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Part III Policy and Entrepreneurship in the Wider Society

Chapter 8

Social Entrepreneurship

Introduction

As with profit orientated entrepreneurs, social entrepreneurs apply new perspectives or innovations and change what things or services are produced, how they are produced and/or how their organisations operate. There have been many such social entrepreneurs and innovators down the ages.

Florence Nightingale used her creativity to act innovatively, change how medical care was practised and develop new types of medical organisations. She changed peoples' ideas of healthcare and set up organisations to nurture the new nursing profession.

Similarly Mozart created dramatic new musical forms as well as developing a commercial opera house. Thinkers may also generate ideas which open up vistas for others to act on entrepreneurially. For instance, Copernicus in the fifteenth century showed that the earth was not the centre of the universe, but rather the sun was. This went against the views of both his professional scientific peers and of the most powerful religious leaders. In the end scientific evidence showed his idea to be more valid, and he completely changed the perception or paradigm with which people viewed the earth and its relationship to the universe.

More recently there are many examples of innovative individuals or groups setting up major organisations with social rather than profit aims. Some examples include organisations such as Greenpeace who have excelled in 'marketing' their environmental message, or Oxfam who developed new ways of raising funds for charity and new policies to promote the long term development of areas facing famine. Indeed many of the best hospitals and Universities in the United States and elsewhere employ social entrepreneurs. These organisations are major employers and 'businesses' with large turnovers, but which remain wedded to their wider social goals and their commitments to their core social values.

Peter Drucker (1985, p.21) suggested that there was no better text for the history of entrepreneurship than the creation and development of the modern university. He used as an example Humboldt University in Berlin which was developed in 1809 to help give Germany and its industry scientific and intellectual leadership. Then by the end of that century US universities developed and expanded giving them leadership in research and scholarship in many areas. Later a new type of US university developed in the second half of the twentieth century with part-time and flexible hours for attendance in order to meet the needs of students in work. The educational entrepreneur has also risen to greater prominence in the last decade. For instance, in the UK head teachers have increasingly taken an explicit leadership and entrepreneurial role involving: the identification and taking of opportunities; innovation; and the co-ordination of resources. However, many argue that this is only successful if professional standards and the primacy of their educational mission and of the students' learning are fully maintained and improved.

In the US there is a long history of innovation and entrepreneurship in the non-profit sector which, according to 'Giving USA', accounted for 8% of the GDP. Americans

donated some \$143 billion to non-profit organisations in 1997. In the UK the not-for-profit sector has an estimated turnover of over £12 billion per year, and has a share of GDP comparable to agriculture.

There are also many examples of commercial entrepreneurs who acted upon their feelings of strong social and moral responsibilities. From the Victorian era examples include Lord Lever, the founder of the soap manufacturers who built a strong commercial firm (which became the giant Lever Bros. Corporation), but at his initial Sunlight factory at Port Sunlight in north-west England he also built a high quality village (for its time) housing for its workers. Similarly, the Quaker food and chocolate producers such as Cadbury near Birmingham and Rowntree in York provided housing and educational facilities for their workers and families, that were far ahead of their time and were not motivated by purely commercial factors.

This chapter does not attempt to describe and analyse the history or breadth of social or scientific entrepreneurs and social entrepreneurship. It concentrates upon those organisations with predominantly social objectives, but which also operate, at least in part, as businesses. It starts by discussing social entrepreneurs, then it goes on to consider one type of business (community businesses) specifically set up with social and commercial objectives. Another form of business (co-operatives) which can often exhibit collective entrepreneurship is then considered, and finally entrepreneurship in government is briefly discussed.

Social entrepreneurs

Entrepreneurship assumes many forms. It may be manifested through usual business structures such as public corporations or companies, partnerships or sole traders. It may also occur in other forms of business such as co-operatives or community

businesses, or in other organisations including Third or 'not-for-profit' sector bodies, government or educational institutions.

The changing causes and nature of social problems requires much innovative thinking and entrepreneurial action. Society continually undergoes social, economic and political changes, generating new needs or refashioning old problems, such as community-based urban regeneration, drugs, crime, bad housing, lack of facilities for young or old people etc. Although in absolute terms a poor person in most developed countries may be much better off today than a skilled working person a century ago, in relative terms they may still be poor. So poverty is likely to remain an issue, although its nature may change. So entrepreneurial thinking and behaviour will constantly be required to deal with such social issues.

