

Implementing democratic governance and ownership: the interplay of structure and culture in public service social enterprises

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Abstract

We examine the implementation of governance arrangements to extend ownership and control to employees and community stakeholders in social enterprises. Evidence from a sample of newly created public service social enterprises in England shows how the realisation of democratic ideals involves a gradual and often challenging process. Different outcomes are explained in terms of an interplay between the legal forms and representational mechanisms adopted and the enabling role of organisational culture. The paper contributes an analytic framework that captures the range of possible outcomes in terms of stakeholder versus stewardship forms of representation, and the cultural-psychological dimension of ownership. Organisations may find themselves at different stages in the journey towards the realisation of democratic ownership and governance. Conclusions are drawn for the field of social enterprise and non-profit research.

Keywords

Social enterprise; governance; democratic ownership; multi-stakeholder; public service mutuals

Introduction

At a time of renewed interest in the role and value of democratic participation in organisations that deliver crucial services to communities, there is a need for greater understanding of the challenges involved when introducing new forms of governance to facilitate this. This paper seeks to address the issues raised by empirically exploring the implementation of measures to extend democratic control and ownership to employees and user communities in a subset of newly created social enterprises.

We define social enterprises as organisations that trade primarily to support a social or environmental purpose and which often take ownership forms that restrict the distribution of profit to shareholders. A distinguishing feature of many social enterprises is their adoption of ‘alternative’ mutual governance forms which allow for shared ownership and the participation of their employees and community stakeholders in organisational strategy (Cornforth 2004; Birchall and Simmons 2004; Byers, Anagnostopoulos and Brooke-Holmes 2015). We define governance here as the *‘purposeful effort to guide, steer, control or manage sectors or facets of societies’* (Kooiman 1993, p.2). Previous research on social enterprise governance has focused on the effectiveness of governance models in balancing the economic and social missions of these ‘hybrid’ organisations (Doherty et al. 2014; Pestoff and Hulgard 2016), and how stakeholders can be represented and involved in formal governance structures (Diochon 2010; Fazzi 2012; Low 2006, 2015; Kopel and Marini 2016; Low and Chinnock 2008; Mason et al. 2007; Ohana et al. 2012; Spear et al. 2009). However, there is a gap in the research literature regarding the actual implementation and practices of democratic governance, and particularly so with respect to the increasingly diverse forms taken by social enterprises and other social economy organisations (Defourny and Nyssens 2017; Pestoff and Hulgard 2016; Sacchetti and Birchall 2018).

We respond to this knowledge gap by empirically examining the implementation of governance arrangements to extend democratic ownership and control in a sub-set of social enterprises that have been ‘spun out’ from the public sector in England and described as ‘public service mutuals’ by policy makers (Hazenberg and Hall 2016; Powell et al. 2018; Sepulveda et al. 2018; SEUK 2018). The notion of ‘public sector social enterprise’ is now established in the academic literature (Defourny and Nyssens 2017; Ridley-Duff and Bull 2019), with Defourny and Nyssens (2017) identifying the public sector origin of these

organisations as a key feature, emerging as they have from the reconfiguration or externalisation of former public services and with the policy expectation that the newly created social enterprises will be more efficient and innovative than their public sector counterparts. In the UK, there has also been an expectation that there should be a significant degree of mutualism in the governance and ownership of these organisations, as with the ‘social cooperative model’ in the typology of Defourny and Nyssens (2017). With these considerations in mind, we therefore address the following research question: What are the factors and processes affecting the implementation of democratic governance and ownership in public service social enterprises?

Our focus on mutually owned public service social enterprises has a two-fold justification. First, while social enterprises in general often state democratic inclusivity as being a core aspect of their social missions and governance (Doherty et al. 2014; Pestoff and Hulgard 2016), questions remain as to the relative roles of legal forms and other mechanisms for ensuring the participation of stakeholders. Second, there is a policy expectation that recently created spin-out social enterprises demonstrate a significant degree of mutualisation, with an emphasis on employee ownership, control and influence in how they are governed (Mutuals Taskforce 2011; 2012). Although there is limited research on this topic, what evidence there is indicates the variable extent to which such expectations are being fulfilled in practice (Hazenberg and Hall 2016; Sepulveda et al. 2018). Given recent policy interest and expectations, public service social enterprises offer a potentially fruitful context for further investigation.

We develop a framework for understanding the choices and processes behind the adoption of different governance and ownership approaches, and implications for policy and practice. In

doing so, we address a gap in the literature by examining how engaging stakeholders in democratic action, as well as being dependent on the adoption of appropriate legal forms and representational mechanisms, also requires attention to the cultural-psychological dimension of ownership. Hence it is the interplay between the formal and less formal elements of governance that is at the heart of our analysis - an issue that has been little studied in the social enterprise and non-profit literature.

The paper draws on qualitative evidence from a sample of 30 social enterprises in England, all of which had originated as ‘spin-outs’ from the public sector. The establishment of these pioneering organisations has been conditional on them being able to demonstrate a significant degree of employee and stakeholder ownership, influence and/or control in how they are run (Hazenberg and Hall 2016; Millar et al. 2012; Sepulveda 2015; Mutuels Taskforce 2011, 2012; Transition Institute 2011, 2013). Hence, we seek to explore how such expectations are being fulfilled in practice and the challenges involved. Although the focus on public service social enterprises in a specific geographical and sectoral context is a limitation, we argue that the results have wider relevance for the field of social enterprise research and for policy and practice.

Our theoretical approach draws upon two main sets of literature on organisational governance from which we synthesise our analytical framework. First, the literature on models of governance commonly examines and contrasts *stewardship* and *stakeholder* models in studies of for-profit and non-profit organisations (Diochon 2010; Low 2006, 2015; Mason et al. 2007). The stewardship model, along with the principal-agent model, tends to predominate in analyses of private corporate contexts. The principal-agent model portrays CEOs and executive managers as self-interested ‘agents’ who pursue their own personal economic gain

at the expense of the shareholder or ‘principal’, whereas the stewardship model emphasises the role of managers and boards of directors as trustworthy and pro-organisation *agents* of the shareholders (Davis et al. 1997). Effective stewardship requires an appropriately designed organisation structure which can support and empowers the CEO (Donaldson and Davis 1991, p.51). These agents are also expected to have the capacity and willingness ‘*to balance different interests in the professional pursuit of the company strategy*’ (Clarke 2005, p.604). Building on this perspective, Cornforth (2003) explores the notion of the stewardship model for the non-profit sector, where boards of directors (or governors) are specifically selected to represent users and beneficiary groups. The (multi-) stakeholder model, on the other hand, entails the direct involvement of employees, beneficiaries and other interested parties in ownership and decision making. Legitimate stakeholders can be any identifiable group or individual that can affect the achievement of the objectives of an organisation, or who are affected by the objectives of an organisation (Freeman and Reed 1983; Mason et al. 2007). These perspectives on stewardship versus stakeholder models inform our analysis and resulting typology of the managerial dimension of governance and pathways to democratisation.

