37	0	4.1
42. Success is how well we serve our stakeholders, rather than by business performance.	37	0	3.4
43. Board acts "as done in the past".	37	0	2.9
44. Empathy with our stakeholders makes it more likely that governance will be run in their interests.	36	1	4.1
45. Our work is worthwhile only if we see real benefit to our stakeholders as a result of it.	37	0	4.2

The final set of Likert statement means pertain to perceptions of legitimacy and the link therein with the defined constructs of transparency, accountability and sustainability. There is a range of means derived from the responses of the sample. The act of balancing social and business objectives is agreed to be a key task of the Board. Also, it was agreed within the sample that empathy with key stakeholder beneficiaries is central to the strategic direction of the Social Firm.

Finally, agreement was met relating to the legitimate focus of the Social Firm. Legitimate claims of the 'success' of operations are couched in terms of how much benefit is received by defined stakeholders. Yet there is a discrepancy in agreement over the role of guiding values in the Social Firm. The sample shows less agreement over the role of guiding values as a means to future success. Furthermore, respondents indicated a lack of agreement on the issue of the Board acting concordantly with the set of values that focus the Social Firm on the needs of the key beneficiaries of its activity. The range of responses to the premise that the Board's activities are rooted in the cultural-cognitive and 'accepted' environment tended towards disagreement (statement 43).

6.3.1 NORMALITY OF DISTRIBUTION

The first stage of statistical analysis examines the normality of the data set. As is clear from the table below, the one sample Kolmogorov-Smirnov Z test reports a set of scores for each of the variables used in the exploratory study. The grouped variables each report a Z score > 0.05. This indicates that the data is from a normal distribution and reduces the likelihood of multicollinearity in the multiple regression analyses. In turn, this allows progression on to further analysis of the data set using the identified methods of independent t-tests and ANOVA.

Table 6.12 Normality of Distribution

	Transparency statements	Accountability statements	Sustainability statements	Legitimacy statements
N	37	35	35	37
Mean	18.216	15.686	35.000	10.676
Kolmogorov-Smirnov Z	**.613**	**.765**	**.984**	**.814**
Asymp. Sig. (2-tailed)	.846	.601	.288	.522

a Test distribution is Normal.
B Calculated from data.

6.3.2 RELIABILITY ANALYSIS

The data set was analysed for reliability using established statistical techniques. As a means of assuring certainty of the score, a number of tests were used. The Cronbach 'Alpha' reliability test is a common method for ascertaining reliability of a set of scales (Cronbach, 1951). The output for these tests is shown in the table below:

Table 6.13 Internal Consistency Results

Reliability Test	Score
Cronbach Alpha	0.888
Guttman Split-Half Coefficient	0.794
Parallel	0.895
Strict Parallel	0.884

The above table exemplifies that the data set is internally consistent. As observed, the scores above indicate that the scales developed are internally consistent and reliable as a basis for further inferential statistical analysis. Individual tests for the scales measuring the predictor variables are shown below:

Table 6.14 Individual Predictor Variable Reliability Scores

Independent Variable	Cronbach's Alpha
Transparency	0.815
Accountability	0.752
Sustainability	0.679

The above output shows a range of reliability scores. However, mindful of Schmitt (1996), it should be noted that the Cronbach's Alpha score is limited in its common use as a guide of homogeneity and unidimensionality. Further, the purported unreliability of a scale with a score less than 0.7 is questionable, and an Alpha score of less than 0.5 does not necessarily infer that the scale lacks validity. Therefore, the presence of lower scores does not mean that we preclude these scales from the next stage of analysis. Yet, it does infer that the measures in this exploratory study are in need of refining to ensure that they can be seen to measure the identified constructs in a consistent, reliable way. This is particularly so for the measure of sustainability, and as such further work should seek to improve upon this construct as a reliable measure.

6.4 STATISTICAL TESTS

The following subsections outline the findings from the statistical analysis of the quantitative data. All tests were conducted using a minimum 0.05 level of significance. In some instances, this level was insufficient and further levels (0.01 and 0.001) were adopted as required. All tests are two-tailed, unless otherwise stated.

6.4.1 MULTIPLE (STEPWISE) REGRESSION TESTS

A number of multiple regression tests were used to interrogate the data. Principally, these tests were used to establish the nature of associations between the variables defined in this study. In order, regression analysis was performed on the identified predictor variables to ascertain the nature of association between them. This will enable further inferential analysis of any identified relationships. Finally, a regression is performed using the three predictor variables and DV in the study. The significant statistical output is presented in tabulation, together with summation of the findings for each test.

6.4.2 TRANSPARENCY AND ACCOUNTABILITY

The regression test below tests for association between two of the variables identified in the study. The tables below report the key statistical output for this test:

Table 6.15 Transparency and Accountability Regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	107.351	1	107.351	14.749	.001(a)
	Residual	240.192	33	7.279		
	Total	347.543	34			

a Predictors: (Constant), Transparency statements
b Dependent Variable: Accountability statements

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.556(a)	.309	.288	2.69788

a Predictors: (Constant), Transparency statements

As we can see from the test output, the adjusted R square = 0.288, $F_{1, 33} = 14.7$, $p < 0.001$ (using the stepwise method). This infers a weak association between the two independent variables of transparency and accountability. This result is very significant, reporting a p value of 0.001. In this study, there is a relatively weak model present.

6.4.3 ACCOUNTABILITY AND SUSTAINABILITY

The second part of this series of regression examines the presence of association between the variables accountability and sustainability.

Table 6.16 Accountability and Sustainability Regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	334.816	1	334.816	43.568	.000(a)
	Residual	245.919	32	7.685		
	Total	580.735	33			

a Predictors: (Constant), Accountability statements
b Dependent Variable: Sustainability statements

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.759(a)	.577	.563	2.77218

a Predictors: (Constant), Accountability statements

The tests presents an adjusted R square = 0.563, $F_{1, 32} = 43.568$, $p < 0.0001$ (using the stepwise method). This shows that there is a clear association between accountability and sustainability in the model.

The final multiple regression tests intended to establish whether there is a link between the identified predictor variables and DV. The presence of any link between the predictor variables and DV would indicate that legitimacy (DV) is associated with one or more of the predictor variables. A series of multiple regressions were executed. The output from the multiple regressions is provided below:

Table 6.17 Multiple (stepwise) Regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	46.130	1	46.130	14.453	.001(a)
	Residual	102.135	32	3.192		
	Total	148.265	33			

a Predictors: (Constant), Accountability composite
b Dependent Variable: Legitimacy composite

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.558(a)	.311	.290	1.78654

a Predictors: (Constant), Accountability composite

Adjusted R square = 0.290; $F_{1,32} = 14.5$, $p < 0.001$ (using the stepwise method). The stepwise regression presents a weak model of association between the predictor variables (Accountability) and the DV (Legitimacy). The test revealed no association between two of the predictor variables, transparency and sustainability, with the DV legitimacy.

The outcomes of the multiple regression tests offer general support for Proposition 20. This is interesting, because it goes some way in confirming the assumed link between accountability and legitimacy in governance. As efforts to enhance the accountability of internal actors increases, it is likely (though not certain according to this model) that legitimacy is directly proportional to it. What is clear is an association between these two concepts, and that efforts to enhance legitimacy to defined groups should be built around improved levels of accountability.

6.4.4 INDEPENDENT T-TESTS

The independent t-tests were conducted to test for significant relationships between nominal categories and the Likert statement responses. A total of seven independent t-tests were successfully completed. The significant results and brief explanation of these findings are discussed in turn below. The further implications of these findings, and discussion of the effect of them on the Propositions outlined in Chapters 2, are discussed in Chapter 7.

6.4.4.1 JOB TITLE

The statistical test showed that job role of participants was significant for perceptions of the Board promoting professional standards. The table below shows the data output for the two significant statements:

Table 6.18 Independent t-test: Job Title

Statement		**F**	**Sig.**	**t**	**df**	**Sig. (2-tailed)**
19. Board promotes professional standards to improve the standard of work	Equal variances assumed	5.376	**.026**	-2.235	35	.032
	Equal variances not assumed			-2.321	35	**.026**

The above test can be summarised thus: As Levene's $p < 0.05$, equal variances are not assumed. Therefore $t = -2.321$, $df = 35$, $p = 0.026$. We reject the null hypothesis at the 0.05 level. There was a significant difference between job title and perceptions of the Board promoting professional standards throughout the organisation.

From the exploratory interviews, it might be expected that job role would present a range of differences. The findings from these interviews indicated that Boards may lack support from managers, who do not believe that the Board is equipped to deliver strategic direction for the social enterprise. It is expected of the director's role to 'lead by example', to set and ensure professional standards through the organisation. For social enterprises, as the sector matures, some predict evolution towards 'professionalisation'. Thus, the gradual move towards these standards is contingent upon effective leadership at Board level to embed them. The findings in this study indicate disharmony of opinion between manager and directors in this aspect of the Board's role.

6.4.4.2 BOARD MEMBERSHIP

This series of tests investigated the presence of any significance between Board membership and perceptions of Social Firm governance. In total, five significant relationships were located in the data set. The table below provides a summary of the key findings, with explanation following:

Table 6.19 Independent t-test: Board Membership

Statements		F	Sig.	t	df	Sig. (2-tailed)
5. Performance results are disseminated to all staff by the Board	Equal variances assumed	.343	**.562**	2.125	35	**.041**
6. Staff members are represented at Board meetings	Equal variances assumed	.993	**.326**	2.503	35	**.017**
27. directors maintain balance between business and social objectives	Equal variances assumed	.267	**.609**	2.788	35	**.009**
31. Board has clear vision of how to sustain stakeholder benefit	Equal variances assumed	15.493	**.000**	2.530	35	.016
	Equal variances not assumed			2.907	29.878	**.007**
34. Important that our Social Firm performs well compared to our competitors	Equal variances assumed	.475	**.495**	-2.308	35	**.027**

Test One presents an output as follows: As Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 2.125$, $df = 35$, $p = 0.041$. Thus, we reject the null hypothesis at the 0.05 level. There was a significant difference between Board membership of respondents, and perceptions of performance dissemination to all staff by the Board of directors. The dissemination of information by the Board to staff is considered a key part of their role. As an overt representation of transparency, the Board should make all information related to the organisation's performance clear to all affected stakeholders. This finding would be a cause for concern because a lack of commitment to full transparency by the Board is a move away from the tenets of good governance practice. Staff play a key role in the delivery of social benefit to stakeholders, and often have a personal interest in assuring the maximisation of benefit to these groups. Therefore, access to such information would provide staff with an awareness of how effective they are (and the Social Firm is) at meeting its business and social objectives. Without that information they are likely to lack any idea of the impact (and benefit) to their stakeholders they make. For example, this would typically be shown through a set of Social Accounts, or Social Return on Investment (SROI). If such exercises are conducted at all, then there is a significant indication in this study that these findings are not disseminated fully to all staff.

In a similar vein to the above findings, Test Two output shows a significant difference involving staff members. As Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 2.503$, $df = 35$, $p = 0.017$. Thus, we reject the null hypothesis at the 0.05 level. There was a significant difference between Board membership or respondents and perceptions of staff representation at Board meetings. As we have seen from earlier descriptions of social enterprises, these organisations are said to promote an ethical business agenda, and to place democracy, transparency and accountability (for example) at the forefront of their business model. Therefore, it is assumed that social enterprise governance is democratic and inclusive. These findings indicate that this is not the case for Social Firms. Non-Board members, whether managers or directors, are excluded from the Board. Such inclusion is seen as a good governance practice, because it 'opens' up the governance process to other interested (and influential) parties. It is seen to build trust between a range of staff / stakeholders, and contribute to a consultative approach to the process of governance. Where this is absent, or seen to be unnecessary, an issue arises over the actual effectiveness or appropriateness of such inclusion for these organisations.

The third set of findings focuses on perceptions of directors' ability to balance conflicting objectives. The test output shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 2.788$, $df = 35$, $p = 0.009$. Thus, we reject the null hypothesis at the 0.01 level. There was a significant difference between Board membership of respondents and perceptions of directors ability to balance business and social objectives. Social enterprises are defined by the reconciliation of business and social objectives. Clearly, the Board of directors should be integral to ensuring the necessary (and appropriate) balance. In this instance, analysis shows that there is a discrepancy over the directors' ability to deliver this equilibrium. The normative position here is that social objectives are the priority, followed by business objectives. Without the achievement of social objectives, the legitimacy of the Social Firm is open to question. These findings can be interpreted as a sign of 'no confidence' in the ability of directors to ensure the future legitimacy of the organisation through effective (ethical) governance. Alternatively, this may be recognition of the latent skills gap at Board level in Social Firms. As social enterprises professionalise, Board members may be finding they lack the required range of skills to ease this transition. As identified in the exploratory study, directors' are often viewed by managers as a constraint rather than as a source of leadership and strategic direction. This reinforces the view that directors who serve on Social Firm Boards (often voluntarily), require proper skills support and training to deliver effectively in their roles. In particular, maintaining the appropriate balance between business and social objectives.

Test Four pertains to the aptitude of directors to sustain social benefit to stakeholders. The test shows that as Levene's $p < 0.05$, equal variances are not assumed. Therefore $t = 2.907$, $df = 29.878$, $p = 0.007$. Thus, we reject the null hypothesis at the 0.01 level. There was a significant difference between Board membership of respondents and perceptions of the Board's vision for sustaining social benefit. Thus, there is an issue here relating to the apparent lack of trust that non-Board members have in the existing Board to achieve a sustainable future for the enterprise, and the cause that it intends to serve. This could have arisen as a result of a breakdown in communication and openness by the Board to the rest of the organisation. Alternatively, this could be caused by a poor return on social investment by the Social Firm. In either case, the Board of directors / trustees carry the responsibility for safeguarding the future productivity of the

Social Firm. There may be an implicit link here with the prior discussion, that there is a skills gap for the Board that is not being sufficiently filled. Hence non-Board members do not foresee how the current Board can possibly ensure future success without some set of changes at that level of the organisation.

The fifth and final independent t-test for this section looks into the degree of business orientation of the Social Firm. Levene's $p > 0.05$, thus equal variances are assumed. Therefore $t = -2.308$, $df = 35$, $p = 0.027$. There was a significant difference between Board membership of respondents and perceptions of the importance of performance versus competitors. This result presents an interesting perspective of the tension between the social / business dichotomy of the Social Firm. Clearly, one group perceives this as a central element of growing the Social Firm and delivering performance improvements. The alternative view is that the business performance of the Social Firm less important than other factors, such as focussing on benefit to stakeholders rather than growing revenue. Hence, another dichotomy emerges in this view of the Social Firm; a clear split between those that believe in the business-function of the organisation contrasting the social benefit orientation of their constitution. The Board's role here is to ensure that the Social Firm operates as a viable business, and to do so it must become competitive in its chosen markets. According to this result, part of this role should also be to embed competitive awareness as a feature of the institutional environment.

6.4.4.3 BUDGET RESPONSIBILITY

The significant themes from this series of tests showed differences in perceptions of democracy, expected ethical and business performance and the role of guiding values in the Social Firm. These differences were determined on the basis of whether respondents held a position involving budgetary responsibility.

Table 6.20 Independent t-test: Budget Responsibility

Statements		F	Sig.	t	df	Sig. (2-tailed)
7. Board member elections are democratic and externally scrutinised	Equal variances assumed	10.705	**.002**	-.699	35	.489
	Equal variances not assumed			-2.385	33.000	**.023**
12. Trust is important in Board effectiveness	Equal variances assumed	.053	**.819**	2.736	35	**.010**
15. Social enterprises should have better ethical performance than expected of for-profits	Equal variances assumed	9.135	**.005**	1.787	35	.083
	Equal variances not assumed			6.093	33.000	**.000**
22. Board change if not competitive	Equal variances assumed	2.043	**.162**	-2.139	35	**.039**

29. Board understands how manager adds value	Equal variances assumed	.716	**.403**	2.161	34	**.038**
40. Board acts in a way that is faithful to our guiding values	Equal variances assumed	.111	**.741**	2.318	35	**.026**

The first test focuses upon transparency and democracy of Board elections. As Levene's $p < 0.05$, equal variances are not assumed. Therefore, $t = -2.385$, $df = 33$, $p = 0.023$. There is a significant difference between respondent's budgetary responsibility and perceptions of the democratic nature and transparency of Board member elections. The supposition here is that budget holders, be they managers or Board members, have different views of the democratic nature of these organisations. If this role has political capital in the organisation, these individual holders of power and control over assets are likely to have better access to Boards than non-budget holders (Levine and Hyde, 1977). This is due to the need to audit and hold budget holders accountable for their activities. This 'access' will expose the budget holder to the actual working of the Board, hence possibly informing their perceptions of how democratic the organisation is. Also, if budget holding is a Board-level responsibility only, the significant difference could simply be the result of directors / trustees continuing to be re-elected on the basis of their experience and prior success. Thus, non-budget holders (i.e. non-Board members) might perceive a link between the powers held by existing directors as influential on the length of tenure.

Secondly, trust in the Board is analysed. The test shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = 2.736$, $df = 35$, $p = 0.01$. Thus, we reject the null hypothesis at the 0.01 level. There is a significant difference between respondent's budgetary responsibility and perceptions of trust as an important factor in the effectiveness of the Board. This outcome could signify that budget holders, being subjected to regular auditing, could perceive 'trust' as an absent variable in Social Firm governance. As prior research has shown, trust is not always possible when faced with self-serving behaviour of internal actors in a number of different organisations, and 'trust' is a dynamic concept (Alexander and Weiner, 1998, Child and Rodrigues, 2004, Farber, 2005, Forbes and Milliken, 1999, Steane and Christie, 2001). Therefore, the most valuable interpretation of this outcome is to prompt further study of the role of budget holders and the replacement of a bond of trust between internal actors, with the mechanisms of financial accountability.

The assertion that social enterprises are more ethical than for-profit organisation is the next statement under consideration. As Levene's $p < 0.05$, equal variances are not assumed. Therefore, $t = 6.093$, $df = 33$, $p = 0.0001$. Thus, we reject the null hypothesis at the 0.0001 level. There is a significant difference between respondent's budgetary responsibility and perceptions of social enterprises having better ethical performance than for-profit organisations. Once more, we can see that the role of budget holder appears a critical one when it comes to examining the constituent elements of a Social Firm. In analysis of this outcome, we can infer that the perception of ethical behaviour and judgment is jeopardised. Non-budget holders could view the budget holders in their organisations as unethical through perceived or actual malpractice, a lack of trust in key individuals or in the process of accountability itself. Alternatively, budget holders may view the process to which they are audited are less than robust and this reflects poorly on the role that the Board has.

Next, the issue of Board responsibility for organisation performance is considered. As Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = -2.139$, $df = 35$, $p = 0.039$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between respondent's budgetary responsibility and belief that Board member changes are required if the Social Firm is not competitive in its chosen markets. This outcome could reflect the expectation of budget holders (if also serving as Board members) that they should be able to demonstrate how their decisions have impacted on organisation performance. Likewise, non-budget holders may perceive this differently: that budget holders should be judged on social performance rather than business performance. The study certainly suggests that the Social Firms in the sample are still seeking the best balance between these two objectives.

The penultimate test in this series analyses the importance of the Board understanding the value of staff. As Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = 2.161$, $df = 34$, $p = 0.038$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between respondent's budgetary responsibility and perceptions of the Board understanding how managers add value. Once more, interpretation of the 'budget holder' is contingent on the level of position held by the individual: be they Board level or otherwise. From the perspective of the Board-level budget holder, they may perceive themselves as having knowledge of managerial added-value. This would place them at odds with perceptions of non-Board members who do not feel that their contributions to the Social Firm are sufficiently appreciated by the Board. This is a critical issue because it is necessary to understand the components of added-value to properly account for budget-related decisions. Hence this provokes the view that budget-holders cannot be fully transparent or accountable if they do not have sufficient knowledge of added-value activity. Furthermore, it portrays these individuals as dislocated from managers and other staff, unaware of the specific deeds that improve service delivery and social benefit creation.

Finally, we examine the perceptions of the Board being guided by the distinctive set of social values that apply to the Social Firm. The test shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = 2.318$, $df = 35$, $p = 0.026$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between respondent's budgetary responsibility and perceptions of the Board remaining to be guided by the social values that drive the Social Firm. This could reflect that staff with budget holding responsibility are aware of heightened pressure from the Board to exhibit transparency and accountability throughout the organisation. Alternatively, this pressure may be the result of a drive for greater efficiencies for budget allocation and spending. Whether this spending is targeted for organisation growth or social benefit, this is a pressing issue for small and medium sized enterprises. In the event that there is a duty held by the Board to funding bodies, they need to be able to show that the funding is properly apportioned and, for example, delivers on service-level agreements. The study indicates a degree of disaffection on behalf of non-Board members – the result of the implementation of measures to ensure that the organisation is transparent and accountable to a number of different stakeholders. This presents implications for the nature of governance and the difficult task the Board has in dealing with a variety of pressures, from within (managers and staff) and externally (primary beneficiaries, funding bodies). Further discussion of these pressures and its affect on governance structures can be found in Chapter 7.

6.4.4.4 MAIN SOURCE OF INCOME

This test focused on the source of income for Social Firms, and perceptions of the DV and predictor variables. The table below outlines the key statistical information:

Table 6.21 Independent t-test: Main Source of Income

Statement		F	Sig.	t	df	Sig. (2-tailed)
32. Board has range of skills to sustain social benefit we deliver	Equal variances assumed	1.472	.233	-2.428	35	.020

For the Source of Income category, only one test showed a significant amongst the sample. The output of the test showed that as Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = -2.428$, $df = 35$, $p = 0.02$. There was a significant difference between source of Social Firm income and perceptions of the Board's abilities to sustain the delivery of social benefit. Social Firms who are 'self-funded' through earned revenues have different perceptions of the Board's abilities to deliver sustainable social benefit than those who are maintained through a mixture of trade and grants. Social Firms that have become self-sustaining through business performance would appear to be better placed to deliver (sustainable) social benefit in the long-term. If business and social performance are not mutually exclusive, this scenario might bear out. Yet it could be the case that managers of these organisations feel that the Board of directors does not orientate the Social Firm to its social obligations sufficiently enough. Therefore, focusing too closely on performance delivery where business and social performance *is* mutually exclusive. Secondly, the converse scenario might prevail. Social Firms that are (and perhaps intend to be) grant dependent do have a capable skill set at Board level to deliver sustainable social benefit due to their apparent focus on objectives other than business success. In either case, these findings show that Boards skills and abilities are likely to be perceived differently according to the actual source and balance of revenues / grants that they receive.

6.4.4.5 NUMBER OF BOARD MEMBERS

This test examined the key relationships between the number of Board members and perceptions of the DV and predictor variables. Four key themes emerged as a result: Trust and Board effectiveness; the promotion of business strategy; the link between transparency, accountability and sustainability, and the influence of stakeholder empathy upon governance. A table of relevant output is provided below:

Table 6.22 Independent t-test: Number of Board Members

Statements		F	Sig.	t	df	Sig. (2-tailed)
12. Trust is important in Board effectiveness	Equal variances assumed	1.563	.220	2.127	32	**.041**
25. directors have promoted awareness of business strategy of Social Firm	Equal variances assumed	3.169	.085	-3.114	32	**.004**

37. Transparency and accountability affect sustainability	Equal variances assumed	.005	.946	-2.177	32	**.037**
44. Empathy with our stakeholders makes it more likely that governance will be run in their interests	Equal variances assumed	.368	.548	-2.437	32	**.021**

The first test focuses on the importance of trust as a determinant of Board effectiveness. The test shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = 2.127$, $df = 32$, $p = 0.41$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between the number of Board members and perceptions of trust as an important feature of Board effectiveness. This is interesting because it indicates a clear disparity between the size of Boards and the value of trust in governance. Trust may be lacking where managers have taken on the responsibility of running the organisation in the absence of Board leadership. Therefore, it is not important to trust the Board where they offer very little instrumental value to the way that managers run the organisation. Alternatively, where larger Boards are present (and possibly in newer or smaller Social Firms), trust may be important because managers need the guidance and support to enable them to fulfil their roles properly. This may well be the case if the Board is responsible for the management of a grant received from a funding body. To summarise, trust may be less important (or at least a less pressing issue) for well established Social Firms, as it might be for newer organisations where Boards have a fiduciary duty to stakeholders for appropriate use of grants.

The second test examines the promotion of a business strategy by the Board. The test shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = -3.114$, $df = 32$, $p = 0.004$. Thus, we reject the null hypothesis at the 0.005 level. There is a very significant difference between the number of Board members and perceptions of how effectively the Board has promoted an awareness of business strategy throughout the Social Firm. We can infer from this test that smaller Boards are significantly different to larger Boards in the way they have promoted a business strategy. It is possible that smaller Boards have better control over how they communicate with staff and may be more responsive to business and social challenges than a larger Board.

Next, we consider the significance of perceptions towards the three predictor variables used in the study, transparency, accountability (and the link with) sustainability. As Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = -2.177$, $df = 32$, $p = 0.037$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between the number of Board members and perceptions of transparency and accountability affecting sustainability. Further examination of the possible causes for this difference may also be linked with the first test in this series: the conditions under which trust is not a key feature of Board effectiveness.

Finally, we consider the influence of stakeholder empathy on Board decision-making. The test shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = -2.437$, $df = 32$, $p = 0.021$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between the number of Board members and perceptions of stakeholder empathy influencing governance practice. Where Board size is larger, there may be a greater degree of Board-level stakeholder representation. In this instance, it is highly likely that the influence of stakeholder empathy will significantly differ from smaller-sized Boards or Boards with no stakeholder representation at all. Further work is required to test the significance of Boards with a high degree of stakeholder representation and consultation, and business performance. In this study, there is insufficient data to properly analyse this relationship.

6.4.4.6 SOCIAL AUDIT

The social audit is considered to be an aspect of good practice for social enterprises (as well as other types of organisations). Independent t-tests found some significant differences within the sample, where respondents indicated whether their Social Firm did, or did not partake in the social audit process.