Second, we draw on the literature on the *ownership* of organisations (Carberry 2011; Humborstad 2014) and in particular that stream which examines different types of ownership. In order to develop a more holistic and dynamic perspective, we specifically explore and build upon the literature that distinguishes between ownership ‘*as a legal property*’ and ownership ‘*as a psychological state of mind*’ (Pierce et al. 1991; Pierce and Rodgers 2004). While the former concerns the formal dimension of governance, the latter suggests a need to attend to other less formal aspects relating to stakeholder agency, voice and sense of belonging, as well as the enabling role of leadership, organisational culture and practices

(Kruse and Blasi 1997; Wilkinson 1998). We propose that this distinction between types and dimensions of ownership is critical to understanding the different ‘imaginaries of ownership’ that may emerge from the processes of implementation, contestation and adjustment between leaders, employees, user communities and other stakeholders.

The paper is divided into six sections, including this introduction. The findings from a review of the literature on theories of governance and ownership, from which our conceptual framework is developed, are presented in the next section. We next describe the policy context of public service social enterprises (or mutuals) and the research methods. The findings are then presented, followed by a discussion and elaboration of the contribution to knowledge. In concluding we also reflect on some limitations of the study and suggest avenues for further research.

Theoretical context of governance and ownership

Definitions of corporate governance typically centre on the structures and relationships that allow various participants to direct and control organisational performance (e.g. Hansmann 1988; Monks and Minow 1995). Governance provides the structure through which the objectives of a company are determined and the means by which they are attained and monitored (OECD 2004). Also identified as central in defining governance are ‘*a set of relationships between a company’s management, its board, its shareholders and other stakeholders*’ (OECD 2004, p.1). Hence there is a need to attend to the nature of the relationships between the various participants in governance, and how this shapes the organisation’s mission (Low 2015) and its performance (Logue and Yates 2006).

Pioneering work by Low (2006) posited that, because social enterprises include elements of both non-profit and for-profit sectors, their governance arrangements need to be understood as *hybrid* forms that combine the stewardship model (primarily), as generally associated with the private corporate sector; and the democratic (stakeholder) model, which is commonly associated with mutuals and cooperatives (Cornforth 2003; 2004; Fazzi 2012; Sacchetti and Birchall 2018). A key question relates to how these two models are combined in practice and change in how they are balanced is negotiated over time. Social enterprise leaders may be confronted with pressures from different participants to prioritise either the stewardship or stakeholder model and will need to navigate a way through this tension. Newly founded organisations in particular are likely to prioritise stewardship but with the aim of engaging stakeholders in a more inclusive and participative approach over time as the organisation develops and grows.

Low (2006) examined the factors that determine which trajectory social enterprises take in relation to these two models of governance, focusing on the legal forms adopted, their trading activities, and the finance sources utilised. The issue of trading as a route to securing a financial surplus in order to support social missions is particularly pertinent here, with Low (2006, p.382) arguing that the complexities involved are *'likely to drive a requirement for a more stewardship driven form of governance that relies less on representing diverse [stakeholder] interests and more on a board that is capable of managing assets for greater return'*. Nevertheless, the objective of democratic governance requires that social enterprise management and strategy simultaneously serve the legitimate interest of all stakeholders, i.e. including employees, service users and the local community (Low 2006), while promoting their representation and participation in organisational decision-making. The range of governance challenges (Spear et al. 2009) and areas of potential governance failure (Low and

Chinnock 2008) include: the recruitment of suitable board members; the choice of legal structure; managing the interests of different stakeholder groups; managing the relationship between boards and management teams; and how to balance social and financial objectives.

In their capacity as agents of the shareholders and stakeholders, managers and boards have a duty to act in the interest of the owners of the organisation and, in theory, governance arrangements are established to serve this interest. However, there is a lack of clarity in the literature regarding how this works in practice and particularly so in the case of newly created social enterprises which can take different legal forms and constitutional arrangements for democratic ownership and governance. Accordingly, there is a need for a more nuanced understanding of democratic and participative governance as a multi-layered organisational process, and how this plays out in different contexts, including where such ideals may remain under-realised despite the best intentions of leaders and key stakeholders. A way forward is suggested by arguments relating to empowerment and voice (Mason et al. 2007) by which stakeholders can have agency and influence whether or not they have fully-realised legal rights and/or a financial interest in the enterprise (Dundon et al. 2004; Wilkinson 1998).

Following this argument, engaged ownership cannot just rely on a formal *'bundle of legal rights'* (Pierce et al. 2001) but also requires *'a psychological state of mind'*, with the implication that the latter can be nurtured by organisational practices and culture change. As Mayhew et al. (2007, p.408) propose, *'positive outcomes of organisations' formal ownership systems depend on members' developing a sense of psychological ownership'*, which suggests that *'ownership is part 'real' and part in the 'mind''* (Pierce and Rodgers 2004, p.590). Critically, *psychological ownership* is seen as the result of a positive process of engaging, empowering and involving employees and other stakeholders, such as service users, in

decision making processes (Cox et al. 2006; Humborstad 2014; Mayhew et al. 2007). This expanded conception suggested by the notion of psychological ownership can also be linked to a more collective or cultural dimension of governance and is methodologically useful in that it serves to group together competing yet similar concepts from the sociology of organisations and management disciplines, such as employee and stakeholder engagement, participation, satisfaction, voice and sense of belonging, among others (Dundon et al. 2007; Shuck and Wollard 2010). Accordingly, our understanding of inclusive and democratic governance, and our working definition, embraces the actual *practices and cultures* of engagement and enfranchisement, as well as the *forms and structures* adopted by organisations to this effect. This working definition underpins our approach to the central research question which is now revised in light of our review of the literature: How does the interplay between formal (structural) and less formal (cultural-psychological) dimensions give rise to specific ownership and governance outcomes in public service social enterprises?