Table 6.23 Independent t-test: Social Audit

Statements		F	Sig.	t	df	Sig. (2-tailed)
7. Board member elections are democratic and externally scrutinised	Equal variances assumed	.009	**.927**	3.524	35	**.001**
18. Board significantly influences how I do my job	Equal variances assumed	3.257	**.080**	2.204	34	**.034**
20. Ensuring Board accountability is key aspect of good governance	Equal variances assumed	.292	**.592**	3.334	35	**.002**
27. directors maintain balance between business and social objectives	Equal variances assumed	1.532	**.224**	2.460	35	**.019**

Firstly, perceptions of the democracy of Board member elections were analysed. As Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = 3.524$, $df = 35$, $p = 0.01$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between the presence of a social audit, and perceptions of the democracy and transparency of Board member elections. The social audit is the main aspect of accountability 'in practice' for many organisations. The findings above show that there are different perceptions of the transparency of Board elections and the presence of a social audit in the institutional framework of the Social Firm. Those Social Firms that do not partake in the social audit process perceive the transparency of Board member elections very differently to those that do. It can be asserted here that the absence of a social audit reflects poorly on the Board for not ensuring their activities can be seen to be transparent, or be held openly accountable by stakeholders. Clearly, those organisations that do not perform any type of social audit may well lack the appropriate levels of external scrutiny (which are a feature of any form of social audit) to Board processes such as the elections of Board members.

This test focused on perceptions of the Board having influence over how the respondents perform their job role. As Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = 2.204$, $df = 34$, $p = 0.034$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between the presence of a social audit, and perceptions of whether the Board significantly influences how respondents conduct their roles. Certainly, if no social audit is carried out on an annual basis, there is likely to be little information available (or disseminated) to staff to gauge how Board decisions may have influenced their performance. Information such as stakeholder feedback, environmental impact and business performance, is indicative of how staff have contributed. The absence of this information signifies another reason why staff perceives the Board as ineffective, in its apparent lack of will to be held accountable to key stakeholders (who may also be staff in the Social Firm model).

Test three examined the perceptions of Board accountability as part of good governance practice. As Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = 3.334$, $df = 35$, $p = 0.02$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between the presence of a social audit, and perceptions of accountability as a key aspect of good governance. This result is perhaps unsurprising. Those Social Firms that do conduct a social audit are likely to see the value of accountability in the specific context of Board practice and good governance. Therefore we can reliably assert that the social audit is utilised as a method of ensuring the accountability of Boards in Social Firms. However, it is difficult to claim that the reverse is true of Social Firms that do not utilise the social audit. There may well be contingency factors (resource constraints, for example) that restrict opportunities to embed the social audit in the institutional fabric of the organisation. There is no evidence here to suggest that Social Firms in this situation do not foresee the social audit to be practicable in the future.

The fourth test returns to a statement already shown to be significant earlier in this Chapter, the ability of the Board to strike the appropriate balance between business and social objectives. As Levene's $p > 0.05$, equal variances are assumed. Therefore, $t = 2.460$, $df = 35$, $p = 0.019$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between the presence of a social audit, and perceptions of the Board's ability to balance business and social objectives. This final test shows that perceptions of Board's aptitude for balancing these two objectives are contingent upon the social audit.

Without the credibility of a social audit, Social Firm Boards will struggle to justify their performance on the basis of equilibrium between the two objectives. The social audit is intended to show any interested stakeholder groups the impact that a social enterprise has made. The absence of this reporting process would signal to stakeholders that the Social Firm has a Board that cannot prove its impact, and therefore present a problem of legitimacy.

6.4.4.7 BOARD EFFECTIVENESS

The final series of independent t-tests examined the nature of relationships between the effectiveness of the Board and perceptions of the DV and predictor variables. Several themes emerged, including information dissemination, strategy and the Board, and the appropriate balance between business and social objectives.

Table 6.24 Independent t-test: Board Effectiveness

Statements		**F**	**Sig.**	**t**	**df**	**Sig. (2-tailed)**
1. Board clearly understands needs of stakeholders	Equal variances assumed	1.473	.233	2.134	35	.040
5. Performance results are disseminated to all staff by the Board	Equal variances assumed	.469	.498	2.321	35	.026

18. Board significantly influences how I do my job	Equal variances assumed	1.466	.234	2.503	34	**.017**
25. directors have promoted awareness of business strategy of Social Firm	Equal variances assumed	2.104	.156	3.159	35	**.003**
26. Board provides strategic direction to better serve stakeholders	Equal variances assumed	1.920	.175	2.454	35	**.019**
27. directors maintain balance between business and social objectives	Equal variances assumed	3.840	.058	4.941	35	**.000**
28. Board are supportive	Equal variances assumed	.126	.725	2.535	34	**.016**

Firstly the Board's understanding of stakeholder needs was examined. The output shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 2.134$, $df = 35$ and $p = 0.040$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between Board effectiveness and perceptions that the Board understands the needs of key stakeholder groups. Respondents in the survey show that those without confidence in the Board's effectiveness results from their inability to understand the needs of key stakeholder groups. It would be expected that for socially-orientated organisations such as social enterprise, the proper understanding of stakeholder needs is a principal component of the institutional environment. This should be the initial objective of any enterprise: to serve the needs of defined groups (be it customers, stakeholders, etc) effectively. In this exploratory study, it has been shown that negative perceptions of Board effectiveness are directly proportional to how well the Board understands stakeholders. If internal actors feel that the Board does not know the requirements of the groups they intend to benefit (for example, over time stakeholder needs may have changed) the organisation enters a legitimacy constraint. It is important to stress that the study does not purport that Social Firms do not *actually* understand stakeholder needs. Rather managers and directors involved in the study do not perceive that the Board (as a collective) understand stakeholder needs sufficiently. However, it does illustrate that respondents in the study have a different understanding of stakeholder needs than their Boards do.

Secondly, attention focused on the dissemination of information to staff by the Board. The test output shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 2.321$, $df = 35$ and $p = 0.026$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between Board effectiveness and perceptions of dissemination of performance results to Social Firm staff. Again, this issue has been found to be a significant issue for Social Firms in the sample. As previously discussed, information dissemination (as a function of transparency) is a key part of the Board's role. This finding strongly indicates that the absence of transparency can make a Board appear to be ineffective in the mind of key stakeholders. This reinforces many of the earlier points made related to the apparent poverty of dissemination and communication by the Social Firm Board. The further ramifications of this outcome are discussed in the subsequent Chapter.

The third test considered the perception of the Board as an influence upon the performance of internal actors. The test showed that as Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 2.503$, $df = 34$ and $p = 0.017$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between Board effectiveness and perceptions of the influence the Board has on individual's roles. This finding indicates that it can be considered an important part of the Board's remit to play an instrumental role in the way that staff conducts their activities. The lack of such influence could signify a 'benign' Board, thus one that does not proactively seek to ensure the optimum use of staff in the achievement of stated objectives.

Next we look to the Board's implementation of business strategy. The test shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 3.159$, $df = 35$ and $p = 0.003$. Thus, we reject the null hypothesis at the 0.01 level. There is a significant difference between Board effectiveness and perceptions of the Board's promotion of a business strategy throughout the Social Firm. This finding reveals that, irrespective of previous discussions on the *priority* afforded to the business objectives of the Social Firm, Boards could be considered ineffective if they do not formulate and disseminate a business strategy throughout the organisation.

In tandem with the above analysis, the following test also focuses on the Board and strategy in the Social Firm. The test itself shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 2.454$, $df = 35$ and $p = 0.019$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between Board effectiveness and perceptions of the Board's ability to provide strategic direction to better serve stakeholders. So, in a way that strengthens the previous result, this test shows that a significant proportion of the sample believe that the Board does not equip the organisation with a strategy to benefit its stakeholders. Taken together, these two results show that the Board does not disseminate a strategy, thus internal actors cannot determine how the direction on the Social Firm will better serve stakeholders. The consequence of this is that the Board is expected to provide leadership and strategic support for the entire organisation. Therefore, in this scenario the Board has a legitimacy problem. Without the development and implementation of an appropriate strategy, the Board contravenes its expected role in the organisation. Logically, the further consequence in such a situation is a legitimacy crisis for the organisation as a whole.

The penultimate test examines perceptions of the Board's ability to maintain equilibrium between business and social objectives. The test shows that as Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 4.941$, $df = 35$ and

$p = 0.0001$. Thus, we reject the null hypothesis at the 0.0001 level. There is a very significant difference between Board effectiveness and the perception of directors' ability to balance business and social objectives. Once more, the issue of balancing of objectives has proven to be a significant issue. In this case, we can almost certainly verify that where a Board is considered to be ineffective at balancing business and social objectives, it contravenes its perceived legitimacy with internal actors. This is a very important consequence because without a Board that can balance these two factors, the Social Firm cannot sustain the benefit it does produce, in the long-term.

Finally, inspect the perception of the Board's 'support' role in the organisation. As Levene's $p > 0.05$, equal variances are assumed. Therefore $t = 2.535$, $df = 34$ and $p = 0.016$. Thus, we reject the null hypothesis at the 0.05 level. There is a significant difference between Board effectiveness and perceptions of the Board's supportive function in the Social Firm. The Board is seen to be ineffective where it does not provide appropriate levels of support to staff. This support could be strategic or job-specific support such as required training for managers. The Board is required to partake fully in the running of the Social Firm, and as such should contain experienced members, and / or with specific skills to deal with and support various organisational function (for example, marketing). Where these skills are absent from the Board, effectiveness as a useful resource for a growing organisation is limited. Even in situations where the Social Firm does not intend to expand, the support role is still valuable and can enable the development of better service provision and the achievement of social objectives.

6.4.5 ANOVA TESTS

The one-way ANOVA tests were performed to examine the presence of relationships between nominal categories and statements. The data set provided an opportunity for this test where nominal categories had more than two properties. Where variance is present, (posthoc) Duncan tests were conducted for further analysis to establish the underlying factor associated with the variance. The test for significance is at the 0.05 level, and all tests are two-tailed (unless otherwise stated).

6.4.5.1 EXCLUDED NOMINAL DATA CATEGORIES

Having performed an ANOVA test on the data set, no significant differences were found in relation to respondents' time in role or director Tenure, and their answers to the Likert statements.

6.4.5.2 YEARS IN OPERATION

Table 6.25 ANOVA test: Years in Operation

Statement	df	F	Sig.
5. Performance results are disseminated to all staff by the Board	3	3.671	**.022**

The above table shows that there is a significant difference between the duration of existence of Social Firms, and respondents' perceptions of performance dissemination by the Board: $F_{3, 33} = 3.671$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence). This finding needs to be examined further using posthoc analysis. The relevant output of the Duncan test follows beneath:

Table 6.26 Post-hoc Duncan test: Years in Operation

Years in operation	N	Subset for alpha = .05	
		1	2
2-5 years	14	2.7143	
Less than 1 year	3	3.3333	3.3333
6-9 years	12	3.5833	3.5833
10 years or longer	8		4.1250
Sig.		.149	.188

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 6.524.
b the group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

This test shows that the longer established Social Firms do perceive dissemination of performance information by the Board to staff. Conversely, newer organisations generally perceive this activity as missing from the Board's activities. The contextual difference of this findings compared with earlier tests in the study, prompts the exploration of the age of the organisation. It can be asserted here that newer organisations are yet to embed transparent processes that in older organisations are part of the institutional environment. Alternatively, the cause may be a pragmatic consideration of time and resource constraints upon Board members trying to grow the Social Firm. Irrespective of the actual cause, 'newer' organisations are perceived to have poorer transparency of performance amongst staff than older organisations. This adds a layer of meaning to the earlier findings from the independent t-tests.

6.4.5.3 TYPE OF STAFF EMPLOYED

Table 6.27 ANOVA test: Type of Staff Employed

Statements	df	F	Sig.
3. The more transparent our organisation, the better we will perform	2	4.642	.017
45. Our work is worthwhile only if we see real benefit to our stakeholders as a result of it	2	5.591	.008

The above output identifies that there is a significant difference between the type of staff employed by a Social Firm and perceptions that transparency is directly proportional to performance: $F_{2, 34} = 4.642$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence).

Also, the test highlights a significant difference between the type of staff employed and perceptions of how worthwhile a Social Firm's work is according to stakeholder benefit: $F_{2, 34} = 5.591$, $p < 0.01$ (rejection of the null hypothesis at 99% level of confidence). The output from the posthoc test is provided below:

Table 6.28 Post-hoc Duncan test: Type of Staff Employed 1

3. The more transparent our organisation, the better we will perform

Type of staff employed	N	Subset for alpha = .05	
		1	2
Volunteers	2	2.5000	
Salaried	11		3.9091
Salaried and Volunteers	24		4.2500
Sig.		1.000	.518

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 4.743.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

From this test, we can observe perceptions of transparency linked to performance are much more positive in Social Firm's that employ salaried, rather than volunteers alone. This is interesting because the strongest belief in this statement comes from those organisations with a mix of salaried and volunteer staff. The

Social Firms in the sample employing only volunteers was very low, so little inference can be taken from this.

Table 6.29 Post-hoc Duncan test: Type of Staff Employed 2

45. Our work is worthwhile only if we see real benefit to our stakeholders as a result of it

Type of staff employed	N	Subset for alpha = .05
		1
Salaried	11	3.5455
Volunteers	2	4.5000
Salaried and Volunteers	24	4.5417
Sig.		.087

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 4.743.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

Again, this test shows that the mixture of salaried and volunteer staff have much more positive perception of social benefit as the key outcome of Social Firm operations. Alternatively, those Social Firms that employ salaried staff alone have a mixed range of perceptions for this issue. This could indicate that without the literal presence of a 'volunteer' ethos, the organisation might begin to erode its ethical founding principles. Further study on the difference of perceptions according to type of staff employed would be required to clarify this issue – little inference can be made from this outcome.

6.4.5.4 NUMBER OF STAFF EMPLOYED

The next test focused on any significant differences between the number of staff employed and perceptions of the identified DV and predictor variables.

Table 6.30 ANOVA test: Number of Staff Employed

Statement	df	F	Sig.
45. Our work is worthwhile only if we see real benefit to our stakeholders as a result of it	3	6.380	**.002**

There was an observable significant difference between the number of staff employed by a Social Firm and perceptions of how worthwhile a Social Firm's work is according to stakeholder benefit: $F_{3, 33} = 6.380$, $p < 0.005$ (rejection of the null hypothesis at 99% level of confidence). The table below shows that larger organisations, those employing more than 50 staff members do not wholly agree that providing social benefit is the core activity of the Social Firm. Therefore, other facets of operations take priority, for example successful delivery and production of professional services. The underlying reason for this may be the nature of the Social Firm's business, rather than any size-related erosion of ethical values. More often, Social Firms provide niche services (for example, advertising agencies, recycling etc). The social objective is the result of providing employment for disabled people, rather than producing social benefit as an outcome of its operations. Though the provision of employment opportunities is central to the existence of the Social Firm, the 'work' of the Social Firm is purely business-focussed. Therefore, the Board may not necessarily be culpable for failing to maintain the social objectives of the Social Firm. This is because there is considerable variety to the activities that Social Firm pursues, making these assertions context-dependent.

Table 6.31 Post-hoc Duncan test: Number of Staff Employed

45. Our work is worthwhile only if we see real benefit to our stakeholders as a result of it

Number of staff employed	**N**	**Subset for alpha = .05**	
		1	**2**
51-100 staff	2	3.0000	
Less than 10 staff	21		4.2857
11-50 staff	14		4.3571
Sig.		1.000	.902

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 4.846.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

6.4.5.5 ANNUAL TURNOVER

These tests examine the presence of relationships between annual turnover and the perceptions collected from the sample. Discussion of the findings follows from the table below:

Table 6.32 ANOVA test: Annual Turnover

Statements	df	F	Sig.
6. Staff members are represented at Board meetings	2	3.659	**.036**
24. It is important that the Board offers strategic direction to support what managers do.	2	3.840	**.031**

Firstly we consider staff representation at Board meeting. There was a significant difference between annual turnover of Social Firms and the presence of staff members at Board meetings: $F_{2, 34} = 3.659$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence).

Secondly, we examine the importance of strategic leadership on staff. There was a significant difference between annual turnover of Social Firms and perceptions of sustainability as a central part of strategic direction of the Social Firm: $F_{2, 34} = 3.840$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence).

Table 6.33 Post-hoc Duncan test: Annual Turnover 1

6. Staff members are represented at Board meetings

Annual turnover	N	Subset for alpha = .01
£100,000 or more	22	3.1818
£51,000 - £100,000	7	3.8571
Less than £50,000	8	4.5000
Sig.		.030

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 9.575.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

We can see from this test that as annual turnover increases, perceptions of staff representation at Board level are less positive. This indicates that as the Social Firm becomes more successful in its business function, staff consultation is perceived to be less important. The logical inference is that staff members may support non-business interests during Board consultation. This diverts the operational focus away from the delivery of products and services, hence re-focusing on the primacy of social objectives. Normatively, the Board is expected to seek out and foster a consultative ethos for Board decision-making. The reality may well be that Boards perceive staff involvement as unnecessary are burdensome to the decision-making process.

Table 6.34 Post-hoc Duncan test: Annual Turnover 2

24. It is important that the Board offers strategic direction to support what managers do.

Annual turnover	N	Subset for alpha = .01
£100,000 or more	22	3.9545
£51,000 - £100,000	7	4.2857
Less than £50,000	8	4.6250
Sig.		.026

Means for groups in homogeneous subsets are displayed.
a Uses Harmonic Mean Sample Size = 9.575.
b The group sizes are unequal. The harmonic mean of the group sizes is used. Type I error levels are not guaranteed.

In this test, we observe perceptions of the Board's strategic direction role are perceived as less crucial in Social Firms with annual turnover of more than £100,000. The range of responses is still tightly clustered around agreement, though organisations with a smaller annual turnover indicate that the Board should develop strategy that supports managers in their roles. Applied to the smaller Social Firm, we can infer that managers require support to ensure that the Board is effective in guiding how the Social Firm is run. Contrariwise, larger (£100k or more) Social Firms see this function as less important, signifying that the Board has either aligned managerial activities with the strategic goals of the organisation, or manager's are used to operating without strategic support for managers. It is clear that respondents see this support role to be crucial, though smaller Social Firms may require more support from the Board. Whether the

Board is considered equipped and able to deliver this support is the subject of other tests discussed earlier.

6.4.5.6 DECISION-MAKING AUTHORITY

This group of tests examined the locus of decision-making authority on the Board, and perceptions of the DV and predictor variables. The pertinent findings from these tests follow:

Table 6.35 ANOVA test: Decision-Making Authority

Statements	df	F	Sig.
1. Board clearly understands needs of stakeholders	3	3.666	**.022**
5. Performance results are disseminated to all staff by the Board	3	3.903	**.017**
11. directors monitor staff to maintain ethical standards	3	3.176	**.037**
13. directors should monitor job role and performance	3	2.976	**.046**
26. Board provides strategic direction to better serve stakeholders	3	2.957	**.047**
31. Board has clear vision of how to sustain stakeholder benefit	3	2.935	**.048**

The first test analysed the perceptions of how well the Board understands stakeholder needs. The test found that there is a significant difference between the locus of decision-making authority and perceptions of the Board understanding the needs of stakeholders: $F_{3, 33} = 3.666$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence). As indicated in the descriptive analysis above the majority of Social Firms have a Board of trustees as the ultimate decision-making unit. The purpose of the Board of trustees is to safeguard the interests of key groups, in theory at least protecting the organisation from deviating from its stated objectives. This should ensure that the Board understands the needs of stakeholders. In other scenarios, for example volunteer Boards of directors or Chief Executive with ultimate sanction, it can be asserted that the difference in role (from trustees to executive 'directors') alters their ability to recognise stakeholder needs. However, this is an overtly linear explanation: it is likely that Boards of trustees, divorced from the day-to-day running of the organisation, hold a ceremonial position and oversees 'time-honoured' governance processes (such as remuneration committees). It can be argued that the Chief Executive would have the ideal position with which to understand stakeholders over time (perhaps first-hand), and determine the best method of satisfying those requirements.

Next, the test examined the perceptions of dissemination of information to staff. There is a significant difference between the locus of decision-making authority and perceptions of the dissemination of performance to Social Firm staff: $F_{3, 33} = 3.903$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence). By now, we can see that this statement has shown a number of differences for different categories throughout this stage of the study. It is logical to assert that 'decision makers' in an organisation will also be of requisite status to receive performance results, and control their dissemination to the Board and other staff. The concern is that decision makers and non-decision makers differ not whether transparency should be present, but whether it actually *does* occur. This dichotomy could be the result of dissemination to *key* staff only, or from directors to trustees (or vice versa). Whether other staff, such as managers, are left out of the loop is unclear. Obviously, there is a distinctive issue here regarding which stakeholder groups receive performance information and those that do not. Certainly, the processes for ensuring transparency are not clearly developed appropriately in the Social Firms used in this study.

Thirdly, attention switches to perceptions of the Board's need to monitor staff to ensure ethical standards are maintained. There is a significant difference between the locus of decision-making authority and perceptions of the need to monitor staff to maintain ethical standards: $F_{3, 33} = 3.176$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence). In corporate governance terms, the need to monitor staff is asserted in the literature (principally in agency theory). It appears in this study that different roles within Social Firms see this 'need' quite differently. Given the two-tailed hypothesis, we can suggest that decision makers and non-decision makers are divided for a number of reasons. On the assumption that non-decision makers in the sample are managers (rather than directors / trustees), then it would be equally valid to claim two positions. Firstly, managers do not see the need for the Board to monitor their activities, given the expectation of a level of trust between both managers and the Board to do conduct their jobs properly. Secondly, and conversely, managers may believe that stakeholder interests *must be* aligned with the motives of staff; therefore it is proper that their performance is monitored by the Board. This would determine whether staff are meeting stakeholder needs effectively. This result can be combined with the outcome of the test below, which also focuses on perceptions of the Board's role as 'monitor'.

Furthermore, perceptions of job role monitoring as a legitimate function of the Board were examined. There is a significant difference between the locus of decision-making authority and perceptions of monitoring of job role and performance by the Board of directors: $F_{3, 33} = 2.976$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence). Decision makers at Board level, whether director or trustee, will either view this function as essential or onerous. Overseeing performance of staff, as is clear in corporate governance theory, is an essential role of the Board to ensure that internal actors are acting in a way conducive to maximising the interests of beneficiaries. In the context of Social Firms, it is also essential to validate staff activities to be sure that they add value to the product / service offered by the organisation. Yet, it may too be seen as onerous in a situation where resources dedicated to such oversight are limited; those conducting the review of performance are likely to be volunteers (if they are Board members), and the process is conducted internally rather than externally as required for a social audit. On this last point, it is notable that very few of the Social Firms in the sample are active in delivering a social audit at all. There are a number of interpretations available here, and the next Chapter pursues analysis to a greater level of depth.

The penultimate test examined perceptions of the Board's aptitude in developing a strategic focus that delivers social benefit to stakeholders. There is a significant difference between the locus of decision-making authority and perceptions of the Board's ability to provide strategic direction to better serve stakeholders: $F_{3, 33} = 2.957$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence). This outcome is interesting because it shows that there is a concern, as yet undefined, that decision makers do not share confidence with non-decision makers in their perceived ability to deliver benefit to stakeholders, in a strategic, planned way. Ultimate sanction could reside either with a Board of directors / trustees – both of whom could play very different roles (i.e. the former could be 'hands-on', where the latter may be advisory or play an oversight role). Evidently, there is a discrepancy over the ability of one of these entities (where they co-exist in the same organisation) to develop a strategy that realises benefit to stakeholders. The next finding adds another facet on the perceptions of effectiveness of the decision makers in Social Firms.

This final test examined perceptions of the Board's vision for sustaining stakeholder benefit. There is a significant difference between the locus of decision-making authority and perceptions of the Board's vision of how to sustain stakeholder benefit: $F_{3, 33} = 2.935$, $p < 0.05$ (rejection of the null hypothesis at 95% level of confidence). It can be inferred that those in an executive position on the Board have very different perceptions towards the vision of sustainability than those without that responsibility. This reinforces the earlier finding that there is a clear discrepancy between internal actors in Social Firms regarding the Board's aptitude in this area. In conjunction with the previous test, we can see that decision makers clearly perceive the Board's ability to deliver a long-term, strategically driven social benefit to defined stakeholders positively. There are a number of possible interpretations that shall be explored in full in the next Chapter. However, in cursory analysis, we can explain this in terms of the decision maker(s) as being part of the Board and capable of delivering this long-term strategy of benefit. The discrepancy comes from respondents who are not involved in the decision making process for Board-level decisions. Alternatively, if the Board is divorced of the ultimate decision making authority (perhaps this lays with the Board of trustees), instead it provides a hands-on, operational function in the organisation. This would signify that the former is well placed to judge the effectiveness of sanctions made through the Board of trustees. In either case, this would represent a clear lack of faith in the ability of decision makers to deliver long term benefit.

6.5 CHAPTER SUMMARY

This Chapter reported the details of the quantitative aspect of the study. In so doing it detailed both descriptive and inferential statistical interrogation of the data set. From the descriptive analysis of the data set, a portrait of the typical

Social Firm in the sample emerged. Principally, they have a relatively high turnover for small enterprises, and tend to have relatively large Boards. These Boards have the ultimate sanction, and they are generally Boards of trustees, rather than directors.

Reliability tests showed the data set to be internally consistent. Multiple (stepwise) regressions examined and clarified the asserted links between the variables. Most notably, a weak model of association was discovered between accountability and legitimacy. Following this, independent t-tests were conducted for appropriate categories. The outcomes of the series of t-tests found a range of significant differences amongst the perceptions provided by respondents in the sample. There were some recurring themes, for example: the dissemination of information by the Board, staff representation at Board meetings, and the Board's aptitude to balance business / social objectives, and providing strategic support and leadership to the Social Firm. The relevance of budget-holding as a key role in governance was found, and there are a number of implications on governance and the role of the Board here that require further analysis.

Similarly, the ANOVA tests performed on the data set unearthed a range of significant findings related to the perceptions of respondents. Dissemination of performance results and trust in the Board were held to be significant throughout the sample. Also, the locus of decision-making authority was significant for a number of statements. Therefore, a number of ramifications on the Board and its place in the organisation need to be considered in greater depth.

The main objective of this section was to clearly report and analyse the findings of the study. The following Chapter presents a discussion of the implications of these findings. In particular, it will present analysis of the propositions determined following the review of the literature. In so doing, it will draw together the conceptual strands with the findings from this study.

CHAPTER 7

IMPLICATIONS

7.1 INTRODUCTION

This Chapter discusses the further implications of the findings and analysis presented in the previous Chapter. To this end, it addresses each of the propositions developed during the study in sequential order. The main thrust of the analysis is to examine how the findings from Stage 2 of the study inform an understanding of institutional influences on the governance of Social Firms. A table showing the link between the each proposition and significant factors can be found in Appendix 9.

7.2 ASSOCIATIONS BETWEEN TRANSPARENCY, ACCOUNTABILITY, SUSTAINABILITY AND LEGITIMACY

The most prominent outcome from the multiple regressions analysis was establishing an association between one of the predictor variable and DV is the relationship between accountability and legitimacy. Accountability is a central feature of the many different strands of corporate governance literature (Ezzamel and Willmott, 1993, Short et al., 2005, Sternberg, 2004). This applies between sectors, and to different types of organisations, from nonprofits to social enterprises (Alexander and Weiner, 1998, Eikenberry and Kluver, 2004, Kearns, 1994b, Mason et al., 2007, Young, 2002). The nature of this association is that legitimacy is contingent upon the 'levels' of accountability of internal actors (Boards and managers for example) to stakeholders. If the governance system promotes accountability, perceptions of legitimacy increase accordingly. Interestingly, this does not infer that levels of *performance* (social or business) affect legitimacy. Rather, the focus here is on the quality of the existing system of governance in Social Firms to promote and embed accountability.

Supplementary analysis of the predictor variable used in the study found a weak association between transparency and accountability, and a robust level of association between accountability and sustainability. No other pairings were found to be significant. We can infer, with some caution, that there is a link between the stated pairings of the identified predictor variable. Yet, it is not possible to conjoin these three elements into a sequential model. A principal cause of this could be that there the scale of the study is too small; hence there is not enough data in this study to show a clear link between transparency, accountability and sustainability. However, this does not preclude further testing of the relationship between these three variables in governance.

7.3 PROPOSITION 1: SOCIAL FIRMS SUCCESSFULLY BALANCE SOCIAL AIMS WITH BUSINESS-FOCUS.

Many commentators on social enterprise have signified the importance of their social and business aims (Borzaga and Defourny, 2001, Pearce, 2003, Porter and Kramer, 1999, Westall, 2001). Yet, for all the debate regarding suitable interpretations and definitions of social enterprises, there is little empirical research available to confirm or disconfirm the variety of viewpoints. Therefore, this exploratory research attempted to do this for some of the key features of the Social Firm, as a type of social enterprise. Firstly, consideration was given to the assumption that Social Firms can balance social and business objectives in an appropriate way. The determinants of this are four Likert statements that relate to the role of the Board as the body responsible for ensuring the appropriate balance is met.

Two of the four statements linked to this proposition (Statements 1 and 27) showed significant differences according to Board membership and perceptions of Board effectiveness. The requirement to balance business and social objectives is an essential characteristic of social enterprises (DTI, 2002). The Board plays an important role in ensuring that the appropriate balance between each factor is reached and maintained. Analysis shows that Boards are perceived to be ineffective where they do not manage to achieve the optimum balance for their organisation. Legitimate governance of an organisation is affected by the Board's ability to deliver on defined objectives – albeit these objectives vary depending on the focus of the organisation. Therefore, given that social enterprises are defined by their dual business / social function, failure to maintain an appropriate balance would threaten legitimacy.

Furthermore, upon examination of whether the Board clearly understands the needs of stakeholders, they are also judged ineffective where they do not properly understand such needs. This confirms that Board effectiveness is determined by the Board's ability to balance business/social objectives, and can clearly demonstrate an awareness of stakeholder requirements (and expectations). These two elements are not mutually exclusive, and to ensure the optimum balance the Board must have a fundamental knowledge of what the organisation needs to achieve to benefit its stakeholders.

This prompts discussion of why Boards might fail in this part of the remit. Stage 1 of the study illustrated some possible explanations. Firstly, the Board of directors / trustees have insufficient management skills or experience to achieve the required balance. Alternatively, severe communication problems between Boards, non-Board staff and stakeholders that could adversely affect the implementation of strategies to achieve the balance. Third, and related to both of the above points, there has been slow erosion in staff confidence in the Board and the quality of its input. Irrespective of the Board's abilities, managers get on with "managing" and are at the sharp end of delivering the two facets of the Social Firm's 'product'.

However, each of these possible explanations is too linear and neglects the complexities of the Board's role in Social Firms. There are likely to be a range of conflicting pressures on the Board, not least from primary stakeholders and support agencies, to ensure that benefits are achieved and funding is acquired. Further, in an effort to raise professional standards and attempt to become competitive, expectations of Boards are very high. The Board often serve voluntarily and the demands on individual members to meet these standards is neglected.

If Boards are expected to enable Social Firm growth and be held accountable for meeting these two important objectives, then clearly they need support to achieve this. A crucial part of the solution is borne by the support agencies, such as Social Firms UK, that exist to promote and assist Social Firms. It is evident that these organisations are keen to help their members. They do this by developing training courses and tool-kits to equip Boards, as well as prospective Board members, with the skills that will allow them achieve ambitious goals such as business / social benefit reconciliation. Furthermore, social enterprise sector 'champions' and success stories have been used to show other social entrepreneurs best practice.

For example the Furniture Resource Centre, which is based in Liverpool, has been notable for its success in trade of recycled furniture. In so doing, it has also embedded a culture of accountability, and through regular social auditing, has shown how its executive team strives to deliver on business, social and environmental fronts. Though it is useful for championing the sector as a whole, these role models are distinct from the vast majority of Social Firms, being relatively large in terms of turnover and staff employed. The initial remedy for achieving business / social benefit resides with improving the provision of skills for Board members. Also, joining-up the Board with other staff and stakeholders would make strategy formulation more consultative than the evidence presented here and the previous Chapter suggests is common for the majority of Social Firms.

Therefore, it is feasible to suggest that the business/social balance is an accepted facet of the institutional environment in Social Firms. This discussion accepts on both normative and cultural/cognitive levels that it is inconceivable that this should not be part of what Social Firms are. Thus director/trustee ineffectiveness contravenes the institutional constitution forming the normal 'order of reality' in the Social Firm (Berger and Luckmann, 1966). This outcome provokes further study of these particular components of the institutional environment.

7.4 PROPOSITION 2: THE BOARD OF DIRECTORS SHOULD HAVE THE SKILLS REQUIRED TO GOVERN THE SOCIAL ENTERPRISE EFFECTIVELY.

The statement used for this proposition focussed on perceptions of the Board skills needed to sustain the delivery of social benefit. The importance of Board members possessing the necessary skills was clarified in Stage 1 of the research.

The general outcome from this stage of the study determined that skills at Board level tended to be inadequate. Furthermore, the demand for training and recruitment of Board members was only slowly being supplied by relevant support and trade organisations. The type of skills required of Board members could include leadership, general management knowledge / experience and specific function expertise, such as marketing.

The reason why these skills are so important is that previous research on nonprofits has found a link between board and organisational performance (Alexander and Weiner, 1998, Brown, 2005, Jackson and Holland, 1998, Mordaunt and Cornforth, 2004). Thus, the better-equipped a Board is, the more likely it will be able to meet the challenges facing Social Firms. The problem encountered by Social Firms is their lack of success in encouraging and recruiting Board members. In particular, they struggle to find those who either have the requisite qualities, and / or have the time to dedicate to attend training courses funded by their organisations.

From Stage 2 of the study, the degree to which Board members actually possess these skills depends on the Social Firm's source of income. There are a number of alternative interpretations of this. Firstly, that those Social Firms receiving trade revenue alone are better at delivering on business objectives. Therefore they have the Board capable of managing the organisation away from so-called 'grant dependency', towards sustainable business. The assumption here is that by maximising the business capability of the enterprise, the Board can maximise social benefit.

Conversely, Social Firms maintaining grant / trade revenue streams present a more complex set of explanations. Assuming that the Social Firm intends to become self-sufficient through trade, then the grant / trade mix is little indication of the Board's abilities. Yet, if the organisation has existed for a long time, it is possible that as long as they deliver social benefit it is less crucial that they move away from grant funding. Hence, it is difficult to claim that Board skills are judged better according to how successful the business delivery of the Social Firm is. Rather, Board aptitudes are determined effective by how well they deliver the *balance* of objectives. Thus, it is just as (if not more) likely that the perception of Board ability is poorer for Social Firms with income from trade alone rather than a mix. There is an emergent view in the governance literature that social enterprise Boards will evolve to a model of stewardship, possibly through isomorphism (Dart, 2004, Low, 2006, Reid and Griffith, 2006). Yet this research suggests that the role of the Board in this process is to facilitate a keener business-focus, thus adjusting the balance between business and social objectives.

This study does indicate that Social Firms do not (yet) exhibit such tendencies. There are a number of Social Firms that rely on a source of grant funding, and will continue to do so. In this situation, the required Board skills involve maintenance and enhancing quality of social benefit, rather than managing growth and enterprise. Crucially, the difference amongst the sample of Social Firms rests on how the group perceive that the Board can *sustain* social benefit. Therefore, either Social Firm Boards can achieve this through growth and better delivery of their defined products / services. Alternatively, this will be better achieved through remaining faithful with the *status quo*, and the Board shall alter internal conditions only if the needs of the primary beneficiaries require it.

A further tangent to this discussion places the institutional 'legacy' of 'nonprofit-ism' as the cause of Board ineffectiveness. Social Firms (and social enterprises in general) are markedly different from traditional nonprofits. Yet, they share a heritage with these organisations, and more besides. It is possible that the constitutive rules of Social Firms run along very similar lines to nonprofits. In a philosophical sense, the 'social benefit' aspect of the Social Firm, however defined, shares much in common with nonprofits. It is the *means* for achieving that benefit that represents the key difference between nonprofit and social enterprises *per se*. This is relevant because social enterprises are expected to be entrepreneurial and flexible in finding solutions to social problems. It is common for nonprofits, including charities, to 'reform' as social enterprises or set up trading arms. Hence, it is likely that they will share elements of the culture of the 'parent' nonprofit. This might be especially so in situations where Board members / trustees are the same core group as those who presided over other iterations of the organisation. Therefore, rather than developing the entrepreneurial culture often associated with social enterprises, Board's adopt the management norms commonly used by nonprofits. This leaves a Board that may not have the skills set to manage the social enterprise to provide responsive, flexible solutions to social issues.

7.5 PROPOSITION 3: SOCIAL ENTERPRISES ARE EXPECTED TO BE MORE ETHICAL THAN FOR-PROFIT ORGANISATIONS.

Organisations that position social, environmental or indeed any non-financial goal as their raison d'être might be expected to be more ethical than those that so-called for-profits (Wilensky and Hansen, 2001). This is the received view on nonprofit organisations and their variants (including social enterprises). However, at a time of increasing sensitivity towards corporate crime and scandal, more of the largest for-profits are willing to entertain notions of corporate social responsibility and corporate citizenship (Carroll, 1979, Donaldson and Preston, 1995, Friedman, 1970, Preston, 1975, Sethi, 1979). Typically, it is the large corporations and their activities that garner the majority of media and public attention. Less notorious are instances of wrong-doing or unethical behaviour involving nonprofits; it is *assumed* that they are ethical whereas in reality they may be less so (Malloy and Agarwal, 2001). It is the possibility of financial impropriety by managers, directors and trustees that form the basis of governance failure in nonprofits and contrive the expected ethical standards, or codes of Conduct, of these organisations (Kearns, 1994b). All organisations share some common ethical standards, for example accounting conventions and upholding the legal rights of staff and other stakeholders. Hence, this proposition attempts to understand whether this presumption is shared by a representative section of the Social Firm community.

The findings from this study generally confirm this expectation rather than challenge it. Social Firms should indeed be of a more ethical constitution than their for-profit competitors should. Yet, an interesting divergence in opinion was found between individuals with budget responsibility and non-budget holders. This outcome could reflect the reality for budget holders in Social Firms, where they are more than aware of the attention paid to them during accounting audits. Justification of financial accountability is part of the budget holders remit, and could challenge their own notions of trust between internal and external actors. This signifies a particular feature of the internal environment of Social Firms, where the requirement for financial accountability alters perceptions of the ethical nature of these organisations. Alternatively, this outcome could reveal the experiences of internal actors involved in the verification of financial accountability of budget holders.

In either scenario, the most remarkable outcome is that there is any divergence of opinion for this proposition at all. So strong is the received view that nonprofits are more ethical that the temptation here is to confirm it as an anomaly. Of course, there is a significant amount of research that now suggests otherwise (Cornforth, 2003a, Inglis, Alexander and Weaver, 1999, Malloy and Agarwal, 2001, Oster, 1998, Preston and Brown, 2004). Yet, the general perception of the intrinsic ethicality of nonprofits is reinforced by their social or environmental component. However, from this study we observe that for Social Firms, there is clearly a perception that they are not ethical in terms of financial accountability. This goes some way to dispelling the assumption that Social Firms are ethical. It confirms that there are likely to be specific parts of the governance process where this unethical activity is located. In this study signifies the importance of financial transparency and working with budget holders to ensure that they can be held accountable. This process is within the remit of the executive Board of directors or trustees, and would normally be examined through an audit (accounting, social or both).

7.6 PROPOSITION 4: DEMOCRACY IS AN INTEGRAL PART OF SOCIAL FIRM GOVERNANCE

Democracy is recognised as an essential feature of transparent corporate governance. In the social enterprise, democracy involves establishing a fair, robust and externally scrutinised system for the election of Board members. It is recognised as integral to good governance practice across sectors. As an outcome of efforts to ensure greater governance transparency, Board elections are supervised on the behalf of key beneficiaries. In the corporate sector, institutional investors hold great sway in demanding that the election process is in accord with expected standards (Davis, 2002). In nonprofits and social enterprises, this role is taken by key stakeholders. In the context of Social Firms, it is common that Boards, at least partly, feature the inclusive practice of integrating stakeholders. Of course, the term stakeholder is rather all encompassing. The differentiation of stakeholder inclusion at Board level is discussed in more depth in the section below (7.7). The present discussion is focused specifically on the role of democracy in Social Firm governance.

The Board in a Social Firm is likely to comprise of a Board of trustees. As the descriptive analysis shows in Chapter 6, the Board of trustees generally has the ultimate sanction. This Board may, or may not, be complimented by a Board of directors. Hence, there are possibly two components to Board democracy in the Social Firm: principally for the Board of trustees; and secondly to a Board of directors (if present). Ensuring that election to either of these Boards is democratic is complicated for a number of reasons. Firstly, they are small and are likely to have only a small pool of individuals who would be willing to donate time (often voluntarily) to represent a group at Board level. Secondly, the process of making elections transparent (i.e. to be verified by an external party) would involve time and resources that are scarce for small organisations. The findings showed that the presence of a social audit was significant to perceptions of democracy. Where the social audit is absent, staff and other stakeholders are restricted from determining for themselves how ethical, accountable and democratic their Social Firm is. This is a problem because all social enterprise should show that they adhere to the principles that afford the term 'social enterprise'. Moreover, though the social audit is not compulsory for social enterprise, it is simply good practice by Boards to show how well their organisation is meeting defined criteria and objectives. Yet, it is understandable given the relatively small size of these organisations and the various demands on resources that might make it difficult for Boards to partake in a regular, full-scale social environment and financial audit.

A further issue is the presence of trustees and directors, and the dynamism of relations between both. directors are likely to be under more pressure to show how the Social Firm has performed, whilst the Board of trustees will play a 'checks and balances' function, assuring that key goals are being met. The process of becoming a director in a Social Firm should be based on their abilities or expertise, whereas trustees are present for the purpose of representation, rather than operational expertise. As Stage 1 indicated, Board members are likely to serve for a long time, and various constraints make it difficult to replace them. These include both poor performance and mitigating circumstances. Therefore, we can assert that issue of democracy is tempered by long-serving directors / trustees, who have the legitimacy to continue serving because there are few alternatives for replacement. The issue is less that democratic elections are somehow subverted, and more that they do not happen that often.

The crux of the matter is whether the normative principle of democracy has enough credence to override the practical problems faced when trying to implement it. Clearly, this study has shown that democracy is an important issue for those in Social Firms, and that it should be a feature of how the Board(s) operates. In addition, because the Board of trustees is likely to hold the ultimate sanction, it is a serious matter that the Board is competent and representative of the interests that they claim to represent. This includes funding bodies as well as primary beneficiaries. Whether it can actually be implemented depends on the presence of the (embedded) social audit, the number of Boards, and opportunity for new Board members to become involved (see below, **7.7**).

The study does not show *how* democratic and fair Board member elections take place in Social Firms. This provides an opportunity for further investigation, particularly with a view to understanding how stakeholders of all relevant groups are encouraged and trained to become effective Board members.

7.7 PROPOSITION 5: STAKEHOLDER INCLUSION AT BOARD LEVEL IS A FEATURE OF SOCIAL FIRM GOVERNANCE

As alluded to in the previous section, the matter of inclusion at Board-level is a relevant issue for modern organisations (Kesner, Victor and Lamont, 1986). The rhetoric behind stakeholder inclusion points to improvements that can be made to governance by building trust and enhancing transparency (Owen et al., 2000). Yet, if stakeholder inclusion results in larger Board size, it is difficult to ignore studies that have found negative effects on performance in organisations with larger Boards (Conyon and Peck, 1998, cf. Dalton et al., 1998). Therefore, although a still emergent feature of corporate governance (especially Anglo-American models), stakeholder inclusion is an accepted and prominent aspect of public, nonprofit and social enterprise governance. This study has provided evidence that stakeholder inclusion is not always a feature of Social Firm governance based on two factors: annual turnover and Board membership.

In terms of annual turnover, the logical analysis is that higher turnover is achieved by smaller Boards with less evidence of inclusion. The inference here supports agency theorists criticisms of stakeholder theory (Friedman, 1970, Sternberg, 1997), that stakeholder inclusion at Board level deviates the Board (and the organisation) from maximising 'output'. Hence, the Social Firm is better at generating income when the Board has the freedom to use its expertise effectively. Of course, this presents a scenario that is not at all common for all Social Firms. It assumes the presence of an 'executive' Board of directors, without the oversight or interference from trustees and suggests a less than optimal balance of objectives tipped towards business, rather than social. Naturally, there is more than one perspective. If business growth is the driver (as has been often suggested) of maximising social benefit, then this scenario is the best instance of Social Firm governance: a Board of directors, with stakeholder best interests first, enabled to use their abilities to grow a *business*, whilst serving and championing the needs of primary beneficiaries. This is the argument against greater stakeholder inclusion in Social Firm governance.

The argument for greater stakeholder inclusion in Social Firm governance travels a similar course of logic. Involving stakeholders in the governance of Social Firms is an engrained feature of the institutional fabric of the internal environment. Social inclusion is the core purpose of organisations such as Social Firms, providing as they do access to employment for disabled people. The level of turnover accrued is secondary to pursuing and delivering on the needs of this stakeholder group.

Thus, a clear distinction can be drawn between those Social Firms with a larger turnover focusing on maximising social benefit through improving business growth. Alternatively, there is the traditional view that the 'business' is a secondary consideration to pursuing social (or other) interests. This distinction is striking as it confirms the focal arguments of current theorists, including Dart (2004) and Low (2006), who suggest that the social enterprise sector is evolving away from traditional, rooted values (as per the latter argument), towards a focused, pragmatic approach.

Although this study eschews generalisation to the entire sector, it would be a significant 'evolution' if Social Firms no longer encouraged stakeholder inclusion (including managers and other staff) at Board level. So intrinsic is the role of the 'stakeholder' in the Social Firm ideology that for such groups not to be involved would be assumed contrary to the cultural-cognitive environment. Hence, such a scenario would be literally 'unthinkable'. However, it is not possible to disregard the link between annual turnover and stakeholder inclusion. The idea of change, especially institutional change, is 'cressive' and this discussion does support a gradual shift in what is permissible according to constitutive rules (Scott, 2001). It is especially poignant when considering the second factor relevant to this proposition is Board membership.

Board and non-Board members evidently view stakeholder inclusion very differently. Given the above discussion regarding the gradual change of orientation at Board level, analysis could simply reinforce that belief. Board members who do not believe stakeholder representation is a necessary feature of Social Firm governance would certainly do this. However if non-Board members indicate that they feel that it should be, this portrays two facets of the institutional environment. Firstly, non-Board members remain committed to the egalitarian principles that form the constitutive rules upon which the Social Firm has been created. This group represent the *traditional* Social Firm: focused on delivering social benefit primarily. The second facet is of the *progressive* Board, recognising the challenges facing the Social Firm and trying to implement a strategy of growth. The represents the *evolving* Social Firm: orientated towards sustainable social benefit through sustainable trade and growth.

The first facet offers a powerful, symbolic representation of the history of the Social Firm and roots all activity in the traditions of the organisations: maintaining and perpetuating the institutional environment. Part of this maintenance involves seeking better representation of key stakeholder groups at Board level. The second facet seeks to change the orientation of managers, other staff and stakeholders to meet the challenges of the external environment in which they operate. This conflict has been predicted, and partly in line with the UK Government's strategy for social enterprise (for example, greater coordination with the public sector and procuring key services). This facet propounds pragmatism: stakeholder inclusion is not necessary if it is not useful in improving both the delivery of social benefit as well as business performance.

Yet, there is an alternative view, which centres on the Board of trustees and their role in the Social Firm: in their capacity as guardians of the interests of key stakeholder groups. In the Social Firm where a specified Board of directors (with executive function) is absent, managers should be guided by the Board of trustees. This group is an amalgamation of a variety of interests and stakeholder claims. We can postulate that in this scenario, it is likely that the Board of trustees represents the group that perceives stakeholder inclusion as necessary. Therefore, non-Board members, i.e. managers who are accustomed to little strategic input from trustees, are the group that better understands how to develop the Social Firm and adopt the role of *de facto* executive group. In this situation, the governance process contravenes the institutional norms relating to stakeholder inclusion. However, the subversion of these norms could be made acceptable if managers are better at representing stakeholder needs than the existing arrangements allow. If managers and staff represent the key stakeholder group, this would in fact produce a *participative* governance dynamic, where a Board is required only for oversight and procedural activities. The 'mechanics' of how this evolving governance landscape works is unclear in this study. In situations where the Board is perceived to be ineffective, and managers 'manage' to the Social Firm, the processes by which the Social Firm maintains operations should be examined more closely. Stakeholder inclusion is seen to be one of the central features of ethical governance. It is established here that it is not always present in Social Firms (where it might be expected to be more prevalent). Furthermore, there remains an underlying assumption that stakeholder inclusion might not be effective, even at all possible. For stakeholder representation to be useful to Social Firms, the stakeholders must be trained appropriately to offer value to the Board (either directors or trustees, or both). Social Firms UK has evidently recognised this, promoting added-value services to member organisations so they can improve the value of the services they provide. Other organisations, such as AccountAbility UK, offer guidance on establishing effective 'stakeholder panels' and judging their effectiveness in corporate governance.

7.8 PROPOSITION 6: TRANSPARENCY INDICATES BETTER GOVERNANCE PERFORMANCE.

Transparency is a commonly used term in corporate governance, referring to the ease with which interested parties can examine the actions of key individuals and groups in organisations. Also, transparency is an expected feature of good governance as is clear in the salient literature (Bushman et al., 2004, Bushman and Smith, 2003, Lowenstein, 1996). The implied syllogism here is that transparency and governance equate to legitimacy. From the study, we can see that transparency does indicate better governance, though this is contingent upon the mix of staff employed by the Social Firm. If transparency is a normative expectation of good governance, this outcome runs contrary to the received view of transparency. In the absence of transparency, it is unclear whether the governance arrangements would have the necessary integrity and accountability.

There is a variety of staff employed in Social Firms: salaried, voluntary or a mixture of the two types. The division between staff types and their perceptions may be the result of a difference of orientation between salaried staff and volunteers. In particular, this difference could be manifested in the change of ethos towards a business-focus. Different staff may have different expectations of the Board and how they expect the organisation should be run. Salaried staff, whose financial as well as moral interests are served by their performance, may well adopt the more linear transparency-performance position. Given that legitimate governance is tied to the level of transparency, evidence of the latter (through audit and external verification) may be the minimum requirement to legitimise their activities. Volunteer staff may expect more than a regular financial audit to prove that governance is working towards the interests of primary beneficiaries. Transparency is one facet of governance performance, and transparency alone is an insufficient barometer of governance performance. This would promote a holistic assessment of the Board (and the Social Firm's) performance. The 'social' audit, as well as other performance measurement systems such as Social Return on Investment and stakeholder panels, is designed to provide a balanced view of performance. These methods incorporate quantitative and qualitative appraisals of Board performance from a variety of interested groups. It is possible that salaried staff, or staff in more business-orientated Social Firms, encourage a straightforward financial assessment of governance performance. Hence, establishing that the Board and governance activities are transparent is enough to legitimise those activities. However, the integration of primary stakeholders as staff in the Social Firm will make it likely that they expect more from any measure of governance performance. As the primary legitimating authority, they have considerable power in ensuring that the Board implements checks and balances to account for their (and managers) activities.

7.9 PROPOSITION 7: TRUST IS AN INDICATOR OF BOARD TRANSPARENCY.

Trust in the individuals and groups involved in governance is a crucial feature of the internal environment. This has been well established in the governance literature as an internal pressure for Boards in a range of different organisation types (Huse, 2005, Nobbie and Brudney, 2003, Steane, 2001). Where present it symbolises the pressure on key governance roles to perform according to normative expectations. Those who confer these expectations have a notion of trust that the 'agent' will perform according to those predetermined standards.

The absence of trust between organisational actors could signify are re-assignment of power in the organisation, i.e. the principal (key stakeholders) have reduced power of (moral) authority over key governance roles. Hence, individuals in the latter group can alter governance arrangements, e.g. the introduction of formal audit procedures to verify performance, rather than rely on trust. Typically, the informal and formal mechanisms work in tandem. For example, there is a general perception of trust between individuals and groups in the organisation, though final verification / evidence of performance are also expected to confirm the basis for trust-based relationships. It is common for nonprofits to acknowledge the influence of trust and commitment between key organisational actors, whilst implementing social accounting procedures on an periodic basis. Trust is important because it symbolises a level of belief by primary beneficiaries that managers and the Board can deliver on their objectives and acquire legitimacy. Hence, for primary beneficiaries to justify their own trust in managers and the Board, they must be able to verify that their activities are appropriate, and transparent. In the Social Firm, where the primary stakeholder group is internal, rather than external to the organisation, they must have confidence that the Board is managing their interests openly and properly.