Research context and methods

Research context

Although the phenomenon of social enterprises spinning out from the public sector is not new in Britain, it became particularly salient in the second half of the 2000s as an aspect of central government's public sector and welfare reform agenda (Hazenberg and Hall 2016; Sepulveda 2015). The political support for this agenda has entailed a drive to increase the diversity of organisations that provide public services, including by shifting services from direct state control and ownership and transforming them into independent social enterprises, or public service mutuals (Cabinet Office 2010; Mutuals Taskforce 2011). This was initially promoted

within the health and social care sectors in England where the Department of Health's Right to Request programme, launched in 2011 by the New Labour government, provided the institutional basis for public sector service employees to establish themselves as independent social enterprises (DH 2008; 2009; Hall et al. 2012; Sepulveda et al. 2018), with substantial funding streams (notably the £100 million Social Enterprise Investment Fund) being specifically allocated to support their capacity building. Other related government legislation includes the Localism Act (2011) which devolves powers to communities, giving them '*the right to challenge*' existing public service delivery models as well as '*the right to bid*' to buy assets of community value (e.g. local shops, libraries and pubs); and the Public Services (Social Value) Act 2012 which requires public sector commissioners to consider how the services they commission and procure might improve the economic, social and environmental wellbeing of an area.

One of the defining characteristics of these organisations is that, as a condition of their receiving state support, they are expected to grant a significant role to employees in their ownership and governance (Birchall 2008; Cabinet Office 2010; 2011; Mutuels Task Force 2011; Transition Institute 2011; 2013). This expectation is reflected in the current definition provided by the UK government: '*Public Service Mutuels are organisations which have left the formal public sector, continue to deliver public services and aim to have a positive social impact, and have a significant degree of employee ownership, influence or control in the way the organisation is run*' (1). This policy expectation and associated support for 'mutuals' to adopt broadly democratic forms was also found to resonate with the preferences and aspirations of the leaders and many employees within the pre-spinout services. The threat of a hollowing-out, closure or privatisation of public services prompted debates among leaders and employees, with the idea of empowering staff (primarily), including in terms of being

able to be more innovative in how they respond to the needs of user communities, emerging as a key attraction of becoming a public service social enterprise (Sepulveda et al. 2018).

Research methods

The empirical study on which the paper draws was concerned with the contribution of public service social enterprises/mutuals to innovation and included a focus on the role of governance and democratic ownership in these newly-created organisations. A qualitative multi-case study approach was adopted (Bryman 2006) to gain the breadth and depth of insight needed to address the research question and to be able to compare, contrast and generalise from evidence gained from multiple cases. The study began with a review of the specialised literature and analysis of existing secondary data on the size and profile of the emerging public service mutual sector in England. This resulted in 63 organisations being identified as having left the public sector in the years just prior to the selection process (in 2012) from which 30 were invited to participate in the study. The sample was purposefully selected to be broadly representative of the diversity of the sector and different characteristics in terms of size, turnover, geographical location, date of registration, activities and legal form adopted. The unusually large sample (i.e. for a qualitative case study approach) also has the advantage of capturing a variety of approaches, stages and outcomes related to democratic governance and ownership, thus making the analysis and resulting typology more robust.

These organisations primarily delivered services related to community health, wellbeing and social care (see Table I). Most were fairly new at the time of the fieldwork, with 19 of the 30 having been established from 2011 onwards when the British government's Right to Request Programme became operative. This is methodologically relevant in that most were at an early

stage of establishing and embedding their governance arrangements, having only recently transitioned from state ownership.

Table I. Profile of organisations

| Case number | Year of registration | No of employees | Turnover | Main activity | Legal form |
|-------------|----------------------|-----------------|-------------|--|--|
| 1 | 2011 | 1100 | £50,000,000 | Community healthcare | Community Interest Company (CIC) – Company Limited by Shares (CLS) |
| 2 | 2011 | 1700 | £50,000,000 | Community health/social care | CIC – Company Limited by Guarantee (CLG) |
| 3 | 2007 | 25 | £250,000 | Adults with learning disabilities | CIC – CLS |
| 4 | 1994 | 360 | £5,500,000 | Elderly home care | Share Investment Plan (SIP) |
| 5 | 1997 | 700 | £15,000,000 | Residential respite & day care services | Charity – CLG |
| 6 | 2007 | 55 | £2,200,000 | Primary care (General Practitioners) | CIC – CLS |
| 7 | 2011 | 25 | £925,000 | Mental health | CIC – CLS |
| 8 | 2010 | 600 | £25,000,000 | Community healthcare | CIC – CLG |
| 9 | 2011 | 1250 | £47,000,000 | Community healthcare | CIC – CLS |
| 10 | 2010 | 15 | £900,000 | Primary healthcare | CIC – CLS |
| 11 | 2011 | 850 | £30,000,000 | Community healthcare | CIC – CLS |
| 12 | 2011 | 50 | £272,940 | Mental health | Industrial & Provident Society (IPS)* Bencomm |
| 13 | 2011 | 170 | £8,000,000 | Community drug/alcohol services | CIC – CLS |
| 14 | 2011 | 500 | £21,000,000 | Mental health | CIC – CLG |
| 15 | 2011 | 46 | £2,700,000 | Services for disabled people | CIC – CLG |
| 16 | 2011 | 170 | -- | End of life care | CIC – CLS |
| 17 | 2011 | 1300 | £36,000,000 | Community services | CIC – CLG |
| 18 | 2011 | 40 | £1,200,000 | Children's mental health | CIC – CLS |
| 19 | 2011 | 40 | £600,000 | Adults with learning disabilities | Charity – CLG |
| 20 | 2011 | 300 | £16,000,000 | Community healthcare | CIC – CLS |
| 21 | 2011 | 2082 | £87,000,000 | Community healthcare | CIC – CLG |
| 22 | 2011 | 2000 | £90,000,000 | Community healthcare | CIC – CLG |
| 23 | 2005 | 200 | £6,000,000 | Adults with learning disabilities | Charity – CLG |
| 24 | 2013 | 16 | -- | Adults with learning disabilities | CIC – CLS |
| 25 | 2011 | 40 | £1,000,000 | Social care | CIC – CLS |
| 26 | 2006 | 4 | £100,000 | Primary care | CIC – CLG |
| 27 | 2011 | 10 | £888,000 | Community healthcare | CIC – CLG |
| 28 | 2002 | 350 | £7,000,000 | Leisure, fitness and health rehabilitation | IPS* bona fide |
| 29 | 1992 | 62 | -- | Leisure, fitness and health rehabilitation | Charity – CLG |
| 30 | 2002 | 2500 | £40,000,000 | Leisure, fitness and health rehabilitation | IPS* Bencomm |

* Note: Co-operative and Community Benefit Society since August 2014

For each of the 30 selected organisations, semi-structured interviews were conducted with CEOs (total n=29), senior and junior members of the staff (including some trade union representatives) (n=166), service users or patients from the local community (n=39), and key external stakeholders (e.g. commissioners of public services) (n=39), with an average of nine interviews per organisation. Different subgroups of interviewees (i.e. CEOs, employees) were purposely selected for further in-depth analysis as required. As for the reliability of the information supplied by the 29 CEOs (the main source of data for some key variables), we were able to test their views against those of other informants, such as senior managers, more junior staff members and, in some cases, trade union/employee representatives within the same organisation.

Of particular relevance for this paper were the set of questions concerned with the governance arrangements, whether fully adopted or in process of being established, and views on how these mechanisms were working in practice. Also explored were interviewees' perceptions of changes to the organisational culture and evidence of innovation (both service and organisational) since leaving the public sector.

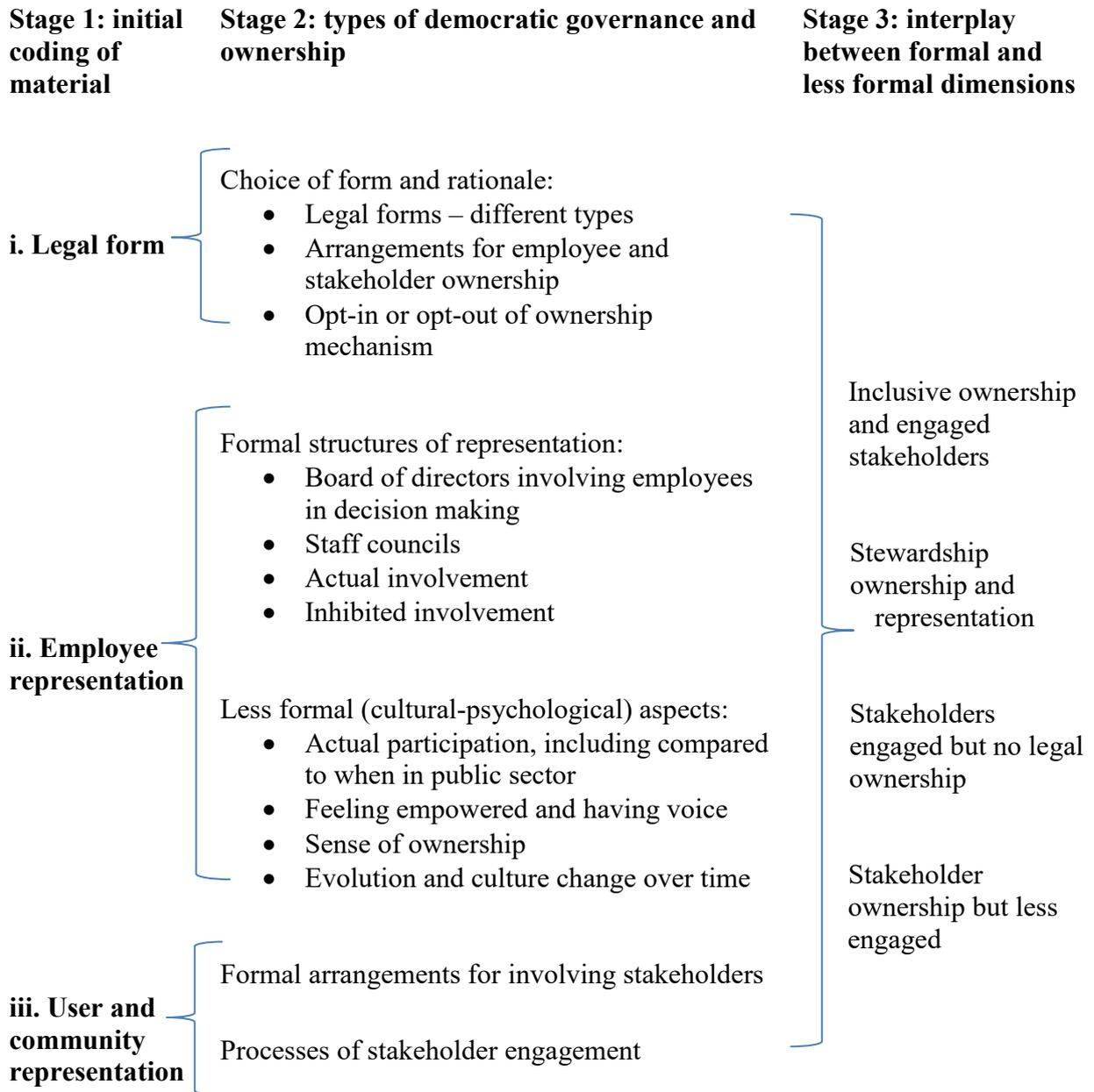
The first stage of the interpretative analysis drew out the emerging themes in relation to the key variables (or parent nodes) (Boyatzis 1998) with the help of the NVivo software package. Each transcript was coded by at least two team members to ensure consistency and reliability in the identification of key themes and sub-themes (or child nodes). In the first stage, the data was classified under three main thematic axes (first order/parent codes) as derived from the literature and supported by the initial NVivo analysis:

- (i) *Legal form* – rationale for the chosen form and ownership structure at start-up;

- (ii) *Employee representation* – formal mechanisms and practices aimed at involving employees in decision making (staff councils/board of directors and extent of actual involvement) and less formal (cultural-psychological) aspects of participation, empowerment voice and sense of belonging;
- (iii) *Service user and local community representation* – formal arrangements for involving stakeholders in governance and actual experiences of stakeholder engagement.

The second stage of analysis involved a further coding of the material selected in the first stage to draw out both the formal and less formal dimensions of engagement and enfranchisement. Finally, the third stage delved further into the coded data to explore how the interplay of the elements and dimensions previously identified gave rise to specific outcomes, or stages in the journey towards democratic governance and ownership. These three levels of analysis culminated in the development of the analytical framework, as shown in Figure I, and further elaborated in our concluding discussion.

Figure I. Stages of coding and analysis of empirical data



Main findings

The findings are presented below in relation to the three broad areas of social enterprise governance identified in the literature and justified in our conceptual framework: (i) choice of legal form; (ii) employee representation; and (iii) service user and local community representation.