The study indicates that trust is not important to transparency according to the budget-holding responsibility of staff. This perceived lack of trust could be the result of the need for a more formal representation of monitoring and performance measurement. For example, the rigour and previous reliability of a social audit may be seen to have more value to the organisation than informal judgements based on trust and maintaining relationships between organisational actors. An implication here is that the Board is assuming more responsibility for ensuring that staff conforms to expectations. This places greater demands on resources to ensure that sufficient monitoring can be carried out. It also removes the informal 'human' aspect from managing staff, allowing them the appropriate freedom to conduct their roles without hindrance.

Alternatively, non-budget holder may view trust as central, principally because their interests are influenced to some extent by the decisions taken by budget holders. Trust integral to transparency of the Board because key stakeholders, such as staff, confer responsibility onto the Board to protect and champion their interests. The difference between budget and non-budget holding staff could reflect the changing pressures on Boards to insert more rigorous checks and balances of managerial activity.

There are some further implications for the absence of trust as a key facet of transparency. In terms of the institutional environment, it is notable that informal, trust-based relationships might be supplemented or replaced with formal procedures. If trust has an important legitimating function, then the Board must act to rebuild trust as a key part of governance. In particular, this study suggests that the role of the budget-holder (a key position of responsibility), supplants trust with *systems* of measurement. Measurement and control of financial (and non-financial) performance is a common feature and expectation in any organisation, and is likely to become more stringent across different sectors. Yet, the differentiating element of the social enterprise is its social-orientation, and commitment to non-financial objectives. This factor should imbue trust in the primary stakeholder group, as the organisations are created with the purpose of serving their (social) interests. Therefore, the very fact that trust should be absent in any feature of Social Firm governance appears at odds with expectations. The institutional environment is built around ethical tenets, and so it is expected that these organisations should be run in an ethical way. Moreover, given the supposed presence of stakeholders on the Board(s), it should be very difficult not to do so. The current theoretical position on social enterprise governance, stewardship theory, places great emphasis on the presence of trust between the Board, managers and stakeholders. This outcome suggests that there are some key relationships where trust is as much an expectation, though less a salient feature of the Social Firm environment. This encourages further examination of the dynamism of key governance positions and relationships in Social Firm governance.

The Board must understand the value of trust as a *driver* and an *outcome* of good governance practice. This study certainly indicates that trust might diminish if the Board focuses on audit and accounting processes as the means to establish efficacious financial management in Social Firms. This is unusual given the sector-wide predilection for 'triple-bottom line' approaches to auditing and measuring performance and impact. It is notable that previous study of the role of 'trust' as an explanation for existence of *nonprofit* organisations, has disputed its influence (Ortmann and Schlesinger, 1997). The prior study examined the role of trust as an external cause of nonprofit existence, whereas the present study examines the nature of trust in relations between key governance actors.

7.10 PROPOSITION 8: DISCLOSURE IS A FACET OF TRANSPARENT GOVERNANCE IN SOCIAL FIRMS.

One element of achieving transparency in governance is the disclosure of organisation and Board performance information to interested parties. This process tends to focus on the disclosure of financial information, which is often used to enable a range of stakeholders to determine for themselves the actual level of performance compared with their expectations of the organisation. As previous studies have noted, the role of the Board can involve enhancing the level of monitoring, which leads to improved disclosure of the quality of performance (Yetman and Yetman, 2004). Such rigour is considered good governance practice, yet there are complexities to achieving suitable levels of disclosure. Prior studies debate whether organisations (particularly nonprofits and social enterprises) should follow the legally prescribed minimum, or include a range of quantitative and qualitative sources providing disclosure of a range of organisation impacts: a triple-bottom line approach (Elkington, 1997, Goldschmid, 1998, Keating and Frumkin, 2003, Paton, Foot and Payne, 2000).

The study unearthed several significant differences regarding the role of disclosure as a feature of transparent governance. The first of these focuses on Board effectiveness. Perceived or actual Board effectiveness has been linked with levels of disclosure and transparency in prior studies (McNulty, Roberts and Stiles, 2005, Roberts, 2001, Tsipouri and Xanthakis, 2004). The logical interpretation is that disclosure is a feature of an effective Board, whilst its absence indicates the exact opposite. In which case, it is vital that in its absence, Social Firms can rectify such situations and implement a remedial system to improve disclosure. There is a clear de-legitimising outcome from a lack of transparency. However, if the Board of trustees is thus judged as ineffective, it remains unclear exactly how this Board can be reconfigured and systems implemented without a second Board (or group) with the authority and support to achieve it.

The problems facing the Social Firm are highlighted further in this study, because the decision-making authority in the Social Firm was also significant in perceptions of disclosure. The perceived influence of disclosure upon transparency varies according to the group holding the ultimate sanction. The clear concern for a lack of disclosure is that it is counter to good governance practice. The problem here is that the variety of different of decision-making groups presents inconsistent support for the notion that social enterprises are inherently ethical. Clearly, there are instances where their governance arrangements indicate that they are less so. This 'inconsistency' could be a manifestation of the (broader) evolving nature of social enterprise governance (Mason et al., 2007). It is clear that some types of Boards are perceived as enforcing better disclosure procedures than others. In keeping with the idea of a divergence between 'old' and 'new' perspectives of Social Firms (and social enterprises generally), it may confirm that some older Board's are less proactive in disclosing performance information. This was shown in the findings in this study: very few of the Social Firms in the sample conduct a social audit (or type of audit thereof), possibly relying on the minimum accounting protocols required by relevant UK law.

In addition, there was a clear difference in perception between Board and non-Board members in the study. This is important because both groups should (normatively) consider disclosure as a prominent aspect of the process of governance in the Social Firm. The disclosure of financial accounts is an established task of which the Board has the responsibility for delivering. Thus, they may well perceive that this type and level of disclosure is sufficient for transparency. Yet, non-Board members and primary stakeholders have different views on the type and level of disclosure that ensures transparency. These could include non-financial reporting, particularly measuring social impact and how the Board's activities and decisions have influenced this. Therefore, the divergence between Board and non-Board member could be the result of different expectations of disclosure. The Social Firm must deliver on expectations of primary stakeholders, so it is of no benefit if the Board is content to deliver the minimum prescribed disclosure if stakeholder groups demand more and different types of information disclosure.

Age of the Social Firm is also significant here. Older Social Firms have different perceptions of disclosure than more recently established organisations. There is some evidence to suggest that, in combination with the points raised in this section, more recently founded Social Firms are more likely to embed the holistic view of disclosure. This entails using social audits and a triple-bottom line approach. Hence, in certain conditions (i.e. long Board member tenure) older organisations may find it more difficult to enact the transition towards this view of disclosure. This could especially be so if the primary stakeholder group does not demand it. Yet, the pressure to conform to sector norms (i.e. isomorphism) is increasingly likely for social enterprises. In turn, there is an increasing pressure for Social Firms to 'modernise' and embed new systems of performance / governance measurement to remain legitimate and in existence.

Such situations would favour the presence of a consultative, independent stakeholder Board together with an 'executive' Board of directors. This would replace the common unitary system of the Board of trustees, where they are expected to deliver both the 'stewardship' of a Board of directors, and the oversight of a stakeholder committee. Thus, in instances where governance is ineffective, the stakeholder committee can pre-empt and dissolve potentially de-legitimising activities by the Board or managers through consultation and action. There are some obvious issues with such a solution: not least creating and maintaining a suitable stakeholder committee with the resources for Board oversight and independence. It also assumes that the Social Firm is capable of recruiting a Board of directors with the business knowledge and experience to fulfil the executive role suitably. Nevertheless, it presents application of the emergent view in the social enterprise literature that Boards will have to adopt a stewardship role in the changing social enterprise landscape. It also indicates that there are alternatives to the present arrangements that are over-reliant on the Board of trustees to deliver on a number of different briefs. In essence, this approach would allow key stakeholder groups the chance to become involved in an organisation that serves their interests. Furthermore, by remaining independent (i.e. from delivering technical expertise such as finance or marketing to add value) they can ensure that the Social Firm continues to operate in the pursuance of those interests.

To conclude, it is evident that though disclosure is central to transparency, there are different view about what constitutes disclosure, and its impact upon Board effectiveness. The solution outlined above represents an option of governance reform that would affect isomorphism with more proactive and successful Social Firms. In so doing, they have a better chance of managing the process of change, through integrating stakeholders and reporting systems to routinely deliver the triple-bottom line and improve the range and quality of disclosure. As a result, they improve Board effectiveness, enhance trust (through improved transparency) and align Board and non-Board members' views. This enables the Social Firm to avoid a looming legitimacy crisis by adhering to good governance principles and enabling managers to be held to account. The limiting factor is the availability of time and resources to reconfigure governance arrangements. These resources include providing the key roles (Board of directors, stakeholder committee) with training and opportunity to perform in their roles effectively.

7.11 PROPOSITION 9: ETHICAL PERFORMANCE IS A RESPONSIBILITY OF SOCIAL FIRM DIRECTORS.

Each of the three statements related to this proposition were shown to be significant. However, each statement was found to be significant according to a different nominal category. Firstly, job title showed a significant relationship for perceptions of the promotion of professional standards throughout the Social Firm. This shows that managers and Board members are split over the degree to which Boards promote such standards. Secondly, the number of serving Board members was found to have a significant relationship with perceptions of the Board meeting ethical standards. Finally, decision-making authority was shown to be significantly relevant to this proposition through perceptions of director monitoring of staff to maintain ethical standards.

The onus of ensuring ethical performance of individuals should be placed on each staff member. However, it remains that Boards have a fiduciary duty to stakeholders to ensure that standards are maintained in their organisations. The above findings show that perceptions of the Boards aptitude to accomplish this differ in key areas. According to job role, there is a concern that the Board is not actively engaged in the promotion of professional standards. If this is so, then the view of the Board and its expected roles differs from actual conditions. In reality, managers are expected to conform to the ethical norms expected of their roles and of their Social Firm, without guidance from the Board. This analysis would therefore characterise the Board as stewards of the organisation, and stakeholder interests. Rather than hands-on 'running' of the organisation, managers are empowered to act in this role as they are better placed to understand and accommodate stakeholder needs. Furthermore, we can posit that the institutional environment is influential. Managers can be relied upon to maintain ethical standards because this is part of the ethos of the social enterprise. To act contrary to this would contravene the cultural / cognitive rules that bond internal actors with the expectations of stakeholders. This could especially be the case where staff also constitute the primary stakeholder group the Social Firm serves. This restricts the role of the Board to procedural issues and an oversight function, for example through accounting / social audits.

Board size and ethical standards have shown to be significant, and this raises issues regarding performance appraisal for Board members and the implications for optimal Board size. Where Boards (or individual members) are perceived to be unethical, this would naturally raise concerns over the actual role of the Board in the organisation. Formal processes, such as social audits, examine the efficacy of arrangements at Board level whilst accommodating feedback from all available stakeholders. If this process of external verification is carried out, concerns can be raised over the performance of Boards and their members and appropriate action can be taken. What is lacking from this analysis is further evidence of why respondents perceive particular Boards (i.e. of a certain size) as being unethical. Evidently, this area needs further examination. This is because it indicates either a breakdown in trust between staff and the Board, or a breakdown within the Board.

7.12 PROPOSITION 10: INDEPENDENT DIRECTORS ENHANCE TRANSPARENCY IN SOCIAL FIRMS.

The presence of 'independent' directors on Boards is widely recognised as an effective method for ensuring the efficacy of Boards (Fama and Jensen, 1983, Goldschmid, 1998). Studies of their role in nonprofits provides a mixed view of the positive influence of independent directors and Boards (Brickley et al., 2003, cf. O'Regan and Oster, 2002).

In this study, we observe that this issue was not found to be significant for any of the nominal categories. Yet, this lack of evidence does not suggest that further examination of the role of independent directors would not yield significant findings. The value of an independent representation on the Board is to promote transparency and good governance. In addition, the role of the 'independent' is to oversee that the Board operates according to expected legal (primarily) and moral standards. It is possible that the required role for a Social Firm is less 'independent', rather 'representative'. An independent evaluation of Board performance should be conducted through regular audit, supported by a representative Board, and be externally scrutinised. In this way, independent directors are less important than ensuring key stakeholders are represented on the Board. Clearly, stakeholders would not be described as independent, distinct from the organisations and its activities. Rather, they will have 'stakes' in Board performance, therefore seeking to ensure that its activities are transparent. This kind of Board representation (stakeholder inclusion) has significance throughout this study, and is discussed in depth elsewhere in this Chapter. In terms of independent directors, however, it is likely that the role is already performed at Board level, though by different individuals with non-financial (i.e. social) interests in the organisation.

7.13 PROPOSITION 11: ACCOUNTABILITY INDICATES BETTER GOVERNANCE PERFORMANCE.

Accountability is a common term used in general discussions of governance for many type of organisation. In the same vein, holding key individuals and groups to account for their actions is a central feature of good governance. This proposition proposed that accountability is a barometer of governance practice. Therefore, the accountability of individuals and groups in organisations is a reflection of how well governed the organisation is.

The presence of the social audit in Social Firms was found to be significant. The logical interpretation of this outcome is that those Social Firms conducting the social audit (regularly) perceive accountability as indicative of good governance practice. The implementation of a trusted system of accountability, which facilitates the ordered collection of organisation performance data for external verification, is a positive step towards accountability. It is likely that processes such as these are very important in assuring legitimacy, as a symbolic representation of constitutive rules. Therefore, the influence of the institutional environment is not sufficient as a control on the activities of Boards and staff (i.e. the strength of social 'bonds' between key staff and the primary beneficiaries).

Hence, accountability takes the form of a formalised process by which the activities and decisions of these groups are in line with those expected by primary beneficiaries. In this way, the Social Firm resembles other types of organisations that enforce processes of accountability to align behaviour and performance with expected standards. Making sure that Boards *can* be held accountable is a responsibility of both the Board and other groups who have an oversight role. Thus, the Board is not solely responsible for determining their own performance measurement metrics, or the individuals who undertake the social audit process. This means that a secondary 'Board' or committee (not solely a Board of trustees) could take the role of instigator of the social auditing process.

The alternative view is that those Social Firms not practising the social audit do not value this process in determining good governance. Accountability is firmly embedded into the governance literature, so it is difficult to propose that Social Firms who do not partake in social audits also perceive it as an important facet of good governance. The social audit has some critics and there are several alternative processes that aim to prove accountability, utilising different means (Gray et al., 1997, Owen et al., 2000). Therefore, this outcome could be interpreted as Social Firms failing to implement the social audit properly, or at all. This in turn means that accountability is hard to *prove*, rather than being unimportant. The social audit process is funded by the organisation and requires some staff members to take responsibility for data collection. It is not uncommon for the social audit to become problematic because it is constrained by financial or human resource issues (Cotton, Fraser and Hill, 2000, Quarter and Richmond, 2001). A solution for overcoming such resource-based difficulties is to make use of support agencies and trade organisations who offer training courses for social audit / accounting. Yet, the responsibility to 'prove and improve' remains the responsibility of the organisation concerned, and funding schemes to prove accountability are crucial to evidencing performance.

Accountability has been linked with performance in previous work, often showing a positive correlation (Goodstein et al., 1994, Kakabadse, Kakabadse and Kouzmin, 2001, Kearns, 1994b). In the present study, differences in annual turnover and perceptions of accountability were shown to be significantly different. Higher turnover, as an indicator of better trading performance, signifies a Board that operates in a focussed way, and a transparent, accountable governance process. This description represents an ideal: Boards that are more accountable produce well-run organisations. Yet, it may also portray an organisation that has sacrificed its social objectives in favour of business. The process of accountability is to protect the interests of key stakeholders, and serves to legitimise. Key stakeholders set the terms upon which Boards can acquire legitimacy. Hence, sacrificing objectives would have a de-legitimising effect rather than the opposite. It is difficult to assume that organisations with higher turnover are more likely to perceive accountability as part of good governance. This is because Social Firms give primacy to social rather than business objectives. Thus, this outcome could represent that organisations with a lower turnover, do so because their Boards focus on other objectives, in an effort to enhance their accountability to stakeholders.

Finally, the size of the Board was found to be significant for this proposition. Board size and its influence is another interesting theme in the corporate governance literature (Eisenberg et al., 1998, Goodstein et al., 1994, Provan, 1980, Yermack, 1996) . Positive attitudes towards accountability would reflect the need to ensure larger Boards are effective. Certainly, with Boards of trustees, some Board members can have long tenure amidst perceptions that they are merely representative, rather than instrumental in the organisation. Hence, they are proactive in ensuring that the Board is held accountable. Alternatively, negative perceptions of accountability in governance indicates that the larger Board is seen as inaccessible (the "managerial" view) or not dynamic (the "Board member" view). The former instance presents a scenario, where the Board have disconnected from 'running' the organisation and this task is left to managers who have control over the Social Firm's operations. The latter indicates a Board in 'stagnation', perhaps where long-serving or 'unskilled' Board members need to be replaced or re-orientate their involvement with the organisation. For larger Boards, the emphasis on accountability is to prove that each Board member contributes to the process of adding-value in their role. If accountability is not a feature of governance, then clearly some remedial action needs to occur. However, a problem arises of how this can take place if (for a unitary Board structure) no other collective has the authority to remove one or more ineffective Board members. Such a situation would have a de-legitimising effect until optimal arrangements can be determined that most appropriately suit the needs of primary beneficiaries.

In the case of the smaller Board of directors, positive perceptions of accountability would fit with the notion of 'efficient' Boards being smaller. Of course, 'efficiency' refers to the expected improvement in the time it takes for decision-making or consultation with staff. This perception of smaller Boards is often described as important for growing social enterprises, or those social enterprises with more of a business-focus. Conversely, smaller Boards that are too business-focussed (i.e. away from key social objectives) could perceive accountability to stakeholders a less important feature of governance. In the case of the smaller Board, efficiency and effectiveness are only relevant for a Social Firm if these qualities enhance social benefit. Therefore, in a similar argument to the discussion on large Boards and accountability, it is crucial that the Board configuration suits the unique circumstances of the organisation. As the next section explains in more detail, it is incontrovertible that Boards should be accountable to stakeholders, as should all staff who contribute to achieving the social objectives. This confirms its centrality to good governance. Less clear however, are the mechanisms to ensure that under-performing Boards can be changed and the recruitment and training of new Board members is appropriate.

7.14 PROPOSITION 12: BOARDS SHOULD ENSURE THAT SOCIAL FIRMS ARE ACCOUNTABLE FOR COMPETITIVE PERFORMANCE.

The previous section examined the implications of different perceptions towards accountability as a feature of good governance. The next stage of analysis considers perceptions of holding Boards accountable for competitive performance. A well established corpus of literature has examined the nature of performance accountability and the Board of directors in a range of contexts (notably: Daily and Dalton, 1993, Kaplan, 2001, Klein, 1998, Kosnik, 1987, Millstein and MacAvoy, 1998). The analysis presented here examines the nature of significant relationships between the Board and competitive (not social) performance in Social Firms.

There should not be any scenario where Boards are not to be held accountable for any aspect of their performance. Yet again, the size of the Board has shown to be significant in this regard. The 'new' view of Social Firms (and small organisations generally) is that larger Boards are unwieldy and inefficient (Eisenberg et al., 1998, Yermack, 1996). Conditional acceptance of this premise implies that efforts should be made to ensure that larger Boards are accountable for the impact they have. The remit of monitoring would include the individual and collective influence upon performance, or through a skills audit. As we have seen, for Social Firms there are at least two bases upon which to measure performance: social and financial. Thus, the onus is on dedicating more resources to ensuring that larger Boards are accountable. If Board members can evidence that their skills and experience add-value to the organisation then their presence is justified. Development of the systems that deliver sustainable competitive advantage, whether through social benefit or unique service delivery, remains the strategic task of the Board. Hence, if a larger Board is more effective in this regard, it makes sense that they should *want* to be held more accountable. This is because proving performance is a factor in enhancing legitimacy from key stakeholders. Contrariwise, if the larger Board is not accountable for competitive performance, then the logical step would be to identify how that Board adds-value to the Social Firm's operations. This could result in Board alterations or streamlining (either re-training existing, recruiting new, or removing ineffective Board members).

Smaller Boards are often seen to be more efficient, focussed and better suited to managing and governing organisations (for example, Yermack, 1996). The contention that smaller Boards are more responsive and effective does need further exploration across sectors. This is particularly possible for 'smaller' (and non-corporate) organisations with a variety of competing claims on resources. Smaller Boards, with a concentrated base of power, may have less input from valuable sources at Board level, as is the possibility with larger Boards and hypothetically with Boards of trustees (Callen et al., 2003). Where greater political power is concentrated on the Board, potential problems of Board accountability could arise. Once more, the possible solution here is to consider optimal Board configuration. However, the methods of achieving this are open to conjecture. This position assumes very much, not just that the organisation will have the resources and networks available to it to support a re-configuration.

Proposing an ideal Board structure / size is difficult, and clearly, such an activity is only valuable if it reflects unique 'local' governance conditions and pressures. These would include the institutional influences that guide actors' decisions and behaviour, and the dynamic pressures from external bodies (such as funding bodies, local government and the wider community). Given the power that can be exerted by external groups such as funding bodies, it would be very difficult for Boards of any size to avoid being held accountable for any aspect of organisational performance. The difference in perception here could reflect a changing orientation at Board level (from large to small Boards, from social focus to keener business focus), and how this differs from normative expectations of Boards by non-Board members.

The second significant finding linked to this proposition pertains to the locus of decision-making authority in the Social Firm. Once more, we are asked to consider the relevance of the Board and its structure, and perceptions of its duty to be held accountable. There are a number of different groups or individuals with the ultimate sanction in the Social Firm, including the Board of trustees, the Board of directors (voluntary or salaried) or a nominated Chief Executive. The diversity between these categories indicates that 'local' governance structures emphasise different expectations on key governance groups. For example, the Board of trustees may displace the expectation of accountability for competitive performance to other groups, perhaps to a co-opted Board of directors. The trustees may have the ultimate decision-making authority, but it is recognised that they cannot be accountable for performance when they are not instrumental in performance-related activities. The premise of this argument would give the Board of trustees more of a 'backseat' role in governance of the Social Firm. Of course, it also presupposes that there co-exists a Board of directors (or other executive group) upon which to confer accountability for competitive conduct. This study has shown that the majority of Social Firms in the sample have a Board of trustees with the ultimate sanction, and is expected to become involved in the running of the organisation. There are minority Social Firms that have Boards of directors or Chief Executives with nominated discretion over key decisions. Such scenarios resemble more conventional (for-profit) governance structures, and could signify the expected (isomorphic) development of Social Firm Boards exhibiting business-like characteristics. In which case, accountability for competitive performance is imperative and the role of a Board of trustees would be to ensure that this is enacted.

Similarly, to the analysis above (**7.13**), it is difficult to surmise that there is any situation where complete accountability is not expected. Thus, whatever the governance arrangements within the Social Firm (Board size, locus of decision-making authority), there are systems in place to ensure that key individuals and groups can be held accountable. It is somewhat disconcerting to note that the majority of Social Firms in the sample do not conduct a social audit (however, that is defined or comprised). Without such explicit systems of monitoring and assessment, a discontinuity in the legitimacy of governance arrangements emerges. This poses implications for Board structures and oversight that are required to ensure accountability. At the same time, governance must facilitate increased efficiency and performance improvement. These implications are discussed further below (7.27).

7.15 PROPOSITION 13: BOARDS SHOULD ENSURE SOCIAL FIRMS ARE COMPETITIVE IN THEIR CHOSEN MARKETS.

Staying with the theme of Social Firms as 'competitive' enterprises, this next proposition refers to an expectation that Boards are responsible for ensuring their organisations are competitive. In the study, two clear differences were highlighted: Board members of respondents and the size of the Board.

The difference in perception between Board and non-Board members is becoming a central feature of the thesis. It is common for such differences between these groups, and the mechanisms ensuring the interests are aligned are the focus of more than one corporate governance theory. Initial analysis of this outcome should be divided into two conceptions of the Social Firm: as traditionally defined (i.e. primacy towards a social orientation), or as expected to evolve (i.e. becoming more business orientated as the external environment requires of it). In the case of the former, this outcome would indicate that non-Board members remain rooted into the traditional ethos of the Social Firm and believe that Board's central focus is ensuring the delivery of social benefit ahead of other, secondary concerns. This would portray the Board as keen to define the Social Firm by its ability to compete and not singly by the fundamental social-benefit requirement. The latter conception positions the non-Board group as more aware of the needs of the Social Firm (their instrumental involvement in delivering the needs of their customers / stakeholders being very influential in this regard). Thus, the Board (whether trustees or directors) are less instrumental and adopt the traditional responsibilities associated with their role, namely providing representation and oversight. This analysis usefully delineates between two opposing portrayals of the manager / Board dichotomy, yet it avoids the subtleties of governance reality. Both Board and non-Board members face a difficult task in reconciling the need to maximise social benefit whilst building a viable business. Without the 'business' element, the organisation would cease to be a valid Social Firm and consequently legitimacy withdrawn.

The size of the Board is a second, recurring item of significance throughout this analysis. As already noted, there is a large / small Board distinction in analysis of this variable, and the general permutations of Board size have already been discussed. However, it is worthwhile reconfirming that competitive performance is the responsibility of the Board, in whichever configuration it exists. Also, the main issue with larger Boards is not that they are large *per se*, more that how they are composed is absolutely crucial to their effectiveness (Baysinger and Butler, 1985, Beasley, 1996, Forbes and Milliken, 1999, Goodstein et al., 1994). Hence, the drive for a more competitive culture amongst social enterprise generally should encourage pressure on Boards to develop a collective skills set to enhance their accountability in this regard. The perceived inability to deliver an effective business model would reflect poorly on the Board, whose responsibility it is to oversee this element of the Social Firm's operations. In a scenario where this cannot be achieved, there are alternative Board configurations available to Social Firms that must determine Board members skills and effectiveness.

Smaller Boards may be better placed to deliver a competitive advantage for their organisation, if smaller size is also a reflection their instrumental business / management skills and overall effectiveness. This factor may be advantageous as a legitimating function of the Social Firm. A Board that is better equipped to deliver benefit and perhaps more flexible to real-time demands on decision-making is likely to enhance its legitimacy to the organisation. Of course, the supposition is that smaller Boards are capable of managing a complex organisation with conflicting institutional pressures to deliver social benefit whilst building an efficient and competitive enterprise. Hence, it is unwise to consign a non-specialist Board of trustees to the past in place of the predicted business-like Board. The Board of trustees, although probably larger in constitution and less business-capable, will offer a much deeper knowledge of the Social Firm's traditional values. For organisations such as Social Firms, embedding and maintaining these values is vital to the legitimacy of the organisation. Therefore, any solution to the large / small Board dualism is to ensure that focus of governance in a Social Firm can ensure maintenance of institutional values, whilst enabling instrumental staff to run the organisation properly.

7.16 PROPOSITION 14: BOARDS SHOULD PROVIDE STRATEGIC DIRECTION TO ENABLE BUSINESS SUSTAINABILITY.

This section scrutinises the role of the Board as a strategic group, and any key differences of perception amongst the sample. Strategy development and control is a recognised facet of the Board in different organisations, and social enterprises are not excluded from this (Hoskisson, Johnson and Moesel, 1994, Judge and Zeithaml, 1992, Sanders and Carpenter, 1998, Westphal and Fredrickson, 2001). A common aim for all organisations is sustainability, including one or all aspects of a triple-bottom line approach. The Board is integral to providing the organisation with the strategic impetus for achieving long-term (sustainable) corporate and non-corporate aims and objectives.

Firstly, perceptions of a Board's effectiveness were a significant outcome for this proposition. Findings that a Board is deemed effective if it facilitates strategic direction provides a logical explanation between differences, following the accepted course of the relevant corporate governance literature. If a Board meets this requirement, then clearly it is focussed on the normative expectations of its role. This is important, since the organisation's success and failure is largely contingent upon the Board's ability to provide strategic support for the Social Firm's many activities. The result is enhanced legitimacy for the Board and the Social Firm. The opposing view, the Board being ineffective, would de-legitimise the Board and its members, further highlighting the importance of the Board's strategic input and role.

Other findings in this study focus on the effectiveness of the Board of trustees. This prompts further discussion of how well equipped these types of Boards are to fulfil this element of their role. Given that perceptions of Board effectiveness are influenced by the Board's strategic input, a concern arises over whether the majority of controlling Boards of trustees have the required skills (as a collective) to deliver on these grounds. In a scenario where a Social Firm lacks suitable strategic guidance at Board level, the organisation is at risk of failing to meet intended aims. Thus, the legitimacy of the Social Firm is jeopardised. It is possible that in such situations, contingency arrangements may arise or already exist, i.e. managers are accustomed to performing some of the strategic functions normally associated with the Board. Therefore, the internal conditions allow a shift of power and control to managers from the Board to allow effective management of the organisation. Clearly, this is not ideal because the Board needs to be integral to how the organisation is run and how it will continue to operate in the future. Boards need to (re)focus on how they can deliver a strategic plan to drive the Social Firm towards sustainability. The starting point for this includes a Board skills audit and collaboration with key internal (for example, managers, staff and primary beneficiaries) and external actors (including funding bodies, trade organisations, local government). This would at least enable an ineffective Board to recognise its strengths and weaknesses, and employ a representative approach to changing that status.

Secondly, the study found that Board membership is significant to perceptions of the Board's strategic role. This difference in views between those serving on the

Board and non-Board members highlights further the disparity between these two groups. This is problematical because Board and non-Board members alike should share an understanding of the expected role of the Board and its activities. Understandably, Boards and non-Board members must align their expectations of each other, to ensure that both groups can be held accountable by the other. It is also important to prove that internal actors are fully cognisant of the roles that other groups play in delivering on stated objectives. Board members must show how they add-value, in a way that confirms the expected standards of stakeholders. Likewise, non-Board members must perform to similar standards, and the Board should be interested in monitoring how well they reach these standards. This shared understanding of roles should represent an expected feature of the institutional environment. The fact that it appears not to in this study would infer a legitimacy problem for the Board, not least, because non-Board members are dissatisfied that, they (the Board) are fulfilling expected aspects of their brief.

Thirdly, the number of Board members provides a further significant course of analysis for this proposition. Therefore, a further difference in orientation appears according to how large or small the Board in a Social Firm is. Once more, this facilitates conjecture that smaller Boards may be somehow more attuned to their strategic role, perhaps because of an embedded entrepreneurial orientation. This is difficult to support, however, since a larger (less entrepreneurial) Board may be quite aware of its strategic responsibility. Yet, it could be fairly argued that its focus is a social, rather than business one. As such, we must again seek subtle reasons for the difference found. One such subtlety would be to reiterate that there is an accepted division between certain Boards that accept or eschew strategic support, relying on instrumental actors (managers) to provide this function. Therefore, Boards are not expected to be 'strategic', and this has been brought about gradually. This line does not assume that certain Board sizes are more or less business / socially focussed, instead that an ethos of pragmatism dominates the allocation of certain governance tasks. In small organisations, it is arguable that it is better for Boards to be encouraged to forge closer relationships with staff and involve them in the day-to-day running of the business. These Boards, with a better understanding of operations, are likely to be better placed to direct and govern strategically. This is achieved by utilising information and cooperation from staff.

Finally, the assignation of decision-making authority is relevant to discussion on the strategic input from Social Firm Boards. Unlike any other of the highlighted differences found in this study, this category was found to be significant on two counts. We can infer from this that decision-making and strategic responsibility should not always belong to the same group. Differences clearly exist between Boards with this authority and individuals, such as the Chief Executives. There are a number of permutations arising from this difference, in particular that a division of power is either beneficial or detrimental to the Social Firm. Centralising strategic planning with decision-making authority through an individual could benefit the organisation by facilitating strategic coherence and speed of decision-making. The latter should make the organisation better at responding to dynamic internal / external market conditions. Yet, it would also encourage a concentration of control over political power, and possibly even preclude participation in the strategic development process. A recurrent theme throughout this Chapter has been the ideal of participation and shared responsibility in Social Firm governance. The Social Firm is defined by its ability to combine traditional values and methods with 'modern' perspectives on organisational progress. Therefore, the Board must remain to play a key role in ensuring traditional values are upheld (since they form constitutive rules), whilst managing the organisation in dynamic internal / external conditions.

7.17 PROPOSITION 15: BOARDS SHOULD SUPPORT MANAGERS TO DELIVER ON SOCIAL OBJECTIVES.

Conjointly with providing strategic direction, the Board also plays a role in supporting the work that managers and staff do for the Social Firm. The Board is seen in many organisations as facilitating the development of optimal internal conditions within which staff can perform effectively.

This study has established that Board can be deemed ineffective if they do not provide the necessary support to managers (or non-Board staff). This confirms both that Boards should provide such support, and that without it the Social Firm cannot deliver on social objectives. A supportive Board would add-value by ensuring better links between themselves and the needs of staff to achieve overarching aims and objectives. By partaking in instrumental activities, the

Board plays a key role in realising greater social benefit. This gives them control and influence over work that affects the balance between business and social benefit. This type of support role is an expected feature of Social Firm governance, and is undoubtedly a positive step in ensuring growth and successful delivery of social benefit. Without this, the link is absent between the Board and management, making it illegitimate. Therefore, we can propose that in order to support staff, Boards must be well 'placed' and equipped to provide it. Thus, it is integral that Boards are aware of *how* they must support staff, or what staff require from them, in order to be effective. The indications from this study and the social enterprise literature are that these needs are both strategic and functional. The former addresses concerns that there must be a coherent, relevant set of objectives in place, which are developed with key stakeholders and communicated to all stakeholders. The latter pertains to the requirement for better functional skills (and skills development) in certain areas of operation, for example marketing or operations management. It is crucial, therefore, that Boards recognise their skills / experience value and determine how they could be used optimally to support managers. In the absence of appropriate strategic and functional capability at Board level, alternative options include recruiting new Board members with such abilities, or "up-skilling" non-Board staff members.

Budget responsibility was also found to be significant here, which suggests that the Board provides different levels of support to budget holders and non-budget holding staff. The ramifications of this different orientation are that the individuals in the former category possibly focus more on the financial bottom line in their capacity as budget holders. There is a pressure on these positions to be held accountable, suggesting that the support they require is less to achieve social objectives, more pressingly to satisfy financial efficacy. This differentiates from those without that responsibility, whose day-to-day concerns are operational and to the end of achieving a positive social outcome. Yet, for budget holders, the 'bigger picture' is financial probity to protect the greater interests of their primary beneficiaries. Therefore, it is interesting to note that key actors within the Social Firm are required to focus their attentions on non-social objectives to ensure that the Social Firm is run transparently.

7.18 PROPOSITION 16: BOARDS SHOULD COMMUNICATE THE ETHICALITY AS A COMPETITIVE ADVANTAGE

This proposition attempted to discern how relevant 'ethicality' is to the Social Firm, and particularly whether the Board communicates this as a particular feature of their strategy. There are some interesting examples of social enterprises that do so, including the Day Chocolate Company (DCC): a successful farmer-owned cooperative that has a secure, niche position in the UK confectionery market. Their unique selling proposition has at its core the fact that the cocoa used in the manufacture of their chocolate confectionery is fair trade (Doherty and Tranchell, 2005, Tiffen, 2002). Therefore, the Board embeds this ethical component (which is also their raison d'être) as part of the business strategy for the social enterprise. In this study, this 'ethical' factor was not seen as significant for any of the sample, or aligned with any of the nominal categories. Certainly, this indicates that it is not a relevant consideration for Social Firm Boards. Yet, it also infers that Social Firm Boards are expected to build a strategy around other (non-ethical) bases of competitive advantage. Given the success of organisations such as DCC, it is surprising that this option is not an expected consideration of strategy in Social Firms. This approach is not imperative for social enterprises, just that it provides possible strategic advantage for these organisations, in the markets they serve.

7.19 PROPOSITION 17: SHORT TENURE IMPROVES DIRECTOR EFFECTIVENESS

The duration of director tenure is an interesting sub-theme of the governance literature. There is a variety of views on the impact of director tenure on overall organisation performance, and this applies across sectors and organisation types (Daily and Dalton, 1993, Hermalin and Weisbach, 1988, Kesner et al., 1986, Salancik and Pfeffer, 1980). It is common for Board members, particularly trustees, to serve for longer tenure in non-profit organisations than directors in corporations are (Brown, 2005, O'Regan and Oster, 2005). There are advantages and disadvantages associated with the length of tenure, and these are explored further for the significant categories, below.

The study indicates that the size of the Board is relevant to perceptions of shorter tenure upon Board member effectiveness. In the sample used in the study, larger Boards of trustees are more common than smaller Boards. This is typical of social enterprises and non-profits generally, that have a Board of trustees with the primary executive function and / or with an oversight role. A potential benefit of larger Boards with longer tenure is the sense of stability that long-serving Board members provide. It is very important that Board members have a deep understanding of the traditions of organisations, and this is certainly true of Social Firms. Ideally, Board members can offer guidance and input that reflects a shared understanding of meaning about the Social Firm. Therefore, they assist effective governance through decision-making that aligns with institutional norms (in particular regulative and constitutive rules). Therefore, in order to maintain the *status quo*, longer tenure offers stability through long-standing processes of governance that all institutional actors understand and accept. These 'processes' also serve to legitimise the role of the Board, provided that they continue to prove effective in aiding the production of social benefit and delivering on strategic objectives. Yet, as intimated in Stage 1 of the research, problems with longer tenure arise when non-Board members (internal or externally of the Social Firm), perceive these long-serving Board members as obstacles to progress where they add little value to the organisation's activities. With little enthusiasm for the recruitment of new Board members internally and / or the availability of voluntary Board members who can add-value, the organisation suffers inertia and fails to respond to changing external conditions.

A division can be drawn here between the two perspectives of Social Firms: static vs. growth orientated. Those with longer-tenured Board members tend to be associated with 'static' Social Firms, those that are content to remain and continue providing a socially orientated approach to market. In contrast, the growth orientated Social Firms are associated with more 'progressive' approaches to Boards and governance, adopting characteristics of organisations within and without the social enterprise sector (indicating isomorphism). Typically, these adoptive activities promote smaller Boards focussed on skills and development rather than trustees and stability. Hence, shorter tenure may be a more salient feature, rather than traditional Social Firm Boards. The shorter the length of tenure, the more performance driven are Board members. If the social auditing process can confirm their effectiveness in governing the Social Firm, they have a mandate to continue in their role for a longer period. This portrays the smaller Board as more likely to exhibit shorter tenure as a mechanism for providing better Board performance.

The above discussion is constrained, of course, by the set of performance measures by which directors are deemed effective (or not). If Boards, of any size, promote longer tenure to maximise social benefit, then this would indicate Board effectiveness. Contrariwise, if the pressure of shorter tenure encourages a sharper, business-orientated vision for the Board to enhance social benefit, then the main objective is realised. The problem arises when tenure becomes a difficulty or issue for governance and guidance of the Social Firm. In which case, there must be mechanisms founded in the constitution of the Social Firm to resolve any such problem. What is not clear, and requires further investigation, is what these mechanisms are. In addition, how they can be enacted to ensure that tenure that affects 'stagnation' or the wrong type of focus (i.e. too short term or business orientated) does not become a long-term issue for the organisation.

The impact of tenure upon those individuals with budget responsibility was relevant here also. The requirement for financial transparency and accountability is a driver of shorter director tenure across sectors. Those with budget responsibility may foresee the value in restraining Board members by shorter tenure. The responsibility for ensuring the financial accountability of the social Firm will be held by key directors, and cumulatively by the Board. Shorter tenure (i.e. the threat of not being able to continue in their assigned capacity) is used as an incentive to promote greater scrutiny within the organisation, to enhance the scrutiny of auditors. Conversely, non-budget holders may view shorter ensures an inimical to the development of long-term relationships with staff and external parties. This is important in pursuing a sustainable strategy based on trust throughout the organisation. There is clearly a balance of pressures on either side of this discussion; this highlights both the dilemma facing Social Firms and social enterprises in general, and the nature of discourse throughout this Chapter.

7.20 PROPOSITION 18: DIRECTOR REMUNERATION IS NOT LINKED TO THEIR PERFORMANCE

The logic of this proposition was that in other (for example, corporate) sectors, remuneration is used to incentivise director performance. This issue attracts much media attention for the size of financial and non-financial incentives offered to successful (or otherwise) directors, Chief Executives and Chairmen. In nonprofits and social enterprises, the issue of director (or Board member) remuneration is controversial and problematic for subtly different reasons (Frumkin and Keating, 2004). Firstly, this is because these individuals are often expected to serve voluntarily (excluding Chief Executives), since the orientation of these organisations is opposite to that of corporations (i.e. non-financial objectives). The achievement of these non-financial objectives should serve, as requisite 'incentive' to improve performance, since 'doing good' is the primary aim of the organisation rather than accruing profit. Much of the literature devoted this area of nonprofit governance provides a variety of findings related to remuneration and any link to director effectiveness (Hallock, 2000, Wise, 2001). Therefore, this part of the investigation focussed on understanding whether this issue proved any relevance to particular Board characteristics.

The major finding was that the size of the Board in Social Firms is relevant to the identified proposition. This confirms that we cannot expect all Boards in Social Firms to perceive remuneration as an unimportant influence upon their performance. Clearly, there are some Social Firm Boards that perceive the level of remuneration as an incentive for their current and future performance. However, analysis depends on what constitutes large or small Boards. Firstly, consideration should be given to the mix of salaried and volunteer Board members in Social Firms. Depending on the number of Board members permitted in total, the proportion of those that serve will be paid or receive incentives for their work. Clearly, this is appropriate where the Board member can demonstrate evidence for the value of their inputs to the organisation. For example, if a full-time director is remunerated for providing marketing support to the Social Firm, enabling them to launch a new product, then it is reasonable to conclude that they could be paid for this service. In contrast, if the Board member serves as a trustee and offers little demonstrable, instrumental value to the organisation, then it is equally valid to conclude that remuneration would not be appropriate. Typically, such decisions are verified by a remuneration committee, a function that is served by the Board of trustees (or part thereof). Yet, it is possible that those Social Firms with a higher proportion of voluntary Board members, i.e. a stronger attachment to a traditional nonprofit / voluntary ethos, find remuneration as an incentive for performance as inappropriate. This reintroduces the notion that more market-focussed methods of improving individual performance is contrary to long established institutional norms that form internal expectations and activities. If smaller Boards have more salaried directors, each of which offers evidenced instrumental value to the organisation's activities, it is difficult to argue that it is inappropriate so long as it maximises social benefit. Therefore, if larger Board have a higher proportion of volunteers, but cannot evidence or provide skills that enhance performance, then the former (smaller) Board has enhanced legitimacy compared with the latter. Of course, this is contingent upon the boundaries of acceptable practise within the institutional environment. To conclude, if Social Firms develop along similar predicted lines to that of social enterprise generally, then it is foreseeable that they will tend to adopt market-focussed mechanisms for improving performance. It is arguable that the institutional environment will accept this change, albeit cautiously and over time, if it supports the overall goal of realising long-term objectives, enhancing the welfare of defined groups. Upon which, governance arrangements will need to adapt to ensure that full accountability can be assured where directors are remunerated. This study indicates that very few Social Firms make use of a regular social audit, which could pose a problem if full accountability is the aim of the Board.

7.21 PROPOSITION 19: SUSTAINABILITY SHOULD BE A KEY LONG-TERM OBJECTIVE OF A SOCIAL FIRM

This Chapter has explored the perceived credibility of relationships between transparency, accountability and sustainability in the governance of Social Firms. As the stepwise regression showed, there is no overt, significant link between each of these variables. The study has also found that sustainability is not a long-term objective of Social Firms. Though this supports the previous outcome, it is surprising that sustainability should *not* be a central goal for a social enterprise. The notion of sustainability is relevant across sectors, for example in corporations emphasis has shifted to sustainable shareholder dividend and sustainable competitive advantage. There are notable examples of successful social enterprises that have built their success around the notion of sustainability. These include the Furniture Resource Centre (FRC) and the Day Chocolate Company (DCC). However, the lack of particular significant outcomes in this study does not infer that sustainability should not be the focus of further investigation. Rather, this could be explained by sustainability being a taken-for-granted aspect of the cultural-cognitive institutional environment, so is an assumed rather than formulated and stated objective. Therefore, sustainability can be an assumed *part* of long-term strategy, rather than the primary strategic aim of organisational activity.

Of course, there is a less optimistic view: that Social Firms are increasingly focussed on short-term performance (or survival) to be concerned about grandiose plans for future success and sustainability. This would signify more pressing concerns for Social Firms and their support networks. A possible response would be to enable start-up / small Social Firms in facilitating the internal conditions to promote a longer-term strategic view. It is here that governance constitution and systems come to the fore, and the latter section of this Chapter deals with how these internal conditions might be designed to favour such a reorientation (7.27).

7.22 PROPOSITION 20: ACCOUNTABILITY ENHANCES LEGITIMACY

Accountability, as a key aspect of the governance of organisations, has been linked to governance legitimacy in prior studies (Aguilera, 2005, Charkham, 1995, Judge and Zeithaml, 1992, Mulgan, 2000, Owen et al., 2000). This proposition sought to establish the grounds upon which accountability and legitimacy were linked for Social Firms, to explore further the relations between the two variables.

Firstly, the presence (or otherwise) of a social audit was found to be significant for Social Firms in the sample. The purpose of the social audit is to prove and enhance levels (and perceptions) of accountability in any given organisation. As we have seen from earlier analysis in this Chapter (**7.2**), there is a significant association between accountability and legitimacy. Therefore, it is credible to claim that those Social Firms practising a social audit enhance their legitimacy as a direct result of enhancing their accountability. We can assert therefore that it is imperative that Social Firm Boards introduce social auditing to examine and legitimise their activities to primary stakeholders. Though it is not the lone influence upon legitimacy, it is evident that accountability must be the focus of governance in Social Firms. This has clear benefits in demonstrating how the Board operates and manages the organisation in a way that matches the goals and needs of defined stakeholder groups. Without legitimacy, a Board relinquishes its mandate as responsible stewards of the organisation. Therefore, this study has shown that Social Firm governance is the fulcrum for achieving accountability, which itself plays a part in achieving legitimacy.

Perceptions that accountability enhances legitimacy also vary according to the number of Board members serving in a Social Firm. Once more, this emphasises the difference in perspective according to either small or large Boards. One view is that larger Boards have a sizeable non-executive component have a more enhanced oversight role. As such, these Boards have an independence from the operations of the organisation. It is likely, then, that they will more readily link accountability (the key element of their activities) with legitimacy of the Social Firm. Alternatively, smaller Social Firm Boards with a significant functional aspect to members' involvement may dispose them to be cognisant of the accountability-legitimacy link. Through regular contact and engagement with staff and stakeholders, smaller Boards and members are more 'visible', hence those groups to which Boards are accountable to have a much better understanding of where responsibilities for performance reside.

7.23 PROPOSITION 21: LEGITIMATE GOVERNANCE WILL BE LINKED TO THE PRESENCE OF SHARED VALUES

A prime aspect of the cultural-cognitive 'pillar' of the institutional theory of organisations is the presence of shared values and meanings (Scott, 2001). If we conceptualise the organisation as a social entity, subsequent analysis of it, its constituents and actors account for formal and informal rules that bind all variables together. The processes that occur within the organisation are viewed as a direct cause of conforming with shared meanings about institutional norms. Thus, governance processes can be discussed in terms of how they promote conformity with these norms, achieving legitimacy. This proposition sought to ascertain the appropriateness of this link: shared meanings *are* indeed linked with legitimate governance.

Board size has been shown to be significant for perceptions of governance legitimacy and the role of shared meanings and values. There are two general interpretations of this outcome: that shared values are important in governance, and / or that the strength of the values does not permeate the governance process for extraneous reasons. The former argument fits with the accepted view of regulative and constitutive rules in the institutional environment. Shared understanding of the meanings of these rules directs internal actors in how to perform their roles and the expected outcomes from them. Therefore, the impact of this informal regulation of behaviour minimises the need for direct intervention through governance (since actors should and do conform to expected standards of behaviour). The core of these shared values is manifested in the achievement in a common goal, namely maximising social benefit to a defined group. The importance of this goal to all internal actors is sufficient to constrain the degree to which they will take risks to jeopardise outcomes. The latter view counterpoises the former by assuming that there is an overt cause for shared values to *not* control managerial activity and influence governance. Though this 'overt cause' remains precluded from analysis in this study, we can assert that this cause is itself influence by the size of the Board. Therefore, the major point of interest here is whether large or small Boards manifest shared values in their decisions and methods of governing the Social Firm.

If governance pursues the values and interests of key stakeholders, legitimacy results. The type of Board with greater stakeholder participation (most likely a larger Board) will manifest such a quality. Alternatively, where shared values are not important to legitimate governance, we can expect that governance legitimacy be judged by other means, namely auditing and performance towards set objectives. These outcomes may not reflect shared values when they relate to level of surplus realised, organisation growth, and so on. These outcomes are not in synchronisation with the shared values of key stakeholders. However, they do legitimise governance because they explain how the Board has performed successfully over a given period.

7.24 PROPOSITION 22: LEGITIMACY IS ACQUIRED BY MAXIMISING SOCIAL BENEFIT

A central theme of this thesis has been to determine the best way for a Social Firm to maximise social benefit. So integral is this goal to social enterprises in general, it was asserted that legitimacy for the existence of a social enterprise depends on its success in delivering social benefit. An emergent issue that complicates the pursuit of social benefit is the prediction that managers and directors are shifting away from a social benefit focus towards managing the business enterprise itself (Dart, 2004, Mason et al., 2007, Young, 2002). The study investigated this further, and found key differences according to the type and number of staff employed at Social Firms in the sample.

Firstly, consideration is given to the nature of employment of staff in Social Firms. The mix of staff employed in Social Firms is divided between either salaried staff or a mix of salaried and volunteers. A possible cause of the difference between the groups could be the presence (or absence) of a volunteerism 'ethos' amongst the staff. Where volunteers constitute a proportion of the workforce, we can assert that these groups are more likely to be committed to the Social Firm due to sharing core values. Hence, these organisations will be driven to legitimise their activities by acquiring social benefit. Alternatively, those Social Firms that employ salaried staff alone may lack this commitment to the organisation's social mission. Rather than giving their time and effort for the 'greater good', staff are motivated by paid employment and financial rewarded for better performance. Therefore, legitimacy is not acquired by achieving social benefit, it is realised through better business performance. This outcome elucidates a division between Social Firms that focus on social benefit and stability, against entrepreneurship and growth.

Secondly, organisation size, as determined by the number of staff employed, has also been found to be significant for this proposition. Social Firms that have been more successful and have achieved growth are more likely to require increased human resources to manage that growth. Therefore, with a much keener focus on non-social performance, these organisations are less likely to feel constrained by the need to justify all activities on the grounds of also providing social benefit. This provides a problem for the Board in communicating and diffusing the social values to a sprawling network of staff, who may be motivated by concerns other than maximising social benefit. This is perhaps why social enterprises such as DCC have proven so successful, not least because the Board is heavily represented (in executive positions) by key stakeholders. Therefore, one possible avenue of redress for these scenarios is to identify how key stakeholders can (visibly) influence the diffusion and maintenance of social values throughout the organisation. It is important that the Social Firm remains a valid enterprise as well as a thriving social organisation.

Social Firms with fewer staff employed may have closer ties with traditional social values, and value social benefit as the main achievement that can attain legitimacy. Maintaining this as a key determinant of legitimacy might be easier to manage in smaller organisations. Yet these Social Firms run the risk of over-compensating towards social benefit, without demanding better non-social performance. Without this latter requirement, many social enterprises fail to make the transition from grant funding to self-sufficiency. Therefore, it is important for Boards in these organisations to have a balance of skills and representation to re-focus the strategy on sustainability.

7.25 PROPOSITION 23: TRANSPARENCY AND ACCOUNTABILITY EQUATE TO SUSTAINABILITY

This proposition extends a supposed syllogistic relationship between transparency and accountability, leading to a sustainable outcome from Social Firm governance. This outcome is instructive as it confirms the findings from the regression model, above (7.2). The stepwise regression model showed that there was no causal association between transparency, accountability and sustainability. This outcome usefully confirms the absence of an association between these variables.