(i) Legal form

The legal form adopted by the 30 organisations following their departure from the public sector is the starting point of the analysis, given that this relates to the most formalised aspect of the governance arrangements established, or ‘legal ownership’ as per the distinction made by Pierce et al. (2001) between types of ownership. As shown in Table I, most organisations had adopted legal forms which were conducive to multi-stakeholder ownership, with the largest group (22 out of 30 organisations) being Community Interest Companies (CICs), a relatively new form introduced by the British government in 2005 to accommodate the legal and operational requirements of social enterprises (Nicholls 2010). The main feature of the CIC form is that it incorporates a lock on the company’s assets and restrictions to the distribution of profits. The flexibility of the CIC form allows choice between different constitutional structures and ownership options, whereby membership/ownership can be held solely by directors or can variously include – depending on the organisation’s priorities - employees, service users, members of the public, or other stakeholder organisations such as local authorities. Thirteen of the 22 CICs were registered as Companies Limited by Shares (CLS) and nine as Companies Limited by Guarantee (CLG). CIC-CLSs issue share capital in fixed amounts, e.g. typically £1 per share, to their ‘shareholders’ who become the ‘owners’ of

the company. The nominal amount of the share (e.g. £1) is the extent of the directors' liability in the company. For CIC-CLSs there is a cap on the maximum dividend and interest payments it can make, which is currently restricted to no more than 35% of the aggregate distributable profits. In a CIC-CLG, instead of share capital or shareholders 'the members' give a guarantee (or membership fee) to cover the company's liability. The guarantee is 'nominal' e.g. being limited to £1 (sterling). The members of a CIC-CLG therefore become its 'owners' and have, broadly speaking, the same powers as those of the 'shareholders' in a CIC-CLS (2).

Of the remaining eight organisations, four were registered as Charity Companies Limited by Guarantee (CLG) - a form commonly adopted by UK charities and nonprofits that trade, under which directors purchase a £1 share but with an asset lock restricting any distributions of profit or assets. Three organisations were Industrial and Provident Societies (IPS) (or Co-operative and Community Benefit Societies since August 2014), a long-established form for mutuals and cooperatives where there is a principle of employee or stakeholder ownership and democratic enfranchisement of members with voting rights. Finally, the sample included one example of an employee-owned organisation which had recently changed its legal structure from a private Company Limited by Shares to a Share Investment Plan. The majority of the organisations had therefore adopted legal forms that were conducive to multi-stakeholder ownership – i.e. including both employees and user communities - although most had chosen constitutional structures which prioritised the enfranchisement of employees, in line with the policy prescriptions for public service mutuals – an issue which we will further examine below.

Regarding the 22 CICs, all had implemented either a ‘shareholder’ or a ‘membership’ system (in 13 CIC-CLSs and nine CIC-CLGs respectively) thus enabling employees and service users, in theory, to become *non-dividend* shareholders or members (on paying £1). For CIC employees, acquiring ‘shareholder’ or ‘member’ status can happen either automatically or by making use of an ‘opt-in’ clause in the job contract. The first option, found in most (20 of the 22) CICs, occurs automatically after six or twelve months of full-time working for the organisation (i.e. the employee becomes a £1 owner) – although an ‘opt-out’ provision is generally included for those who do not wish to become shareholders or members. In the second option (just two cases in our sample), after six or twelve months of full-time working for the organisation, the employee either ‘opts-in’ to affirm their decision to become a shareholder or member or they are automatically ‘opted-out’.

There was considerable variation between the 22 CICs with respect to the proportion of eligible employees who had become shareholders or members, ranging from 30% at the bottom end to 98% at the top end of the range. Unsurprisingly, employee shareholding and membership was highest in the two organisations that had formalised an *opt-out* provision (50% to 98% - average 75%); whereas organisations adopting the *opt-in* clause exhibited much lower levels of between 30% to 50% (e.g. cases 9 and 21). Hence when employees were presented with the decision to ‘become an owner’ (or opt-in), a proxy for employees’ demand for legal ownership, an average of just 40% across the sample elected to do so, and 60% preferred to remain as ‘ordinary wage-earners’ without ownership rights.

The choice between an opt-in or an opt-out clause was a somewhat controversial matter according to CEO interviewees, further highlighting the importance of distinguishing between the different types and mechanisms of ownership (Pierce et al. 2001; Pierce and

Rodgers 2004). For instance, one CEO was emphatic that he saw ‘*automatic ownership*’ (i.e. the opt-out clause) as ‘*cheating*’ and argued that leaders needed to first gain employees’ trust and interest in order to pave the way for extending the provisions of full (legal) ownership. Another CEO similarly expressed his preference for a positive ‘opt-in’ and that ‘*persuading and engaging*’ was preferable to ‘*telling*’ staff that they were suddenly ‘owners’ of the organisation. When asked about the extent of employee ownership, another CEO in this group shed further light on the difficulty of extending and embedding a ‘feeling’ or ‘sense’ of ownership, also indicating a degree of ambiguity in a context where organisations had, until recently, been publicly owned:

Staff ownership? Well, it started off at about 20% of people that felt like they had ownership. It’s about 80% now, so there’s still some people who don’t really have a sense of ownership. All the staff are owners. But what the surveys were telling us is that there’s a different percentage of people that feel like they have that ownership. So it’s a bit like me saying, ‘Here’s this sofa, you can have it.’ And you say, ‘Oh, I don’t really want it! I’m happy to sit on it, but I don’t really want to own it.’ I think that’s the difficulty when you spin-out of the public sector, because no one really owns these things. And actually forcing people to own things doesn’t seem quite right either. What do you do if a member of staff says, ‘Well I don’t want to own this thing, thank you very much. Thanks for the offer, but no I don’t want to own it.’ Some people have said that and we need to think about how we address that.

The evidence from across the cases therefore shows that extending employee ownership can be a slow and difficult process that needs to be understood in relation to other aspects of democratic governance, to which we now turn.

(ii) Employee representation.

Most of the organisations had implemented or were in the process of implementing formal democratic mechanisms for representing the views and preferences of employees within organisational strategy and decision-making. Analysis of the interview evidence allows us to categorise the 30 cases in terms of three levels (or stages) of implementation, with seven at a high level or advanced stage (Cases 1, 3, 4, 9, 13, 16, 20), twelve exhibiting some partial adoption (8, 10, 12, 14, 15, 17, 19, 23, 24, 26, 27, 28), and eleven showing no or minimal presence of formal mechanisms (2, 5, 6, 7, 11, 18, 21, 22, 25, 29, 30).

All of the seven cases identified as being at an advanced stage had both employee shareholding or membership systems in place and formal structures for employee representation and mechanisms for enabling participation in strategy and decision-making. Some of these organisations appeared to be the least hierarchical and exhibited the most horizontal governance structures in the entire sample, in line with the democratic (stakeholder) model.

Specific mechanisms for involving employees in decision-making included an elected *staff council of shareholders* (in the case of CIC-CLS registered companies); a *staff council of members* (in the CIC-CLGs), or staff representation on a *council of governors*. Although these forums were often non-executive employee-led bodies, in some cases they were responsible for key corporate decisions such as appointing the chair of the board of directors (or governors) and the CEO. These bodies also had power, albeit to varying degrees, to hold the board of directors (i.e. the shareholders' agent by definition) to account and thereby exert

real authority and influence over the operations and strategic direction of the organisation (Low 2015). Critically, the employees of all seven organisations in this group were also represented on the board of directors via an (often) elected member of staff. In response to a question on the extent of employee engagement, one senior manager explained:

We've certainly set up the staff engagement side of things very differently [...]. What's integral to our governance structure is a council of governors. They are elected members from staff, they are not [trade] union reps, they're staff representatives and they're voted from different cohorts of the staff groups. They have quite a lot of power around appointing non-execs, and the chairman. They also take responsibilities around other corporate issues and [there is also] the fact that all our staff are shareholders, so they're offered the opportunity to be shareholders and have a nominal [£1 pound] share.

An important group of organisations (11 out of 30) corresponded to the stewardship (top-down) model of governance. Arrangements for employee representation (e.g. on their boards of directors or other employee-led bodies, such as councils of governors) were absent or minimal in this group, and in the few cases that did include staff representatives on their boards, these had been appointed by CEOs rather than being democratically elected by employees. Finally, in some cases shareholding and membership opportunities had been restricted to certain categories rather than being open to staff at all levels, including two cases where only the CEO, some senior managers and board members were deemed eligible.

Having analysed the governance forms adopted, we now turn to how these were working in practice, focusing on perceptions of effectiveness and any mismatches between the rationale

for their establishment and actual outcomes. Evidence from across the cases and from different categories of interviewees (e.g. CEOs, senior managers and junior staff members) shows employee participation and involvement in decision-making to have been a slow and difficult process, even in those cases that appeared to be the most advanced in embedding employee ownership in their structures and practices.

In some cases, it was particularly apparent that employees' lack of confidence in their abilities and lack of belief in the validity of their potential contribution was inhibiting their involvement in decision-making (i.e. an agency problem). One organisation had gone so far as to set up a 'staff engagement group' to address such a failure of democratic governance (Low and Chinnock 2008). The following quotation from an employee representative of a medium-sized organisation illustrates how the responsibility involved can be experienced as daunting and the need for a supportive context to develop the confidence of newly-appointed staff representatives:

I am on the board. It was quite scary to start with to be honest. I was voted in by the staff as the staff board member. I felt quite inadequate to start with because there were these business people on the board and when they spoke about the finances, to be honest, it went across the top of my head, I'm not that way inclined, it was like, 'What am I doing here?' But now I go in with them and I just say what I want to say as well. I know that my role within the board is completely different to my role working for [the organisation] and if I've got something to say, I will say it as a board member, regardless of whether [the Chief Exec]'s actually there, as a board member as well [...] We were meeting every month to start with and at the third board meeting I said, 'I've got to hold my hands up and say this: this terrifies me every time I'm

coming here I'm so worried about what you lot think of me because I just feel so inadequate to be here.' And one of the other board members said, 'Do you know, I feel exactly the same.' And I thought, 'I'm so pleased I said it.'

This illustrates how the introduction of legal forms and mechanisms alone is unlikely to be sufficient, and the need to understand and respond to stakeholders' actual experiences of democratic inclusion and empowerment. Nevertheless, evidence from across the cases largely supports that the new organisational cultures were experienced as being much less restrictive than had been the case in the public sector. In half of the cases employee interviewees clearly expressed how they felt more empowered to contribute to decision making than when their organisation had been part of the public sector (Cases 1, 4, 8, 9, 10, 11, 13, 14, 16, 17, 19, 23, 25, 27, 28). The following quotations illustrate how employees perceived the advantages of the new social enterprise status in terms of having a voice and influence:

'I think the advantages are that we now are very, very staff focussed. [...] we have more opportunity to put forward what we think we should be doing and where we think we should be heading. [...] as a social enterprise, staff are very much encouraged, and really empowered to have a massive part in the decision making.' Case 1

'As a social enterprise, I think we've got more say in how things work. Our ideas are listened to and not just forced on to us.' Case 17

'[I]t is quite good that it is an open door policy and you can have an opinion and express it and be listened to, really.' Case 28

Although 'open door' policies have long been advocated in the business and corporate world as a way of encouraging openness and transparency between senior management and employees, in many of our cases employees also expressed a strong sense of ownership and

belonging that was also linked to their involvement in decision making and ability to contribute to positive outcomes including service improvements and innovation:

'I think working as a team where the team truly do have a voice and can shape the service. [...] Because everybody has that shared sense of ownership.' Case 10

'[N]ow people have a real, kind of, strong identity of belonging to this organisation, owning this organisation, being part of the running of this organisation.' Case 14

'I think there's more opportunity for people in the front line to be innovative in how to redesign service. [...] So there's a feeling of a bit of ownership around what we need to change.' Case 9

This is evidence of the cultural-psychological dimension of ownership, with 15 cases exhibiting strong evidence of such engagement and participation in decision making, and with 12 of these cases also having strong formal mechanisms for democratic governance and ownership in place. In terms of employee representation, however, only five appeared to have achieved an advanced or 'high level' of adoption (Cases 1, 4, 9, 13, 16), with most exhibiting some partial (Cases 8, 10, 14, 17, 19, 23, 27, 28) or only a minimal level of adoption of formal mechanisms (Cases 11, 25).

Our cross-case analysis therefore shows how the transition from the public sector to social enterprise status has involved significant changes in the culture of most organisations. Some CEO interviewees identified the need for further such change in order for their vision of employee ownership to be more fully realised, with one suggesting a need for a shift from the more 'autocratic' style of leadership which had driven the transition from the public sector to an approach which could enable a more democratic, multi-stakeholder model. CEOs in two other cases referred to this as involving a gradual process of evolution rather than revolution,

also pointing out that a culture of democratic inclusion had been a key feature when they were part of the public sector.

These findings support the proposition that ownership needs to be understood as a cultural-psychological phenomenon as well as a legally formalised property. The findings also demonstrate the challenges experienced when attempting to embed and develop democratic culture and inclusive practice within organisations. Hence the need to explore and understand the interplay between legal forms and mechanisms and the processes of culture change within organisations.

(iii) Users and local community representation

As previously explained, public policy and support for public service mutuals in England has prioritised the enfranchisement of employees and has not seen the same weight being attached to user/community ownership and involvement. However, although none of the 30 cases had specifically designed their constitutions to extend shareholding/membership to their user communities, six appeared to have taken a particular lead in directly involving representatives of this key group, thus corresponding to the multi-stakeholder model of governance (Low 2015). Of these six, two claimed to have moved from a ‘dual’ governance system, i.e. controlled by senior managers and boards of directors in combination with employees and a council of governors, towards a ‘tripartite’ system, where service users were also accorded voice and decision-making power through mechanisms such as user advisory groups, patient groups and community forums.