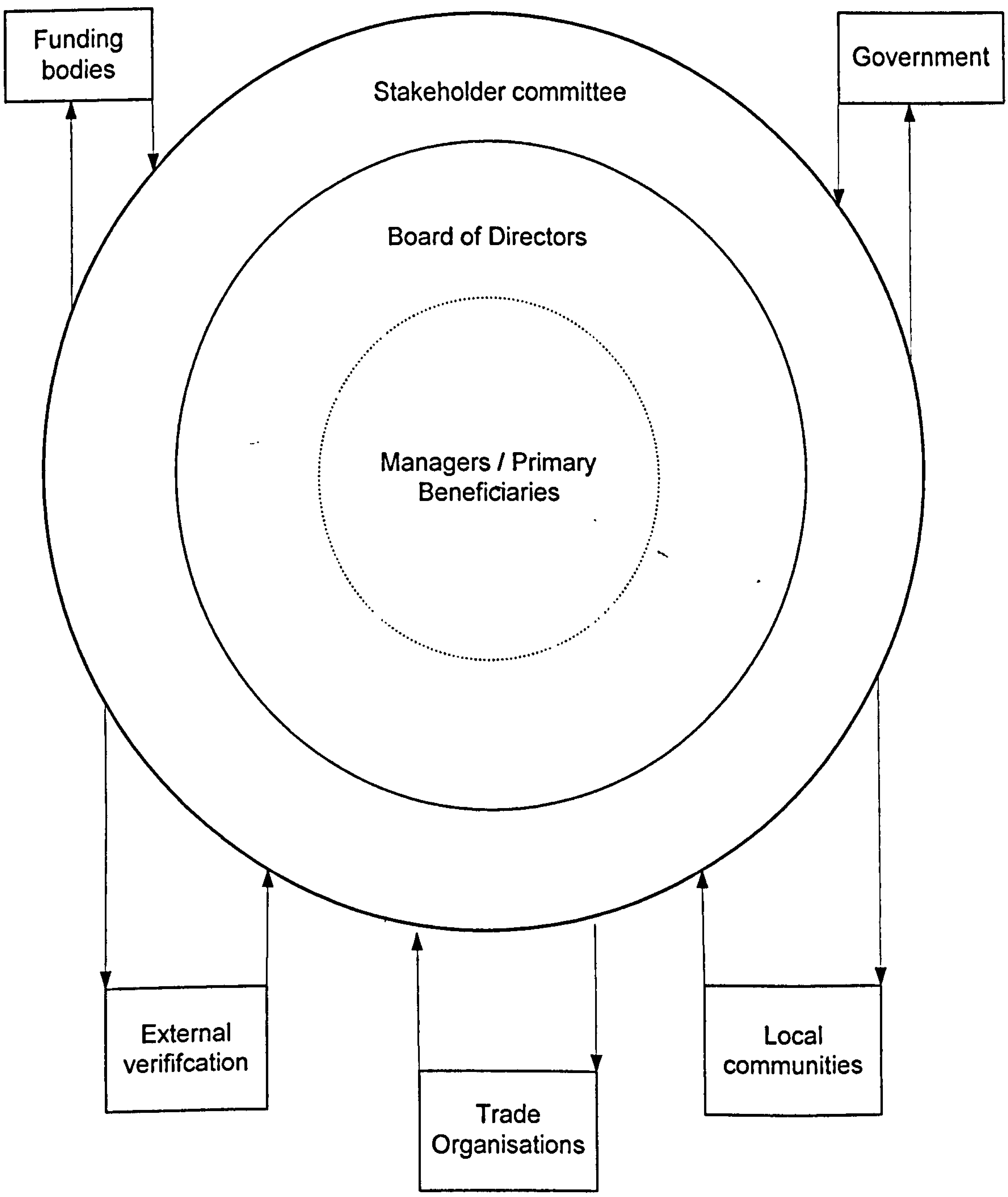
7.26 PROPOSITION 24: BOARD PROCESSES AND DECISIONS ARE BASED ON INSTITUTIONAL NORMS

The final proposition that was tested in the study related to the influence of institutional norms on Board decisions. The influence of the institutional environment on organisations has been reiterated throughout this thesis. Many previous studies have focussed on its influence upon corporate governance (Forbes and Milliken, 1999, Judge and Zeithaml, 1992, Ocasio, 1999, Oliver, 1991, Oliver, 1997). This study found that the budget responsibility of respondents was significant for further analysis. This could indicate that those individuals acquainted with a rigorous examination of their financial decisions perceive the Board as driven by formal, rather than informal systems of accountability. In turn, this shows that non-budget holders perceive Board activities as firmly rooted in the shared understanding of the Social Firm's institutional environment. If Board performance is improved by establishing formal procedures of accountability, then the benefits are clear. This would fit with an institutional environment that aims to promote ethical behaviour by its members.

7.27 A CONCEPTUAL 'MODEL' OF SOCIAL FIRM GOVERNANCE

The final stage of analysis considers the broader implications of the study. In particular, this includes conceptualising the governance structure / arrangements of the Social Firm. Because of the analysis provided in the Chapter, several considerations influence the design of governance arrangements for a Social Firm. The diagram of the model is shown below. It should be noted that the concentric circle lines are not intended to represent actual boundaries, just notional divisions of responsibility. It is important that all members understand the value of these systems, particularly to understand how it represents legitimacy-seeking activity. Implicitly these systems symbolise that the Board needs them to account for all decisions and activities made by key individuals in the organisation.

Figure 7.1 A Conceptual Model of Social Firm Governance



7.27.1 INTERNAL ORGANISATION

There are three main groups identified in the model that reside 'internally' to the organisation: managers, Board of directors and a stakeholder committee (presently this is represented by a Board of trustees). The co-existence of Boards of directors and trustees is not common in Social Firms used in the study: usually the latter is commonplace. Using the existing literature and surveying the findings from this investigation, the presence of a Board of directors is instrumental to resolving some of the issues uncovered herein.

7.27.2 MANAGERS / PRIMARY BENEFICIARIES

Managers (or key staff) form a central part of the Social Firm governance model. They are positioned at its core because they commonly represent the primary beneficiaries of the Social Firm's operation. This group is also instrumental in achieving the business goals of the Social Firm. Therefore, they are at the core of the model because of their instrumentality and the power they hold over providing legitimacy to the Board and the organisation. It is logical that governance of the organisation must be in the interests of this group. All the actions taken by the Board should positively affect this group at the centre of the model. Furthermore, this group should also be involved in *governing* the organisation. This would involve nominating a member (or members) of the staff to serve on the Board, preferably two: one from the primary stakeholder group and one not. This 'opens up' the Board to participation by non-Board staff, allowing them to contribute to the strategic direction of the organisation. This inclusion would also enhance transparency and accountability, though ensuring this is within the remit of the stakeholder committee. This group must be involved and aware of the activities of the Board of directors and stakeholder committee, to be able to legitimise them and the organisation.

This group provides inputs in terms of human resources, skills and aptitude in operational terms. They also provide useful information to members of both the Board of directors and stakeholder committee to assist their decision-making process. The outputs produced could include better product / service delivery, skills development and value production. The more successful this group is at achieving this legitimacy acquisition can become self-perpetuating. This is because the primary beneficiaries receive social benefit as a result of better performance. The Board of directors and stakeholder committee shape the internal conditions that determine how well they can perform. Their rationale, inputs and outputs are discussed below.

7.27.3 BOARD OF DIRECTORS

The conception of the Board of directors in this study is as an instrumental, functional group of business *experts*. This differentiates from the role of a Board of trustees, a body that is expected to fulfil two roles: oversight and strategic impetus. This is ineffective because there is no separation of powers. In this model, the Board of directors, serving the key stakeholders, are unburdened from the task of holding themselves and the entire organisation accountable. This role is taken partly by the next group in the model (below). Rather, they can utilise their time and expertise in driving the Social Firm forward and delivering on multiple performance goals. This is very important, because it enables the Board to improve their performance and enhance its ability to promote legitimacy-seeking activity. The Board is also smaller in number, avoiding the problem of larger Board size indicated in this study and in the prevailing literature (Eisenberg et al., 1998, Yermack, 1996).

directors with the requisite skills and experience are clearly essential here: though ideally directors would be individuals with a clear understanding of, and empathy for the organisation (shared meanings). This opens up opportunities for current managers and other staff with experience of the organisation, who may require some training to fulfil the role of functional director. However, it is more important that directors have the skills to be able to contribute, rather than simply being drawn from the pool of primary stakeholders. The Board of directors would accommodate a Chief Executive, who may also be drawn from outside the organisation. The Chairman (if required) would serve on the stakeholder committee, to augment the power base between the two, co-existing Boards.

The Board of directors provide inputs to the organisation through their expertise, and ability to improve the business performance of the Social Firm. Through this, they enable greater social benefit. This is achieved via improving access to employment for their primary stakeholders. In return, they may receive some remunerative benefit, as appears possible from this study (**7.20**). Of course, this depends on the acceptability of this to the Social Firm: it cannot be dismissed as inappropriate in all situations on the basis that social enterprise should not financially reward staff for success.

7.27.4 STAKEHOLDER COMMITTEE

The stakeholder committee is a body that co-exists but is independent from the Board of directors. This group is similar to a Board of trustees in that it is representative and inclusive of various groups' interests. However, it differs from the existing Boards of trustees because it works *with* a separate Board of directors to ensure accountability (i.e. managing the social audit), and representing stakeholder input into decisions made by the Board of directors. Currently, Boards of trustees are required to provide a range of inputs, that they are ill-disposed to perform effectively. Re-positioning this Board as an executive committee would work because it defines the exact boundaries of the committee's responsibilities. In addition, it would show where the latter differs from the Board of directors.

The constitution of the committee must be representative: thus, it should comprise staff, primary stakeholders, and other parties external to the organisation, including funding bodies, local government agencies (as appropriate). This committee should also be given the opportunity to consult on key business decisions by the Board of directors. This should represent the range of interests in the Social Firm, cutting down on larger Boards of trustees by splitting executive function from the necessary oversight function. They should also encourage greater transparency and accountability by bridging a communication gap between the Board of directors and staff. In addition, since staff generally comprises the primary stakeholder group, this can enhance legitimacy-seeking behaviour.

The committee, in addition to consulting with the Board of directors on key decisions, add-value through: managing the social audit, enhancing inclusion throughout the organisation, improving transparency via better links with stakeholders and accountability though better oversight of directors and staff. Their presence would fit with the norms of the institutional environment, since its purpose aligns with the social and ethical orientation of Social Firms. Yet it also suits the business element of Social Firms because it reassigns an existing constraint of assuring oversight from the Board of directors. In so doing, it frees the Board to focus the organisations operational capabilities more effectively. The committee has the sole task of ensuring that the methods the Board adopts to achieve this are transparent, accountable and concordant with institutional norms. Hence, the committee aid the Board of directors in acquiring legitimacy from primary beneficiaries.

There are some caveats to this proposed committee. Firstly, committee members must have an agreed brief and remit of responsibility. This determines where the responsibilities of the group begin and end, drawing a faint dividing line between the committee and the Board of directors. Secondly, the group must be able to meet on a convenient and relatively frequent basis. If it does not convene on a sufficiently frequent or convenient basis, then there is an overt problem in the group's constitution. This could make the committee benign, unable to influence the governance of the Social Firm. Members, if required, should be able to acquire training and skills-acquisition to fulfil their roles. This ensures that staff and other members without the requisite skills can add-value to the roles they perform. Furthermore, the issue of a minimum commitment / tenure for members needs to be determined. For the committee to be effective over time, there must be stability within the group to build trust and legitimise its existence to other stakeholder groups. Finally, the committee has to be responsive to the dynamic operational environment of the organisation. This aspect of the group is one that would have to be managed at a local level and is difficult to mitigate for at the conceptual level. This is because of the unique contexts applicable to every Social Firm, including the set of skills available to each committee and the mix of different people and their power relationships within the organisation. Yet, it is clear that to remain responsive to change, the committee (and the Board of directors) would be adversely affected by dominant, key individuals (for example the Chief Executive or Chairman). Therefore, it is vital that there are mitigating conditions in place to reconcile such issues when the governance and management of the Social Firm is inimical to progress.

7.27.5 EXTERNAL ORGANISATION

This section of the analysis examines the expected roles and influence of groups 'external' to the core organisation. These have been divided into five key groups: trade / support groups, external verification, funding bodies, government and the local community.

7.27.6 TRADE / SUPPORT GROUPS

Trade organisations have influence over particular social enterprise types, or try to support the sector generally. The nature of this support is typically *non-financial*, thus differentiating these groups further from funding bodies (**7.27.8**, below). Their primary interest is in ensuring the success of its members and to this end represents their interests. From Stage 1 of this study (Chapter 4), it was evident that all of the interviewees had their members' interests at the forefront of their responses, whether these were positive or negative. They have become a stakeholder group as a result. They provide inputs to the Social Firm through support, training, performance tools development, networking opportunities and championing their cause on a local and national scale. The outputs they receive are the creation of similar organisations, if the sector continues to grow, and legitimacy for *their* existence if they play a part in creating a successful environment for Social Firms.

7.27.7 EXTERNAL VERIFICATION:

This group represents those organisations that are involved in external verification of financial and social audits (such as the New Economics Foundation). They are important because they form a key part of the process of ensuring accountability. Therefore, in this conceptual model, they assist the stakeholder committee in providing an accurate assessment of the accountability of instrumental groups within the Social Firm. These groups also set the standard for social auditing and accounting, with many different programmes having been developed (including SROI, Local Multiplier 3, 'Prove It', 'Looking Back to Move Forward'). Therefore, to utilise these approaches adds to the credibility of the Social Firm's governance process by using (and meeting) an 'industry standard'. This can facilitate accountability throughout the Social Firm; hence, it is crucial that the stakeholder committee has the necessary resources to engage in these activities. The study found that very few Social Firms partake in social auditing, which will need to change if the ultimate goal is to ensure better accountability at Board level.

7.27.8 FUNDING BODIES

These organisations play a crucial role in facilitating start-up social enterprises, and offer a fixed-term level of financial support in the short-term. They also have a non-financial interest in the organisation. However, they have 'stakes', for example, the pursuance of economic and social regeneration. It is important for these organisations to fund viable projects that have defined objectives and can evidence delivery of social value. To this end, they exert pressure on social enterprise to provide this proof of meeting defined aims. This process is an important consideration for Social Firms, if they are indicative of social enterprises in the UK, because they must show a willingness to move away from funding.

The problem for funding bodies is that a proportion of these organisations are content to move from one source of funding to another, ensuring their existence for as long as they can secure funding. This is contrary to the rhetoric of social enterprise, to use funding where appropriate but with the goal of becoming a viable enterprise in its own right. This ideal is the, albeit slowly growing, minority. Therefore, Social Firms must be able to develop a coherent strategy to move away from funding, or at least satisfy funders, to enable their future legitimacy and sustainability. The conceptual model promotes this by combining a range of interests at management level: business-focussed directors and a stakeholder committee with authority to contribute to strategic direction.

7.27.9 GOVERNMENT

The role of Government agencies is to promote and support their own agenda and policy for the social enterprise sector in the UK. Invariably, the decisions taken at this level will affect Social Firms, and could influence individual functions such as governance. Government policy intends to shape the sector by encouraging greater levels of involvement. However, it is the role of support groups to communicate this agenda to the social enterprise sector (the Social Enterprise Coalition is recognised as the most influential in this regard). Like all organisations, Social Firms will be influenced by macro-level changes in industries. These changes can be often catalysed by Government activity, and the social enterprise sector is of particular interest to the UK Government for reason of inclusion, access to employment and social regeneration of communities (DTI, 2002, DTI, 2006). Social Firms contribute to achieving these goals, and therefore collectively influence the achievement of these broad policy goals.

Returning to the notion of industry change, Government influence is currently pushing the sector towards isomorphism. The UK Government advocates the dissemination of best practice by successful social enterprises, as well as 'sector champions'. The rationale behind this is that smaller enterprises (or potential social entrepreneurs) can apply some of these learned experiences to their own organisation, and adapt it to replicate success. The degree to which isomorphism occurs, and how, is currently open to debate. However, a steadily growing body of scholarship supports and builds on this prediction (Mason et al., 2007, Nyssens, 2006, Reid and Griffith, 2006). Therefore, we can see how broader, macro-level policy decisions by Governments *might* influence the shaping of the social enterprise sector. Thus confirming the influence the various inputs and influence such agencies have on the typical Social Firm.

7.27.10 LOCAL COMMUNITY

Finally, consideration is given to the influence and impact of local communities. This group is implicitly a part of the institutional environment, since they support the Social Firms (in terms of provided human resources), and receive economic benefits on a local scale (through employment and economic activity). This last point is interesting, because all social enterprises are viewed as important in enabling the regeneration of towns and cities where economic deprivation denies many individuals employment opportunities to correct this situation. Therefore, there is a reciprocal relationship between Social Firms and local communities, which should be mutually beneficial. Therefore, in the broader strategic context of Social Firm sustainability, Social Firm governance must account for how their activities will benefit the local community in the longer-term. This study provided mixed evidence about perceptions of sustainability as a necessary part of Social Firm strategy. This contradicts the prevailing view of sustainability for these (and other) types of organisations, leading to the tentative conclusion that most Social Firms are not in a position to strategise for sustainability. This should change, and the stakeholder committee must be sufficiently aware of the impact Social Firm activities have on the local community. Therefore, it is vital that this committee ensures that the organisation is transparent form the outside, looking inside.

7.27.11 COMMENTS ON THE MODEL

A summary of the conceptual model and explanation of its various components is detailed here. Discussion of its limitations is provided in a separate section below (7.28.6). The model promotes many benefits to the Social Firm. Firstly, it delineates between a functional 'Board' and a separate body charged with ensuring that the business element provides accountability. The former is better placed to deliver business performance and maximise social benefit, by employing experts and specialists rather than trustees. This accommodates the application of stewardship theory to directors in social enterprises (Low, 2006, Reid and Griffith, 2006). The latter provides an oversight role, removing the burden from the former Board. This 'committee' also satisfies ethical requirements for inclusion of stakeholders at a senior level within the organisation. Therefore, overall Board size (an issue in this study) is less of an issue by splitting the group into 'stewards' and 'gatekeepers'.

The model recognises the centrality of managers / staff as primary beneficiaries in the Social Firm, having a dual function. All value-adding activities conducted by the two management groups are received by the central group. This provides them with the required social benefit: the primary reason for the Social Firm's existence. In return, the central group confers legitimacy, and assures the continued existence of the organisation. This approach differs from the idea of managerial hegemony, because managers' most influential role is as primary beneficiaries. Authority is still placed above the managerial level, and in this sense, the governance arrangements are 'hierarchical' (although the model does not reflect this).

In an effort to avoid over-complicating the conceptual model, relationships with external groups were defined in relatively linear terms: inputs vs. outputs. The main thrust of their inclusion in the model was the degree to which these groups influence the Social Firm, and the duties to these groups that governance must accommodate. Attempts were also made to outline the level at which these groups influence the organisation (micro- or macro-). Overall, these groups are important in shaping the Social Firm from start-up to sustainable enterprise, and they can influence legitimacy as a result.

7.28 LIMITATIONS

The findings and analysis of the current and prior Chapters of the study must be judged in relation to the limitations that apply to the study. The limitations that apply to the methodology were discussed in previous Chapters (**4.8; 5.10.1; 5.10.5**). This section deals specifically with the limitations that apply to the findings and analysis in Chapters 6 and 7.

7. 28.1 SAMPLE SIZE

Firstly, there are issues concerning the relatively small sample size acquired in the study. Principally, this applies to the reliability of significant findings. A larger sample would have enabled analysis that is more reliable and enhanced the possibility more certain predictions. The difficulty in achieving a higher response was due to a number of reasons. These included the relatively small population of Social Firms available (118 registered Social Firm members), limited access to the sample (the best access was via mail), and the discretionary nature of involvement (a limiting factor but ethically proper). Despite this, a useable sample size was achieved. Yet it is regrettable that more Social Firms could have been involved in the study, which appears to have unearthed much of interest to the Social Firm sector.

7.28.2 GENERALISABILITY

There is a problem of generalisability in this study, limiting the application of findings to other social enterprise types. It is difficult to justify the appropriateness of the findings across contexts, when these findings refer to specific, dynamic conditions. The conditions that influence governance as well as other functional activities inside the organisation are not replicable over time and in different contexts. Therefore, findings from the study can only be applied to Social Firms alone. Efforts have been made throughout the thesis to refer explicitly to Social Firms rather than social enterprises (unless appropriate).

In addition, the exploratory nature of the research detracted from the usefulness of the study. This is because it did (and arguable could) not offer more precise outcomes that related to hypotheses, rather than more general propositions. The decision was taken very early on that the exploratory approach was the best method of inquiry, because there was (and still is) very little prior research of social enterprise governance. Where this research has been done, researchers have been clear in asserting similar limiting factors regarding generalising across social enterprise types. This is a conundrum for research in this area: determining how useful research can be when it is clear that findings cannot be reliably generalised. Many social enterprise practitioners continue to debate the same issues, such as appropriate definitions that account for the difference within the sector. These debates are meant to be constructive, but perhaps result in being counter-productive. Hence, researchers tend to be more pragmatic (rather than pedantic) over definitions and focus on pursuing a general social enterprise research agenda, leaving it to practitioners to adopt new ideas and approaches as they see fit.

7.28.3 CONSTRUCT DEVELOPMENT

There were some issues surrounding the development and integrity of the constructs developed for the dependent and predictor variables. With a disparate base of literature to develop the constructs with, some were more reliable than others. Although the overall scale was internally consistent (Cronbach's Alpha: 0.888), there was still scope for the individual constructs to be developed more reliably. More time spent testing the constructs for validity would certainly have improved the usefulness of the implications drawn from the data. This is an important caveat for such an exploratory study, where many of the constructs used were developed from prior (non-empirical) literature. The constructs that were developed may prove a useful starting point for further research seeking to build on some of the central ideas adopted in this study.

7.28.4 MEASUREMENT INSTRUMENT DEVELOPMENT

The development of the Likert statements used to test the general propositions should also be scrutinised here. Upon reflection, some of these statements were too ambiguous and did not succinctly communicate their subject. Again, this could have been corrected before the first deployment of questionnaires during the piloting phase. This aspect of the study was not as well developed as it should have been, and this is due to poor planning at this stage. This could have been avoided for the most part, by a more thorough piloting stage for the questionnaire. Reflection on this stage exposes it as a weak point in the instrument development process. Given the generally high internal consistency of the constructs, it is difficult to ascertain the magnitude this limitation had on the data collected.

7.28.5 METHODOLOGICAL CONFLICT / CHOICE OF METHODS

The choice of mixed methodology and of postpositivism also caused problems. Though it is perhaps well suited for exploratory research (covering a number of data considerations), it would have been better to adopt a more novel methodological stance. The relativist concessions of postpositivism leave the enquirer betwixt and between. Lacking the epistemological and ontological absolutism of other approaches (positivism and phenomenology) forces the enquirer to justify the approach on a number of levels.

In relation to the methods used, a more apt approach would have been Board shadowing: with the complicity of a particular (or a few) Social Firms, the enquirer is able to observe Board level activities and gain much better access to the reality of governance in organisations. Alternatively, and perhaps as a result of exploratory studies such as this, future research should be grounded more closely in the methodological norms associated with mainstream governance research. Though the contexts differ, the nature of investigation is similar: examining the nature of relationships and processes that manage relationships between key stakeholders in organisations.

7.28.6 LIMITATIONS OF THE GOVERNANCE MODEL

Finally, consideration must be given to limitations inherent in the conceptual model described above. Firstly, this model is a simplistic representation of how governance might be improved by reassigning some roles and responsibilities in Social Firm governance. It does not attempt to account for the dynamism of the real-time operational environment, though this could be determined through further research and development of the key ideas it presents. The development of minutiae for each aspect of the model remains vague. This is because the particular elements of each role, including frequency of meetings, arrangements for skills training and boundaries of responsibility must be determined at the local level, as needs determine.

7.29 CHAPTER SUMMARY

This Chapter has given a full account of the findings outlined in Chapter 6. In so doing, it provided analysis of all of the propositions that were developed in the thesis. The recurrent significant themes emerging from the study included: job; the number of Board members; the presence of the social audit; perceptions of Board effectiveness, and the locus of decision-making authority. The culmination of this analysis was the conceptualisation of a model of governance in Social Firms. In particular, this model focussed on the relations within the Social Firm, and how the governance of them enhances legitimacy.

Finally, attention was given to the limiting influences on the study, and there were some worthy of consideration. Principally, the small size of the sample and the validity of the constructs developed were limiting influences. In addition, the choice of methodology and methods was criticised, and some alternative options worthwhile of future study of Boards in Social Firms. The Chapter concluded with an outline of the caveats associated with the conceptual model, the particular constraints that might limit its usefulness. The next Chapter evaluates the overall impact of the study. In so doing, it contemplates the general conclusions that can be drawn from the findings and implications detailed in the Chapter. In addition, it considers the opportunities for further research in this area, in light of the conclusions drawn.

CHAPTER 8

CONCLUSIONS AND FURTHER WORK

8.1 INTRODUCTION

This final Chapter outlines the number of conclusions that have been drawn from this study. Firstly, it revisits the research question and objectives for the study developed in Chapter 2. The degree to which the findings of the study inform these research goals is discussed. It summarises the outcomes of the study according to the variables used. A brief conclusion is provided on the conceptual model and its possible application in practice. Furthermore, there are several areas for research that require deeper examination than could be explored in this thesis. These are discussed at length in the penultimate section of the Chapter.

8.2 CONCLUSIONS

Mindful of the analysis (and limitations) of this study, there are general conclusions that can be drawn about Social Firms, and their governance. The research question that framed the investigation stated:

Do attitudes to governance influence perceptions of performance in Social Firms?

At this stage of the thesis, we can revisit this question in light of the range of findings uncovered. Primarily, we can determine that perceptions of governance do influence perceptions of performance in a number of ways.

There are instances where respondents found that their Boards were considered to be ineffective. This signals that key groups within Social Firms are disenchanted with the existing Board. This exemplifies some key success factors for the Board: their effectiveness is contingent upon how well they deliver in certain areas. These include supporting managers, providing strategic direction and disclosure, and balancing business with social aims. We can conclude that the first task for a Social Firm's Board is to address how well it currently performs in relation to these areas.

The number of Board members serving in Social Firms was a recurrent significant category. Therefore, it is essential that the Board conduct a skills audit to ensure that it has a good balance of skills, capable of managing the balance of business and social benefit. It is vital that the Board does not carry any long-serving members who cannot (or will not) contribute in a way that adds-value to the process of governance. Therefore, this study proposes splitting the Board into two: counterpoising a smaller instrumental Board of directors with a (larger) representative stakeholder committee with a consultation role. A skills-audit of the Board's developmental requirements would facilitate this process, and provide direction for future added-value Board activities.

Related to the above point, the locus of decision-making authority was another key factor in this study. Certain aspects of good governance, for example democracy and transparency, were constrained by the individual(s) with the ultimate sanction. As this is an issue, the conceptual model provided a stakeholder committee that would be the final arbiter of major decisions affecting key aspects of the Social Firms service delivery.