We also find that directly involving service users and engaging them in the governance of the enterprise can be at least as challenging as involving employees, if not more so.

Organisations were faced with a number of challenges, starting with the problem of defining who their ‘users’ and ‘local community’ stakeholders were for governance purposes: should representation be limited to those who actively made use of the services provided or should it also include individuals who are registered with the service but not making active use of it? Where does the ‘local community’ start and where does it end? And who best represents it?

In two exceptional cases, CEOs emphasised the primacy of their service users and that engaging them in decision making took precedence over employee involvement, in the sense that the former were at the core of their ‘ideal governance structure’. Interviewees at one of these organisations described their model as an ‘*inverted triangle of governance*’, with the executive team at the bottom of the triangle, the employees in the middle, and service users and patients at the top. In this case, the organisation’s board of directors was composed of service users (mainly people with learning disabilities) and with supportive steering from the CEO, who further indicated the cultural change involved and their innovative approach to engaging users in service design and delivery:

We’re increasingly of the view that we have created dependency in the system, both from the point of view of individuals [service users] and how we’ve engaged them but particularly with regards to communities. And so our whole direction now is changing that basic relationship [...] And that’s a fairly significant cultural shift for us, [including in terms of] the whole relationship between local government and the citizen. So I think when you start to deliver some of these [services] through a much

more community-based model, you break down some of those barriers that currently exist.

For most organisations, however, engaging service users in governance and decision-making was experienced as particularly challenging, with all organisations in this group reporting significant difficulties. For instance, surveys launched by some organisations – i.e. in order to gather information about their users and obtain feedback on the services provided and suggestions for improvement – typically drew low response rates. Participation in service user and community forums was also generally much lower than in forums for employees, and often limited to small groups of *‘the same people’* and *‘self-appointed patient or community leaders’*, as expressed by one CEO. In the community healthcare cases, such apparent failures of democratic governance may also relate to the sectoral context, which is characterised by high levels of information asymmetry between health professionals and low-income and vulnerable service users in particular who may be lacking in the confidence and capacity to participate.

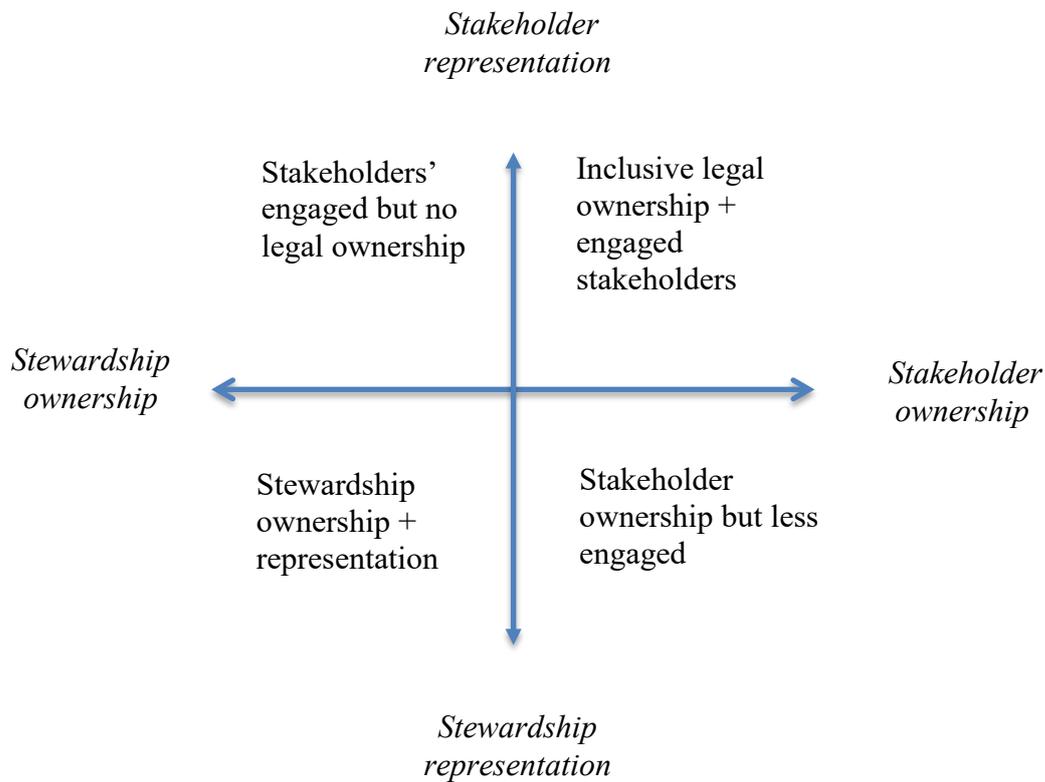
Discussion

There is increasing interest in the potential of democratic governance and ownership amongst social enterprises, nonprofits and policy makers concerned with promoting a more inclusive economy. We have addressed a gap in the literature on social enterprise governance (Cornforth, 2003, 2004; Diochon, 2010; Doherty; Fazzi, 2012; Low, 2006; Mason et al. 2007; Spear, Cornforth et al. 2009) by shedding light on the complexities and challenges posed in the novel context of public service social enterprises in England where there has been a particular policy interest in mutual ownership and democratic governance (Cabinet Office

2010; 2011). We have shown how the implementation of formal governance arrangements needs to be understood in relation to the specific processes and practices by which organisations seek to engage employees and other stakeholders, notably service users. In doing so, we have drawn on a conception of ownership as being both a formal/legal property as well as a cultural-psychological phenomenon. Specifically, the analysis shows how elements of both the *stewardship* (Davis et al.1997; Donaldson and David 1991) and *democratic multi-stakeholder* models have been variously adopted by organisations and often in combination (Cornforth 2003; Low 2006). The findings reveal the variety of approaches and outcomes amongst a set of organisations with similar origins, engaged in similar activities and with broadly similar commitments to participatory governance.

Based on these findings, Figure II presents a framework to capture the varied outcomes (or stages) involved. The vertical axis shows a continuum between multi-stakeholder representation and stewardship representation, while the horizontal axis captures the spectrum between stewardship ownership and multi-stakeholder ownership.

Figure II. Models of ownership and representation



Organisations which most closely exemplify the mutual ‘ideal’, or multi-stakeholder approach, effectively combine legal ownership and other formal mechanisms with the cultural-psychological dimension of ownership and fall into the top right quadrant of Figure II. Our analysis of 30 cases found that only five had achieved an advanced or high level of adoption of formal mechanisms and that the mutualisation process in these organisations had been strongly supported by the cultural-psychological dimension of empowerment and ownership.

The other three quadrants capture outcomes which, in line with our analysis of democratic governance and ownership as a gradual and often challenging process, may also be stages in an organisation’s journey towards democratisation. The bottom left quadrant captures those cases where the stewardship approach to ownership and representation was predominant,

with little progress beyond some limited provision for formal or legal ownership by staff (or other stakeholders) and where democratic stakeholder representation had not been pursued. These cases therefore exemplify stewardship with limited engagement, where directors and board members act as stewards for the beneficiaries and other stakeholders who are only democratically involved in decision-making to a limited extent, if at all. This is the most common form of ‘ownership’ across the wider non-profit sector.

There were other cases that lacked formal provision for employee or community ownership but where stewardship ownership co-existed alongside a considerable degree of stakeholder engagement and involvement in decision making. This is shown in the top left quadrant of Figure II. These cases exhibited a high degree of inclusivity and empowerment through having developed the ‘cultural’ component of ownership or *‘psychological ownership’* (Pierce et al. 2001).

Our analysis also revealed several examples of attempts to develop (multi-) stakeholder ownership but with a weak (or still developing) culture of participation and engagement. Organisations in this group fall into the bottom right quadrant of Figure II. This is likely to reflect a number of factors: the relative newness of many of the organisations examined; the nature of the sector, particularly with respect to healthcare; and the pressures of a competitive trading context requiring a board to guide the organisation’s strategy, delivery of complex public services (i.e. healthcare in particular) and management of the organisation’s assets. This was found to be particularly apparent in cases where mutual forms had only recently been introduced and where staff had to opt-out of legal ownership, rather than actively opt-in to take on the ownership role. Organisations in this group exemplify a limited, tokenistic or forced mutuality. Although the stakeholder models adopted offer opportunities for staff (and

to a lesser extent service user) representation and involvement in decision making, these are often not fully realised and there may be agency problems related to stakeholders' lack of motivation and/or confidence in their ability to participate in organisational governance and so fully exert their (legal) ownership rights (Mayhew et al. 2007).

Organisational journeys towards democratic governance and ownership are often complex and challenging processes for all involved. This paper shows how the adoption of legal forms alone do not create multi-stakeholder ownership, and how the achievement of democratic ideals often involves an evolutionary process of structure and culture change within organisations. Our evidence specifically shows that formal governance mechanisms designed to facilitate employee representation and ownership are necessary but insufficient, and that there is a need to attend to the desires and motivations for participation and involvement which may be nascent and in need of nurturing. Legal ownership on its own is thus unlikely to have a major effect unless it is accompanied by a supportive process involving debate amongst key stakeholders, changes to the organisational culture and experimentation with new practices and approaches. This also has a major implication for leadership styles and highlights the importance of managing culture change within organisations as they seek to shift between the different possible governance outcomes/categories (as shown in Figure II) in response to the influence of key stakeholders and other contextual pressures. We have shown how particular organisational practices and forms of leadership are needed to facilitate cultural change, as well as legal and other formal mechanisms for multi-stakeholder representation and engagement. These changes in turn require organisation leaders to gain the trust and commitment of employees (Ohana et al. 2012) and user communities, thus encouraging them to participate in the decision-making process. In this way, formal ownership structures are more likely to be fully utilised rather than remaining as 'empty

boxes' and/or 'stewardship devices' that ultimately, reflect a failure of democratic governance (Low and Chinnock 2008).

Most of the organisations examined had prioritised the enfranchisement of employees over user/community stakeholders (at the time of the research fieldwork, at least). As well as being in line with the policy guidelines and supportive framework for public service mutuals, this 'bias' towards employees is also likely to reflect the greater difficulty and complexity of engaging service users, which may also be exacerbated by issues related to the healthcare sector context of many of our case study organisations. Nevertheless, we have shown how some organisations had made progress in this direction and the greater enfranchisement of user communities is likely to be a feature of the evolving policy agenda for public service mutuals. Models for such development include the Somerset Co-operative Model and the FairShares Model in Britain (see Ridley-Duff and Bull, 2019) and internationally (see Sacchetti and Birchall 2018). This is an important area for future research, particularly with respect to the potential for user community engagement in a greater diversity of sectoral contexts than has been possible in this study.

Conclusion

We conclude by observing that, although public service social enterprises/mutuals represent an opportunity to develop and implement alternative forms of governance that are conducive to democratic ownership and representation, putting these principles into practice can be far from straightforward. As seen, no matter how much encouragement and support organisations receive, employee and community/service user ownership and democratic governance are likely to remain elusive if these principles are not underpinned by suitable

legal forms, inclusive organisational cultures, visionary leadership and concrete actions that are in line with the organisation's social mission: it is neither structure nor culture, but rather a synergistic interplay of the two that matters. This is our main contribution to knowledge, particularly to the literature on social enterprise governance (Cornforth, 2003, 2004; Diochon, 2010; Doherty; Fazzi, 2012; Low, 2006; Mason et al. 2007; Spear, Cornforth et al. 2009) where the two dimensions of organisational governance and their interplay have not been comprehensively examined. Our framework of governance outcomes (Figure II) offers an ideal type model with four possible outcomes (or stages) which can be applied to the study of social enterprises more generally, whether or not they are seeking to democratise their governance structures. We contend that this framework has potential in terms of the further exploration of the impact of governance arrangements on other organisational spheres, including the productivity and performance of mutuals and other mission-led or profit-with-purpose businesses (Hollensbe et al. 2014; George et al. 2016).

There are some limitations to this study which also suggest avenues for further research. Although the paper draws on a sizable sample of organisational cases, the research design has been qualitative and there is a need for larger sample surveys of social enterprises including employees and other stakeholders, notably service users, to further examine the relationship between the adoption of legal/constitutional forms, actual practices and the cultural-psychological dimension of ownership. Additionally, we have focused on a particular type of social enterprise, operating in a particular sectoral context in England, which limits the generalisation of the findings. There is therefore a need for further research which examines these issues in other social enterprise and civil society sector contexts. Also of value would be further longitudinal research that explores the particularities of public service social

enterprises and how democratic governance evolves by being enabled, challenged or otherwise shaped over time and how these dynamics affect organisational performance.

Endnotes

(1) <https://www.gov.uk/government/collections/public-service-mutuals> (Accessed May 2019)

(2) For further details see: <https://www.gov.uk/government/publications/community-interest-companies-how-to-form-a-cic>; <https://www.gov.uk/government/publications/a-handbook-for-good-governance-in-a-new-mutual> (Accessed January 2020)

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