The research objectives in Chapter 2 were developed to elucidate how the research question would be approached. This sub-section examines these objectives, and assesses the general outcomes of the study.

8.2.1 ACCOUNTABILITY AND LEGITIMACY IN SOCIAL FIRM GOVERNANCE

This section considers two of the research objectives, which are:

- The influence of accountability on the legitimacy of social enterprise governance.

- The significance of any relationship(s) between transparency, accountability, sustainability and legitimacy.

The study tested for the presence of any association between the dependent and predictor variables. Analysis found that one significant association exists between two of the variables: accountability (dependent) and legitimacy (predictor). This association is concordant with the salient corporate governance literature, which places accountability as one of the main features of good governance in a range of organisations. Therefore, we have empirical evidence here that suggests this association is also important in Social Firms. This link might have been assumed previously, though no primary research exists to confirm this assumption.

The more focussed a Board (or similar group) is on achieving accountability, the more likely that its goals align with those of the organisation's primary beneficiaries. In the Social Firm, primary beneficiaries are integrated into the organisation, playing a key part in the economic viability of the organisation. Therefore, they are ideally placed to pressurise Boards to enhance their accountability profile to provide evidence of their competence and the alignment of interests. This benefits the organisation, since greater accountability should result in legitimacy and the continued existence of the Social Firm. This is because legitimacy represents a confirmation that the Board's activities are within the regulative and constitutive rules of the institutional environment.

8.2.2 THE DEVELOPMENT OF THE CONSTRUCTS

Aside from relationships between the dependent and predictor variables, the investigation also established elements of each defined construct used. These are addressed in turn below.

8.2.2.1 TRANSPARENCY

Transparency is a salient and enduring feature of corporate governance. In this study, perceptions of transparency were tested against a number of propositions (P4, P5, P6, P7, P8 and P10). The study found that all save one of the six propositions were found to be significant. For Social Firms in this study, a transparency construct emerges. Normatively, transparency indicates better governance performance, which aligns with the prevalent view of transparency in the mainstream corporate governance literature. Three facets of transparency are trust, democracy and disclosure, and Board effectiveness is judged on its presence (or lack thereof). The importance of disclosure differs according to a number of different factors, highlighting disparities between Board and non-Board members and the age of the Social Firm. This emergent transparency construct would also promote stakeholder inclusion at Board level, though Board members and non-Board members have different perspectives of this.

No significant association exists between transparency and the other variables used in the study. However, we can conclude that it offers some interesting opportunities to challenge to the view that transparency is a taken-for-granted aspect of good governance. Reality diverges from the theoretical terrain because there are clear differences in perceptions of transparency, and what activities constitute it. Furthermore, transparency is less important to achieving legitimate governance than accountability.

8.2.2.2 ACCOUNTABILITY

As mentioned previously, accountability shows a significant association with legitimacy. Yet, as a construct, a number of significant findings also emerge that aid understanding of accountability in Social Firm governance, aside of relationships with other variables. There were several propositions related to accountability (P3, P9, P11, P12, P13, P17, P18, P20, and P24). Of these propositions, only two were *not* significant. Therefore, regarding accountability and the governance of Social Firms, a construct emerges.

As accountability is an indicator of better governance, Social Firm Boards should ensure that they are accountable for performance. This enables the Social Firm to acquire and perpetuate legitimacy. The standards of ethical practice play a part in achieving accountability, and this is the responsibility of the Board. One of the research objectives referred to managers' ethical performance as controlled by the over-riding importance of the social mission. This aspect of the accountability construct shows that ethical behaviour is not assured in this way, instead the Board has the responsibility for setting and maintaining standards. The typical dichotomy of social enterprise, between business and social benefit, is present and Boards should be accountable for competitive performance. A feature of Social Firm governance that may enhance accountability is Board member tenure: shorter tenure can play a role improving their performance.

8.2.2.3 SUSTAINABILITY

The propositions tested for sustainability were P2, P14, P15, P16, P19 and P23. The study found the three of the six propositions were valid. Sustainability showed no association with legitimacy, however we can conclude that sustainability in Social Firms has at least three aspects. To enable sustainability, Boards should support managers to deliver on social objectives. In addition, they should also provide strategic direction to enable business sustainability. Clearly, if the Board can embed governance processes that enhance accountability on business and social fronts, the long-term impact would be sustainability.

There is a divergence of view whether the Board *can* possess the skills required to govern the social enterprise effectively. In a unitary Board structure, its scope of responsibility will necessitate a larger recruitment of and representation amongst its members. After all, social enterprises have a variety of conflicting demands to satisfy. Primary stakeholder set the conditions upon which these demands are met, and the role of the Board is to manage the conditions appropriately. They are judged to be accountable in the short- and medium-term; long-term accountability is synonymous with sustainability. This study found that Board size is an important issue facing Social Firms. The sustainability of larger Boards can only be assured if the skills-set matches the requirements of primary stakeholders and market demands. It is not certain that these Boards are effective in this regard; there is no evidence in this study linking sustainability with legitimacy. Yet, it is possible to conclude that sustainability is still an important long-term objective. This long-term strategy can only be achieved if governance enables all those responsible for its achievement to operate on two, often conflicting, fronts.

8.2.2.4 LEGITIMACY

Finally, the propositions that were developed to explore perceptions of legitimacy comprised P1, P21, P22 and P24. Two of the four propositions were valid following analysis of the findings. Legitimate governance in Social Firms is contingent upon the Board successfully balancing social aims with business-focus. This is a key feature of all social enterprises, and it is unsurprising that it remains so. Furthermore, the study found that legitimacy is acquired by maximising social benefit. Therefore, governance in Social Firms must promote the most effective ways of providing social benefit, as a means to acquiring legitimacy. This is consistent with the findings from the accountability propositions, and there is an association between the two variables. The most important outcome of Social Firm governance is legitimacy, and the most effective way of achieving this is via ensuring accountability. The present arrangements in place may jeopardise the Board evidencing its performance, consequently its accountability. The lack of social auditing procedures may expedite these problems. Therefore, we must examine the link between social auditing and legitimacy in greater depth, to ensure that the process is a rational and achievable option for Social Firms.

8.2.3 A MODEL OF GOVERNANCE

The final task involved in this study was the consideration and development of a conceptual model that represents a holistic view of the formal and informal governance arrangements in Social Firms. One of the major outcomes from the analysis was that the Board of trustees is expected (and is ill equipped to) perform two general functions. The first is to oversee that the Social Firm is run in the interests of stakeholders. The second is to offer support to managers in their jobs, providing a source of business-specific knowledge and expertise. Hence, an alternative approach was developed that sought to resolve the issue of over-burdening any particular group involved in governance. It also attempted to accommodate current theoretical perspectives of social enterprise governance. To this end, managers and directors are 'stewards' of the organisation, whilst committee members provide the necessary oversight top ensure legitimacy.

The resulting model centred on the legitimising authority of the managers / staff member (where these individuals are also primary beneficiaries). This group is served and strategically guided by a small Board of directors, who possesses particular business skills / experience. This enables them to embed an instrumental and beneficial approach to enterprise activities undertaken at the Social Firm. The social interests of the central group are protected by the stakeholder committee. This group has a similar function to a Board of trustees, though the term 'committee' is used to convey its consultative involvement with the Board. This independent committee is representative of all the stakeholder interests and claims on the organisation. In this way, it is inclusive and improves communication between all parties. They protect the interest of primary stakeholders through communication with the Board of directors, and have the opportunity to work with them in key business strategy decisions.

8.3 SUGGESTED AREAS OF FURTHER WORK

The growing social enterprise sector means more opportunities to engage in research. Practitioners, academics and policy makers are pursuing their own agendas in social enterprise research. The Social Firm is one of many types of social enterprise that are worthy of further investigation. Of course, this investigation is an exploratory governance study, and there are many different, interesting strands already developing, such as the role of social capital, sustainability and business strategy. Because of this study, there are a number of avenues for further research of the governance of social enterprises. These have been divided into sub-sections below, and Appendix 10 shows the viability that each proposition presents for further research depending on the number of significant associations.

8.3.1 THE BOARD IN SOCIAL ENTERPRISES

This study produced some interesting findings relating to perceptions of Boards, their assets and their liabilities. It became clear though, that much more detail on the Board itself and how it conducts its affairs would be enlightening to verify / falsify these perceptions. More empirical research is advocated to build upon the exploratory findings from this research. Social enterprises are unique organisations, embodying the management of two contrasting organisational functions. If we can understand more of why and how governance of these organisations satisfy both business and social objectives, it may be possible to transfer this knowledge across different sectors. This is because one of the central criticisms of stakeholder-orientated theories of governance is the difficulty they have in reconciling stakeholder claims against the primacy of shareholders. Social enterprises might be able to show how the management of a set of priorities can be achieved effectively. Conversely, there is much that social enterprises can acquire from other sectors also, in particular the professional management of enterprises. It has been indicated that such acquisition from for-profit sectors is an eventuality, rather than a possibility. Therefore, there are opportunities for long-term observation studies of social enterprises to chart any changes, and determine the impact these changes have on performance.

8.3.2 ROLE OF LEGITIMACY IN GOVERNANCE

Some very interesting previous studies have investigated the role and influence of the institutional environment, and legitimacy, upon governance in a variety of organisations (Judge and Zeithaml, 1992, Luoma and Goodstein, 1999, Ocasio, 1999). This topic remains relevant to examination of governance, and the influence of the institutional environment upon it. Constitutive rules and the changing nature of the regulatory environment, offer future opportunities to track their influence on how social enterprises operate. This is in contrast to organisations in other sectors: useful insights could be drawn from examination of informal pressures on governance arrangements. This research would build upon the extant literature in both the institutional theory of organisations and corporate governance. Legitimacy is an intangible and elusive quality acquired by organisations, and further research on its role in governance may illuminate the qualities on Boards that can enhance or detract from legitimate organisations.

8.3.3 LONG-TERM STUDIES OF THE CIC FORM OF GOVERNANCE

The CIC is a relatively new legal form for social enterprises, and contains some new 'features' that were previously absent from other legal forms commonly adopted. There has been a slow but steady uptake of the CIC legal form by start-up social enterprises, and it remains unclear whether this legal form will persist in the long-term as a viable alternative for social enterprises to adopt. Many existing social enterprises remain content with their adopted legal forms (predominantly CLG and IPS), so the focus for the CIC is on start-up social enterprises. Further investigation of its influence on governance of social enterprises would be particularly useful.

8.3.4 THE SIZE OF BOARD

The number of Board members was a recurrent source of significant difference in this study. Large and small Boards both have their benefits, though 'optimality' would show how Board roles are defined and where value creation occurs through their activities. Small organisations with a growth strategy cannot support large Boards (of whichever sort) or tolerate inadequate input to support managers. Further research should examine the optimal mix of directors and 'stakeholder' committee members, and the value these groups add to governance and overall performance. This would prove to be beneficial to practitioners and academics in determining the appropriate conditions and constituents for social enterprise Boards.

8.3.5 THE ROLE OF TRUSTEES

The dominance of the Board of trustees as the most appropriate governance body needs further examination. This study found that it is not always perceived as effective by key stakeholders, and a reassessment of its suitability should be pursued. At present, trustees are charged with the responsibility to safeguard the organisation, and this is done in a voluntary capacity. This exemplifies the difficulty of the position and the arrangements generally. For social enterprises to demonstrate their effectiveness in governing conflicting goals, then the subject of Board skills, training and support needs to be considered seriously across the sector. Evidently, trade organisations within the social enterprise sectors are pushing this issue to their members: many have well developed programmes in place to train their members (for example, Cooperatives UK and the Cooperative College). Without a proper effort by social enterprises to ensure Boards are capably instrumental in the organisation, they are at a competitive disadvantage in their chosen markets. The stakeholder committee advocated in this study supports the sentiment of trusteeship. However, it demands that this group works to represent (and protect) interests and integrates with an executive group (Board of directors) to produce a holistic approach to governance.

8.3.6 THE INCLUSION OF STAKEHOLDERS AT BOARD LEVEL

Though normatively common for nonprofits and social enterprises, more evidence is required to show the usefulness of stakeholders at Board level. More specifically, we need to understand how the management of stakeholders at this level can be achieved effectively. This is important because it has cross-sectoral implications, during a time when there is greater external pressure for corporate responsibility through transparency and accountability. If stakeholder inclusion at Board level can enhance transparency and accountability, then organisations enhance their claims for legitimacy. Of course, the corporate prerogative is proving how this inclusion adds value to *their* primary beneficiaries. Social enterprises could provide the evidence required, and continued research in this area would be very valuable to managers in a range of organisations. This study showed its importance but varied uptake by Social Firms. If further evidence can accumulate to show how stakeholder inclusion works, it extends the debates between corporate governance theories. It also further establishes social enterprises as a distinct and valuable economic and ethical organisation that can compete effectively with mainstream businesses.

8.3.7 THE ACCOUNTABILITY-LEGITIMACY RELATIONSHIP

This thesis detailed how accountability and legitimacy are associated through perceptions of governance in Social Firms. This reaffirms a relationship that has been already detailed in prior research in other sectors (Kearns, 1994; Roberts, 2001; Van Kersbergen and Van Waarden, 2004; Westphal and Zajac, 1998). A useful further investigation could examine this link in some detail, determining which functions of governance in social enterprises enhance accountability more than others. Long-term study of its effects would provide insight into the long-term effects on accountability, and the influence of this on performance over time. In addition it would be useful to explore how legitimacy seeking behaviour by Boards influences business and social performance. This would provide empirical support to clarify the importance of legitimacy on continued existence. Such efforts would be valuable additions to the bodies of knowledge in both corporate governance and institutional theory.

8.3.8 THE SOCIAL AUDIT AND GOVERNANCE

Further research attention should be given to the effectiveness and pervasiveness of holistic measures of governance performance. This study showed that very few Social Firms in the sample conduct a social audit, or any of its variants. This is despite the plentiful academic and practitioner resources encouraging this type of audit as a sign of good practice (Pearce, 2003). This apparent lack of uptake would prove to be a barrier to accountability, since stakeholders do not have access to evidence of how Boards perform on a variety of criteria. In the absence of this, Social Firms run the risk of jeopardising their continued legitimacy. We need to understand why this function is not being utilised by Social Firms, because it would indicate why other social enterprises may not use it either.

Furthermore, we should seek to find how barriers to the social audit process can be overcome for small organisations with limited resources. In addition, consideration should be given to the role of funding bodies and procurement partners. Those groups with whom the Social Firm deals may exert pressure to deliver on agreed aims and contracts for public sector partnerships.

8.4 CHAPTER SUMMARY

This Chapter has detailed the fundamental conclusions that can be drawn from this thesis. Primarily these highlight the importance of accountability and legitimacy in governance, the importance of Board size and type, and the developments to the dependent and predictor variables (and constructs) used in the study.

A model of governance, that attempts to conceptualise the nature of governance relations in Social Firms, provides a useful starting point for further research. There is a great deal of scope for further research, and there a particular areas that may provide researchers with interests avenues to pursue. These include further examination of the accountability-legitimacy association, the role of the social audit and its usefulness, the relevance of the Board of trustees and examination of the CIC legal form. There remain many other avenues of potential research that to document here would prove exhaustive. Needless to say, the governance of Social Firms and social enterprise generally, maintains an allure for governance researchers. This is because these organisations grapple with the challenges of managing stakeholders, and further academic development can explain and assist them in doing so. In addition, social enterprises represent an ideal for many entrepreneurs who wish to give something back to communities and aid the cause of regeneration in many declining and underdeveloped cities and towns in the UK.

A number of issues have been raised in this thesis regarding the integrity of Social Firm governance. However, it is evident that social enterprises are of significant value to social and environmental regeneration and that they merit continued support from various sources to continue their invaluable, and important, work.

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APPENDICES

APPENDIX 1

INTERVIEW NOTES

INTERVIEW WITH SOCIAL FIRMS UK

BACKGROUND

Social Firms UK is the national body representing the interests of social firms in the United Kingdom. The organisation represents the interests of registered Social Firms. These organisations offer disabled people previously excluded from the workforce the opportunity to get back into employment. The interview took place on 6th December 2005 at 10:30. Due to logistical constraints, interview was conducted by telephone. The interview was conducted by the researcher, with Kathy Baker, Quality Support Manager (hereafter KB).

SUMMARY

Social Firms are a type of social enterprise, which provide employment opportunities to disabled people. They are classified as a social enterprise because they trade and at least 50% of their income is raised through trading revenue. Social Firms, like other social enterprises, are values-driven businesses and this is a fundamental element of how they operate. They are considered to be the 'ideal type' of social enterprise, because they have a balanced commitment to both the social mission and the entrepreneurial approach to achieve it. Some types of social enterprise focus more on the business approach and less on the achievement of social aims (for example, marketing co-operatives). Other organisations like development trusts do not engage in 'trade' as such, and social firms embody both of these elements in the appropriate balance.

Social Firms UK support their members in many ways, particularly in the development of resources. For example, the production of performance measurement and other support tools.

KB was certain of the need for further research in social enterprise governance, and encouraged more study in the Social Firms. Though there had been some efforts by the UK government to address a range of issues within the social enterprise sector, these were quite broad in nature. The introduction of the new legal form (the Community Interest Company) is a sign of progress to assist the sector. However, Social Firms can adopt whichever legal form suits their needs best. The CIC legal form was viewed as useful, complimentary option for Social Firms.

The Government has a role to play in championing the cause of social enterprise in general. However, for each type of social enterprise, the role of trade bodies or similar organisations is key in pushing a collaborative agenda for the sector.

Acknowledged that governance is a key area of future research, particularly the diversity of board membership and the range of skills that board members can provide. Social Firms are encouraged to adopt an inclusive approach to Board recruitment. This should ensure an open and democratic governance process. The degree to which this is enacted is open to question. Also, there needs to be a more coherent process for ensuring accountability at Board level. Social Firms UK develops training tools for Social Firm managers and Directors to determine the tasks involved in governing and measuring performance. For example, they have developed the Performance Dashboard which is a user-friendly approach to measuring Social Return on Investment (SROI).

Furthermore, the relationship between managers and board members is one possible avenue of governance research. Managers often feel undermined by Directors who are 'out of touch' with the demands of running a growing Social Firm. Furthermore, they feel 'held back' by unresponsive strategies and poor communication between Directors and managers. This relationship is key in governance and some Social Firms UK members feel that their performance is stymied by unresponsive Directors.

KB indicated that Social Firms are an under-researched social enterprise, and that members are keen to become involved in research projects. In addition, KB offered her support in access members for the collection of data.

Meaning Unit	Condensed Meaning Unit: Description Close To The Text	Condensed Meaning Unit: Interpretation of the Underlying Meaning	Sub-theme	Theme
Managers often feel undermined by Directors who are 'out of touch' with the demands of running a growing Social Firm.	Managers have different orientation to Directors.	Directors / manager support problems.	Director effectiveness	Transparency
Social Firms are encouraged to adopt an inclusive approach to Board recruitment. This should ensure an open and democratic governance process. The degree to which this is enacted is open to question.	Democratic process is open to question.	Democratic values are undermined by Directors.	Stakeholder representation	

Furthermore, they feel ‘held back’ by unresponsive strategies and poor communication between Directors and managers. This relationship is key in governance and some Social Firms UK members feel that their performance is stymied by unresponsive Directors.	Directors do not provide the strategic direction required of their role.	Directors are ineffective in their role.	Director effectiveness / Board member skills	**Accountability**
…There needs to be a more coherent process for ensuring accountability at Board level. Social Firms UK develops training tools for Social Firm managers and Directors to determine the tasks involved in governing and measuring performance.	There is not an agreed method for ensuring accountability.	Process to ensure accountability are not present in all Social Firms.	Director / performance accountability	

APPENDIX 2

INTERVIEW WITH COOPERATIVESUK

BACKGROUND

CooperativesUK are the trade organisations representing the interests of cooperatives in the UK. CooperativesUK have recently produced a Code of Corporate Governance. This document is a result of their efforts to recognise the importance of good corporate governance. This document is a summary of the themes raised during the semi-structured interview. This interview is one of a series that were conducted as an exploratory qualitative phase of the research. Ethical procedures relating to confidentiality and the right to withdraw from the interview were stated at the commencement of the interview.

The interview took place on the 6th October 2005 at CooperativesUK head office, Balloon Street, Manchester, UK. Present at the interview were the researcher, Dr. John Butler (Board Secretary [Strategic Management]) and Siobhan McCloughlin (Research Officer, who had produced the Code of Corporate Governance).

SUMMARY

CooperativesUK recognised the importance of governance, where they identified that failing cooperatives were affected by governance issues. This led to the development of the Corporate Governance Code of Best Practice. The key element of the Code is that members 'sign-up' to the Code and report on their progress each year. CooperativesUK have worked with its members in ensuring that they send this annual review of their governance performance. This process is self-administered by the Board of each member cooperative.

At the time of interview, the current progress of the recently launched Code was being collated. One outcome of the process was ensuring that the self-administered check-list was completed properly, and on-time. A pressing issue is ensuring compliance with the reporting process. The role of CooperativesUK is to support members in their work and promote best practice. However, it is not within its role to enforce any particular Code. The organisation is pursuing corporate governance as a key aspect for improving the performance of failing societies.

Key aspects of governance failure were detailed during the interview. These elements provided the impetus for developing the structure of the Code of Corporate Governance. The first area of concern was the length of tenure of Directors serving of cooperative Boards. Many cooperatives have long-serving Directors. It is typical that Directors will be re-elected with little opposition. This causes problems where cooperatives 'stagnate', or if change is required and resistance at Board level is found. The Code intends to make the election of Directors more transparent. Also, it attempts to promote stakeholder inclusion at Board level. The task of recruiting new Directors with the required skills and strategic acumen is proving to be a difficult task.

Stakeholder involvement at such a level is seen as key in establishing accountability. If it is difficult to engage stakeholders in the process of accountability, it is down to managers and existing Directors to force a change in governance practice. This is difficult where the task of governing the cooperative is executed by long-serving Directors who are presented with little incentive to change.

CooperativesUK offers training courses for Directors and the cooperative members at the Cooperative College. These courses intend to offer assistance in the process of meeting the aims of the Code of Corporate Governance. Also, it seeks to reinforce the benefits to cooperatives of establishing transparent and accountable governance.

Meaning Unit	Condensed Meaning Unit: Description Close To The Text	Condensed Meaning Unit: Interpretation of the Underlying Meaning	Sub-theme	Theme
The key element of the Code is that members 'sign-up' to the Code and report on their progress each year. CooperativesUK have worked with its members in ensuring that they send this annual review of their governance performance. This process is self-administered by the Board of each member cooperative.	The Code of Corporate Governance was developed to encourage Directors to hold themselves accountable.	Directors are expected to prove their accountability to stakeholders.	**Director accountability**	**Accountability**
CooperativesUK offers training courses for Directors and the cooperative members at the Cooperative College. These courses intend to offer assistance in the process of meeting the aims of the Code of Corporate Governance. Also, it seeks to reinforce the benefits to cooperatives of establishing transparent and accountable governance.	CoopsUK must offer training to encourage its members to improve their governance practice.	Board members lack the skills to uphold current best practice.	**Board member skills**	**Transparency**

The first area of concern was the length of tenure of Directors serving of cooperative Boards. Many cooperatives have long-serving Directors. It is typical that Directors will be re-elected with little opposition. This causes problems where cooperatives 'stagnate', or if change is required and resistance at Board level is found.	Director tenure can be too long and restrict new member joining the Board.	Length of Director tenure is linked to restricting dynamism and inclusion	**Director tenure**	**Legitimacy**
Stakeholder involvement at such a level is seen as key in establishing accountability. If it is difficult to engage stakeholders in the process of accountability, it is down to managers and existing Directors to force a change in governance practice. This is difficult where the task of governing the cooperative is executed by long-serving Directors who are presented with little incentive to change.	It is difficult to encourage greater transparency and accountability when Directors cannot be removed, or encouraged to be more inclusive.	Long-serving Directors are obstacles to change in cooperatives	**Director tenure / effectiveness**	**Accountability**

APPENDIX 3

INTERVIEW WITH NATIONAL HOUSING FEDERATION

BACKGROUND

The National Housing Federation (NHF) is the representative body for housing associations and housing trusts in the United Kingdom. The interview took place on 18th November 2005, at NHF head office, London. Present at the interview were the researcher and Stephen Bull (Head of Membership). Ethical considerations were outlined by the researcher at the commencement of the interview.

SUMMARY

The National Housing Foundation is focused on housing associations and trusts. The organisation has worked with members to improve their governance, and found that many members are having problems recruiting Board members. In particular, recruiting Directors with skills to add to the existing skills set at Board level. The NHF takes a hands-off approach to enforcing their code. They wish to encourage good practice through collaboration with housing associations. This is a difficult task for NHF to manage and are expecting more housing associations to take on the responsibility themselves.

Given the importance of corporate governance to the social enterprise sector, the NHF has begun implementation of a Code of Governance for its members. Importantly, the NHF does not see itself as an enforcer of this Code. Rather it role is an advisory one to guide members. Coercion to normative governance principles is not conducive to a 'good' change. This is because of the nature of governance in housing associations.

The key role in their governance is the Board of Directors, and they exhibit heterogeneous characteristics. Aspects such as Director tenure, skills and representation at Board level are all important issues. However, to the NHF they are seen as barriers to the implementation of a Corporate Governance Code. This reason for this is the Directors are often voluntary and serve on a Board of Trustees. Without the long-term commitment that most Directors have provided, many housing associations would not have been able to succeed. Recognition is required of the broader political context, where housing associations are affected by government policy related to social housing and immigration. Also, housing associations often struggle to attract "new blood" onto Board of Directors, with the enthusiasm, skill and experience to bring change at Board level in situations that require it.

Skills and recruitment are pressing for housing associations. Also, director tenure is a key issue that is a difficult problem to resolve. Directors tend to serve for a long time on the Boards of housing associations. Their view of housing associations, and of social enterprises, represent the 'old' view, rather than as dynamic organisations (the 'modern' view of social enterprise).

Meaning Unit	Condensed Meaning Unit: Description Close To The Text	Condensed Meaning Unit: Interpretation of the Underlying Meaning	Sub-theme	Theme
Aspects such as Director tenure, skills and representation at Board level are all important issues. However, to the NHF they are seen as barriers to the implementation of a Corporate Governance Code.	There are a range of important issues that limit the impact of the Corporate Governance Code.	These issues need to overcome to enhance the effectiveness of the voluntary code.	**Director tenure / inclusion**	**Democracy / Stakeholder inclusion**
The reason for this is the Directors are often voluntary and serve on a Board of Trustees. Without the long-term commitment that most Directors have provided, many housing associations would not have been able to succeed.	Long-term commitment has been crucial to the continued existence of many housing associations.	The length of Director tenure has given housing associations the stability for continued existence.	**Director tenure**	**Sustainability**
Also, housing associations often struggle to attract "new blood" onto Board of Directors, with the enthusiasm, skill and experience to bring change at Board level in situations that require it.	New Directors are hard to find in situations that involve a degree of voluntary commitment.	Long-term Directors provide stability, but newer Directors are needed to push through changes and improvements.	**Directors skills / recruitment**	**Sustainability**

Director tenure is a key issue that is a difficult problem to resolve. Directors tend to serve for a long time on the Boards of housing associations. Their view of housing associations, and of social enterprises, represents the 'old' view, rather than as dynamic organisations (the 'modern' view of social enterprise).	The issue of Director tenure is a major challenge to changing the evolving nature of social enterprise.	Many housing associations are failing to by dynamic in an environment that requires it.	**Director skills / Board dynamism**	**Sustainability**

APPENDIX 4

INTERVIEW WITH SOCIAL ENTERPRISE COALITION

BACKGROUND

Due to logistical constraints on behalf of the interviewee, the interview took place via the telephone on (September 2005). The interview was conducted by the researcher, and the interviewee was Jonathan Bland (Chief Executive, Social Enterprise Coalition).

SUMMARY

Governance issues are of importance, and research in social enterprise governance is in need of more development. However, issues of social enterprise governance are contingent on the legal form adopted by each enterprise. Promoting good governance practice is an important role for SEC, though the variety of social enterprises makes seeking a consensus on key issues difficult.

One area that is due to feature prominently for social enterprises is the prioritising of stakeholders at board level, an example of which is leisure trusts (such as Greenwich Leisure Limited). Commonly, there is a lack of employee involvement in strategic decision-making in social enterprises. Greenwich Leisure Limited (GLL) is an excellent example of correcting this trend, and is seen as a role model for the sector. This is because GLL is a staff-led organisation, and they work towards maximising the social benefit of their defined communities. The interviewee suggested that these organisations would make an interesting subject for further study.

As a representative body for all social enterprise, the SEC promotes a 'suite' of training for social entrepreneurs. However, there is not a suite of training for directors of social enterprises, particularly with a view to improving governance. The SEC offers individual sessions on an ad hoc basis, rather than a set programme for directors to attend.

One area that the SEC is actively involved in is legal reform, correcting what they perceive is the disadvantageous state of affairs at present for social enterprises. In order for social enterprises to compete, they need the legal forms to allow access to capital and be more entrepreneurial as a result. JB asserted this as a viable avenue for research.

Meaning Unit	Condensed Meaning Unit: Description Close To The Text	Condensed Meaning Unit: Interpretation of the Underlying Meaning	Sub-theme	Theme
One area that is due to feature prominently for social enterprises is the prioritising of stakeholders at board level, an example of which is leisure trusts (such as Greenwich Leisure Limited).	Stakeholder inclusion is important and should be prioritised.	Stakeholder inclusion is important.	Democratic governance	**Democracy**
As a representative body for all social enterprise, the SEC promotes a 'suite' of training for social entrepreneurs.	Training and skills development is part of what the SEC delivers.	There is a requirement to enhance the skills set of social entrepreneurs.	Skills development	**Director Effectiveness**

APPENDIX 5

EXAMPLE OF LETTER SENT TO INTERVIEWEES

C J Mason
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John Foster Building
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Social Enterprise Coalition
54 Haymarket
London
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19th September 2005

FAO: Mr. Jonathan Bland

Dear Mr. Bland,

My name is Chris Mason, and I am an MPhil student at Liverpool John Moores University, and for my thesis am researching the governance structures of social enterprises. Critical to this research is gathering information from different types of social enterprise, toward the establishment of a governance model.

In the first phase of my data collection, I am interviewing representatives from various organisations that represent a given classification of 'social enterprise'. The interview seeks to clarify governance structures for each social enterprise type, leading on to further detailed analysis in the coming months and the development of a questionnaire in the second phase of data collection.

I would like to request an interview with you, arrangements at your convenience, lasting between 30 – 45 minutes. I intend to ask questions related to governance structure and typical issues that arise within social enterprises. I am prepared to meet my own costs to visit your location in person, though if you would prefer an alternative arrangement I am happy to accommodate this.

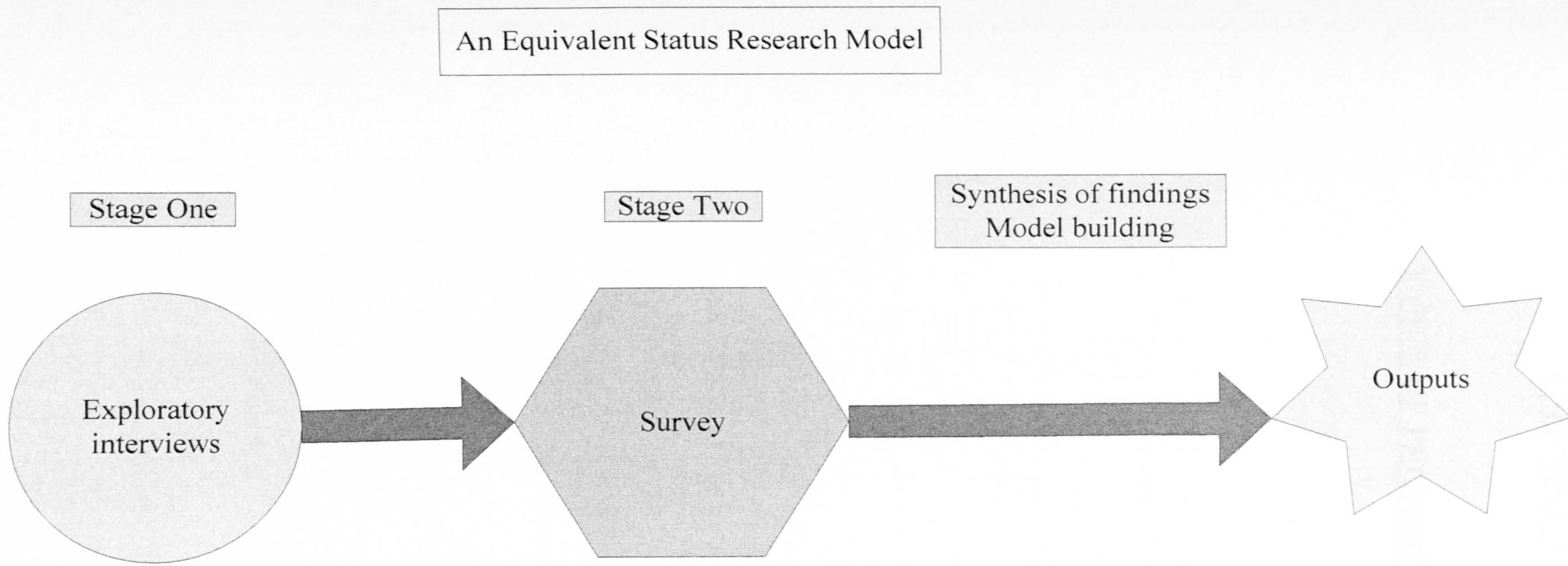
I appreciate that your time is precious, and any offer of assistance will be gratefully received. Confidentially is assured as part of my research and I enclose a letter from Prof. James Kirkbride, Dean of the Faulty of Business and Law and my Director of Studies, to verify my claims of studentship and research agenda.

Yours faithfully,

C J Mason

APPENDIX 6

RESEARCH DESIGN


An Equivalent Status Research Model
Stage One
Stage Two
Synthesis of findings
Model building
Exploratory interviews
Survey
Outputs

APPENDIX 7

TABLE OF PROPOSITIONS

Proposition		Related statement(s)
P1	The Social Firm Board must successfully balance social aims with business-focus.	1, 27, 38, 42
P2	The Board of Directors should have the skills required to govern the social enterprise effectively.	32
P3	Social enterprises are expected to be more ethical than for-profit organisations.	15
P4	Democracy is an integral part of Social Firm governance.	4, 7
P5	Stakeholder inclusion at Board level is a feature of Social Firm governance.	6, 8
P6	Transparency indicates better governance performance.	2, 3
P7	Trust is an indicator of Board transparency.	12
P8	Disclosure is a facet of transparent governance in Social Firms.	5, 17
P9	Ethical performance is a responsibility of Social Firm Directors.	10, 11, 19

P10	Independent Directors enhance transparency in Social Firms.	9
P11	Accountability indicates better governance performance	15, 20, 24
P12	Boards should ensure that they are accountable for performance.	13, 14
P13	Boards should ensure Social Firms are competitive in their chosen markets.	30, 34, 35
P14	Boards should provide strategic direction to enable business sustainability	24, 25, 31
P15	Boards should support managers to deliver on social objectives	18, 28, 29
P16	Boards should communicate their ethicality as a competitive advantage.	36
P17	Short tenure improves Director effectiveness.	16, 22
P18	Director remuneration is not linked to their performance.	21
P19	Sustainability should be a key long-term objective of a Social Firm.	33
P20	Accountability enhances legitimacy.	20
P21	Legitimate governance is linked to the influence of shared values in Board-level decisions.	39, 41, 42, 44

P22	Legitimacy is acquired by maximising social benefit.	45
P23	Transparency and accountability equate to sustainability.	37
P24	Board processes and decisions are based on institutional norms.	23, 40

APPENDIX 8

LIKERT STATEMENTS

Number	Transparency Statements	Linking Theory
S1	Board clearly understands needs of stakeholders.	Low, 2006
S2	Transparent Board decisions indicate Social Firm run properly.	Aguilera, 2005; Gray, 1992; Paton, 2003; Strenger, 2004; Tullberg, 2005; Turnbull, 1997
S3	The more transparent our organisation, the better we will perform.	O'Neill, Saunders and McCarthy, 1989; Verschoor, 1998
S4	Democratic election of Directors is more important than business skills.	Pearce, 2003;
S5	Performance results are disseminated to all staff by the Board.	Bushman et al., 2004; Bushman and Smith, 2003; Patel, Balic and Bwakira, 2002)
S6	Staff members are represented at Board meetings.	Huse, 1998; Luoma and Goodstein, 1999
S7	Board member elections are democratic and externally scrutinised.	Owen, Swift, Humphrey and Bowerman, 2000; Owen, Swift and Hunt, 2001
S8	Directors consult range of stakeholders before making important decisions.	Owen, Swift, Humphrey and Bowerman, 2000; Owen, Swift and Hunt, 2001
S9	Independent Directors likely to improve Board effectiveness.	Aguilera, 2005; Johnson, Daily and Ellstrand, 1996; Roberts et al., 2005; Short et al., 2005; Weir and Laing, 2001

Number	Accountability Statements	Linking Theory
S10	Directors meet ethical standards.	Davis, 1994
S11	Directors monitor staff to maintain ethical standards.	Davis, 1994
S12	Trust is important in Board effectiveness.	Nobbie and Brudney, 2003; Zand, 1972; Zandstra, 2002
S13	Directors should monitor job role and performance.	Dart, 2004; Baysinger and Butler, 1985; Miller, 2002
S14	The process of auditing can improve our performance.	Westphal and Fredrickson, 2001
S15	Social enterprises should have better ethical performance than expected of for-profits.	Mason, Kirkbride and Bryde, 2007; Pearce, 2003
S16	Frequent review of Directors would improve control and performance.	Hermalin and Weisbach, 1988; Santora and Sarros, 2001; Cowan, Rohe and Baku, 1999; Preston and Brown, 2004
S17	Important that Board informs stakeholders about performance.	Paton, 2003; Pearce, 2003; Bushman et al., 2004; Bushman and Smith, 2003; Patel, Balic and Bwakira, 2002
S18	Board significantly influences how I do my job.	Stead and Stead, 2000

S19	Board promotes professional standards to improve the standard of work.	Davis, 1994
S20	Ensuring Board accountability is key aspect of good governance.	Kearns, 1994b; Roberts, 2001; Van Kersbergen and Van Waarden, 2004; Westphal and Zajac, 1998
S21	Paying Directors a competitive salary would improve their performance.	Cowan et al., 1999; Hallock, 2000
S22	The Social Firm would need to change the Board if it was no longer competitive in its chosen markets.	Hermalin and Weisbach, 1988; Santora and Sarros, 2001; Cowan, Rohe and Baku, 1999; Preston and Brown, 2004
S23	It is important that the Board follow proper procedure and act in the interests of our stakeholders, even if it is not the best business decision.	Scott, 2001; Zucker, 1977

Number	Sustainability Statements	Linking Theory
S24	It is important that the Board offers strategic direction to support what managers do.	Aucoin and Heintzman, 2002; Gray et al., 1996; Moir, 2001; Deakin and Hughes, 1997
S25	Directors have promoted awareness of business strategy of Social Firm.	Westphal and Fredrickson, 2001
S26	Board provides strategic direction to better serve stakeholders.	Dart, 2004; Low, 2006; Westphal and Fredrickson, 2001
S27	Directors maintain balance between business and social objectives.	Cornforth, 2003a; Dart, 2004; Harrow and Palmer, 2003; Low, 2006
S28	The Board of Directors are supportive.	Stead and Stead, 2000
S29	Board understand how managers add value.	Stead and Stead, 2000
S30	Directors should ensure the Social Firm is efficient to compete in chosen markets.	Dart, 2004; Baysinger and Butler, 1985; Miller, 2002
S31	Board has clear vision of how to sustain stakeholder benefit.	Westphal and Fredrickson, 2001
S32	Board has range of skills to sustain social benefit we deliver.	Thompson and Doherty, 2006
S33	Sustainability is a key long term objective of this firm.	Alter, 2004; Dees, 1994; Harding, 2004; Paton, 2003; Pearce, 2003

S34	Important that our Social Firm performs well compared to our competitors.	Dart, 2004; Mason, Kirkbride and Bryde, 2007
S35	My organisation is successful at meeting the needs of its customers.	Dart, 2004, Thompson and Doherty, 2006; Westall, 2001
S36	Directors communicate distinct ethical approach as a competitive advantage.	Doherty and Tranchell, 2005; Thompson and Doherty, 2006
S37	Transparency and accountability affect sustainability.	Gray, 1992

Number	Legitimacy Statements	Linking Theory
S38	Reconciling business and social objectives is important task for the Board.	Paton, 2003; Westphal and Fredrickson, 2001
S39	Staying true to our mission is central to future success.	Pearce, 2003; Scott, 2001; Zucker, 1977
S40	Board acts in a way that is faithful to our guiding values.	Scott, 2001; Zucker, 1977
S41	Social Firm has strong set of values allowing us to fulfil obligations to stakeholders.	Dart, 2004; Mason, Kirkbride and Bryde, 2007; Westall, 2001
S42	Success is how well we serve our stakeholders, rather than by business performance.	Pearce, 2003; Westall, 2001
S43	The Board's activities and decision are based on the "way things have been done in the past".	Pearce, 2003; Reid and Griffith, 2006; Scott, 2001; Zucker, 1977
S44	Empathy with our stakeholders makes it more likely that governance will be run in their interests.	Edmunds and Wollenberg, 2001
S45	Our work is worthwhile only if we see real benefit to our stakeholders as a result of it.	Pearce, 2003

APPENDIX 9

PROPOSITIONS AND RELATED SIGNIFICANT FACTORS

Proposition		Significant factor(s)
P1	The Social Firm Board must successfully balance social aims with business-focus.	Board membership Board effectiveness
P2	The Board of Directors should have the skills required to govern the social enterprise effectively.	Source of income
P3	Social enterprises are expected to be more ethical than for-profit organisations.	Budget responsibility
P4	Democracy is an integral part of Social Firm governance.	Decision-making authority
P5	Stakeholder inclusion at Board level is a feature of Social Firm governance.	Annual turnover Board membership
P6	Transparency indicates better governance performance.	Type of staff employed
P7	Trust is an indicator of Board transparency.	Budget responsibility

P8	Disclosure is a facet of transparent governance in Social Firms.	Board effectiveness Decision making authority Board membership Years in operation
P9	Ethical performance is a responsibility of Social Firm Directors.	Job title Number of Board members
P10	Independent Directors enhance transparency in Social Firms.	Not significant
P11	Accountability indicates better governance performance	Social audit Annual turnover
P12	Boards should ensure that they are accountable for performance.	Number of Board members Decision-making authority

P13	Boards should ensure Social Firms are competitive in their chosen markets.	Board membership Number of Board members
P14	Boards should provide strategic direction to enable business sustainability	Board effectiveness Board membership Number of Board members Decision making authority (on two counts)
P15	Boards should support managers to deliver on social objectives .	Board effectiveness Budget responsibility
P16	Boards should communicate their ethicality as a competitive advantage.	Not significant
P17	Short tenure improves Director effectiveness.	Budget responsibility Number of Board members

P18	Director remuneration is not linked to their performance.	Number of Board members
P19	Sustainability should be a key long-term objective of a Social Firm.	None shown to be relevant
P20	Accountability enhances legitimacy.	Social audit Number of Board members
P21	Legitimate governance is linked to the influence of shared values in Board-level decisions.	Number of Board members
P22	Legitimacy is acquired by maximising social benefit.	Type of staff employed Number of staff
P23	Transparency and accountability equate to sustainability.	Not significant
P24	Board processes and decisions are based on institutional norms.	Budget responsibility

APPENDIX 10

OUTCOME OF PROPOSITION ANALYSIS – SUPPORTING FURTHER RESEARCH

Proposition		Would it support further research?
P1	The Social Firm Board must successfully balance social aims with business-focus.	Yes
P2	The Board of Directors should have the skills required to govern the social enterprise effectively.	Limited support
P3	Social enterprises are expected to be more ethical than for-profit organisations.	Limited support
P4	Democracy is an integral part of Social Firm governance.	Limited support
P5	Stakeholder inclusion at Board level is a feature of Social Firm governance.	Yes
P6	Transparency indicates better governance performance.	Limited support
P7	Trust is an indicator of Board transparency.	Limited support
P8	Disclosure is a facet of transparent governance in Social Firms.	Yes
P9	Ethical performance is a responsibility of Social Firm Directors.	Yes
P10	Independent Directors enhance transparency in Social Firms.	No
P11	Accountability indicates better governance performance	Yes

P12	Boards should ensure that they are accountable for performance.	Yes
P13	Boards should ensure Social Firms are competitive in their chosen markets.	Yes
P14	Boards should provide strategic direction to enable business sustainability	Yes
P15	Boards should support managers to deliver on social objectives	Yes
P16	Boards should communicate their ethicality as a competitive advantage.	No
P17	Short tenure improves Director effectiveness.	Yes
P18	Director remuneration is not linked to their performance.	Limited support
P19	Sustainability should be a key long-term objective of a Social Firm.	No
P20	Accountability enhances legitimacy.	Yes
P21	Legitimate governance is linked to the influence of shared values in Board-level decisions.	Limited support
P22	Legitimacy is acquired by maximising social benefit.	Yes
P23	Transparency and accountability equate to sustainability.	No
P24	Board processes and decisions are based on institutional norms.	Limited support

APPENDIX 11

QUESTIONNAIRE

Hello! My name is Chris Mason, a Ph.D. researcher at Liverpool John Moores University. My research is focussed on the governance of Social Firms, and I am trying to collect managerial perspectives of the performance of the Social Firm Board of Directors. I would like to ask if you would mind giving me 10 minutes of your time to complete the attached questionnaire.

This questionnaire aims to collect ***your attitudes*** of how effective the Board of Directors of your Social Firm is. The form is split into five sections. Firstly, it asks for some information about the Social Firms that you work for and the type of job that you do. Next, there are three sections that require you to indicate your level of agreement with a set of statements related to the performance of your Board of Directors. Finally, there is a section that asks for a contact email address or telephone number (optional) if you are interested in being interviewed by me to further gather your perceptions, or of the research in general. The questionnaire and my research in general, are subject to the ethical standards maintained at my University, and so your confidentiality is my priority. If you have any questions about me or my research, please contact me on c.mason@ljmu.ac.uk, or my Director of Studies, Prof. James Kirkbride on j.kirkbride@ljmu.ac.uk

About your role
(Please type your answer, or click once on the appropriate tick box)

Your job title

Time spent in this role:

- Less than a year ☐
- 1 – 5 years ☐
- 6 – 10 years ☐
- 11 or more years ☐

Are you also a Board member?

- Yes ☐
- No ☐

If yes, please state in what capacity you sit on the Board and for how long:

Do you have responsibility for managing a budget?

- Yes ☐
- No ☐

About your Social Firm

Name of Social Firm

Location

Nature of business activity

Years in operation:
Less than 1 year ☐
2-5 years ☐
6 - 9 years ☐
10 years or longer ☐

Annual turnover:
Less than 50k ☐
51k to 100k ☐
100k or more ☐

Type of staff employed:
Salaried ☐
Volunteers ☐

Main source of income:
Trading ☐
Mixture of trading and grants ☐

Number of staff employed:
Less than 10 ☐
11-50 ☐
51-100 ☐
100 or more ☐

Number of Board members

How long do Board members serve on the Board?
1 year or less ☐
2 – 5 years ☐
Longer than 5 years ☐
Unsure ☐

Does your Social Firm conduct a social audit?
Yes ☐
No ☐
Unsure ☐
If yes, do you contribute to social audit process, and how?

Who has the ultimate decision-making authority in your organisation?
Chief Executive ☐
Salaried Board of Directors ☐
Board of Trustees ☐
None of the above ☐
If the final option, please explain how decision are made

Do you feel that the Board of Directors of your Social Firm is effective?
Yes ☐
No ☐
Unsure ☐
Please explain your answer

Please read each statement on the next two pages and tick one box that describes your level of agreement with each one.	Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
The Board of Directors has a clear understanding of the needs of our stakeholders.	☐	☐	☐	☐	☐
Transparent Board decisions indicate Social Firm run properly.	☐	☐	☐	☐	☐
The more transparent our organisation, the better we will perform.	☐	☐	☐	☐	☐
Democratic election of Directors is more important than ensuring they have business appropriate skills and experience.	☐	☐	☐	☐	☐
Performance results are disseminated to all staff by the Board.	☐	☐	☐	☐	☐
Staff members are represented at Board meetings.	☐	☐	☐	☐	☐
Board member elections are democratic and externally scrutinised.	☐	☐	☐	☐	☐
Directors consult range of stakeholders before making important decisions.	☐	☐	☐	☐	☐
Independent Directors are likely to improve Board effectiveness.	☐	☐	☐	☐	☐
The Board of Directors meet ethical standards.	☐	☐	☐	☐	☐
The Board of Directors monitor staff to maintain ethical standards.	☐	☐	☐	☐	☐
Trust is important feature of the effective of the Board.	☐	☐	☐	☐	☐
Directors should monitor job role and performance.	☐	☐	☐	☐	☐
The process of auditing can improve our performance.	☐	☐	☐	☐	☐
Social enterprises should have better ethical performance than expected of for-profits.	☐	☐	☐	☐	☐
Frequent review of Directors would improve control and performance.	☐	☐	☐	☐	☐
Important that Board informs stakeholders about performance.	☐	☐	☐	☐	☐
The Board of Directors significantly influence how I do my job.	☐	☐	☐	☐	☐
The Board of Directors promote professional standards to improve the standard of work.	☐	☐	☐	☐	☐
Ensuring Board accountability is key aspect of good governance.	☐	☐	☐	☐	☐
Paying Directors a competitive salary would improve their performance.	☐	☐	☐	☐	☐
The Social Firm would need to change the Board if it was no longer competitive in its chosen markets.	☐	☐	☐	☐	☐
It is important that the Board follow proper procedure and act in the interests of our stakeholders, even if it is not the best business decision.	☐	☐	☐	☐	☐

It is important that the Board offers strategic direction to support what managers do.	☐	☐	☐	☐	☐
The Board of Directors has promoted an awareness of the business strategy of our Social Firm.	☐	☐	☐	☐	☐
Board provides strategic direction to better serve stakeholders.	☐	☐	☐	☐	☐
The Board of Directors maintain balance between business and social objectives.	☐	☐	☐	☐	☐
The Board of Directors are supportive.	☐	☐	☐	☐	☐
The Board of Directors understands how manager adds value.	☐	☐	☐	☐	☐
Directors should ensure the Social Firm is efficient to compete in chosen markets.	☐	☐	☐	☐	☐
The Board of Directors has clear vision of how to sustain stakeholder benefit.	☐	☐	☐	☐	☐
The Board of Directors has range of skills to sustain social benefit we deliver.	☐	☐	☐	☐	☐
Achieving sustainability is a key long term objective of this firm.	☐	☐	☐	☐	☐
Important that our Social Firm performs well compared to our competitors.	☐	☐	☐	☐	☐
My organisation is successful at meeting the needs of its customers.	☐	☐	☐	☐	☐
The Board of Directors communicate distinct ethical approach as a competitive advantage.	☐	☐	☐	☐	☐
Transparency and accountability affect sustainability.	☐	☐	☐	☐	☐
Reconciling business and social objectives is important task for the Board.	☐	☐	☐	☐	☐
Staying true to our mission is central to the future success of the Social Firm.	☐	☐	☐	☐	☐
The Board of Directors acts in a way that is faithful to our guiding values.	☐	☐	☐	☐	☐
Social Firm has strong set of values allowing us to fulfil obligations to stakeholders.	☐	☐	☐	☐	☐
'Success' is how well we serve our stakeholders, rather than by business performance.	☐	☐	☐	☐	☐
The Board's activities and decision are based on the "way things have been done in the past".	☐	☐	☐	☐	☐
Empathy with our stakeholders makes it more likely that governance will be run in their interests.	☐	☐	☐	☐	☐
Our work is worthwhile only if we see real benefit to our stakeholders as a result of it.	☐	☐	☐	☐	☐

Thank you for completing this questionnaire! As part of the research, I wish to arrange interviews with survey respondents to improve the depth of the data you have provided. If you would be willing to participate in these interviews, please fill in your contact details below. If you do not wish to take part, but would like to be kept informed as to the outcomes of this research, I will be more than happy to keep you updated as it progresses.

Please contact me for an interview ☐ Please keep me informed about the research ☐

The best time of day to contact me is

Name

Organisation

Contact telephone number

Contact email address