Innovative solutions, often with limited resources, are regularly called for. This may involve generating and acting on new ideas, or providing new services or 'old' services in a new way. It may also involve creating new organisations or ways of delivering services such as combining the activities of many different agencies to tackle a multi-faceted problem. All of these require entrepreneurship, so social entrepreneurs use the entrepreneurial skills discussed in Chapter 1 to meet social needs.

In the last two decades there has also been a move by public sector bodies such as local government from directly providing welfare and other services themselves towards them contracting to other organisations the provision of the service, often these are non-for-profit bodies particularly in areas such as social services. This is often done to increase competition among producers and choice for consumers and to provide more flexible services. This has partly resulted in such not-for-profit bodies

becoming more 'business like' and entrepreneurial so as to get contracts to deliver the services and to operate more efficiently and effectively when they have the contracts.

In considering the growth in importance of social entrepreneurs in meeting such challenges, Leadbetter (1997) suggests: they concentrate on social outputs, i.e. ones that promote health, welfare and well being; their core assets are forms of social capital (relationships, networks, trust and co-operation) which then give them access to other physical and financial resources; the organisations they operate in are not-for-profit, i.e. do not have profit as their main aim and usually do not distribute their profits to their owners; they may have a variety of motivations; and often social entrepreneurs are seeking to regenerate particular communities. Hence their main differences from profit orientated entrepreneurs are their motivation and resulting aims, and also they should have a strong moral integrity underlying how they go about achieving their aims. Social entrepreneurs achieve their aims through realising innovative solutions to social problems, and utilising under-used resources (e.g. people, premises, equipment) to meet identified community or client needs. Hence they may work in public, private or the third sector organisations. This echoes Say's 19th century view of an entrepreneur as organiser of resources (see chapter 1).

Of course, innovative solutions should not simply be innovative for their own sake but must also be effective and efficient or else they may be wasteful and use resources that would be better allocated elsewhere. As the management writer Peter Drucker (1992) argues, effective non-profit organisations, or social entrepreneurs, should be governed by good performance in achieving their objectives rather than by their good intentions.

Young (1983) suggests that social entrepreneurs follow a similar process to other entrepreneurs. In general they follow a sequence which starts with idea generation, which may include an opportunity or new solution to a problem identified, usually

through systematic analysis of the situation. In the next phase resources have to be gathered or developed, through reallocation of existing resources or gaining new resources from potential stakeholders. The path clearing phase involves overcoming other institutional barriers, such as licences, changing mandates for the organisation etc. Then the leadership and management of the venture must be organised so that it will be self-sustaining, although the entrepreneur, or entrepreneurial team, may not necessarily take the management role. This latter point contrasts with the view of entrepreneurs as being both the initiator or founder of an organisation and its manager, but may be consistent with the view of entrepreneurship as the 'event' of setting up a new organisation. Finally after the plans, resources and leadership are in place and necessary permissions obtained, the project itself must be organised and implemented through obtaining and directing, for instance, staff hired, premises secured and occupied and equipment.

This process is similar to the general strategic decision making and implementation process (see the appendix on business plans). It involves networking and collaboration among potential stakeholders who may have a stake in the project, including clients and funders of the project, and the entrepreneur (or team of entrepreneurs). It will normally involve a division of labour with delegation of various activities, but with the entrepreneur assuming responsibility for making things happen and driving the project forward. The success in generating the project will depend on both the entrepreneur and other stakeholders and on other factors such as the surrounding economic, social, political, cultural environments. People and organisations are not static and may go through stages of intense entrepreneurial activity and change followed by equilibrium or even stagnation. So the act of setting up a project needs to be followed by effective and efficient operation and further development.

In organisational terms, social entrepreneurs often create flexible organisations with flat structures, using paid and voluntary workers. Crucially they have the skills to effectively help combine a complex network of various individuals and organisations to tackle social needs. The entrepreneurs may generate and pilot new solutions or provide services more efficiently and effectively than before. To do this they often help build up the social capital and capacity of the communities or client groups they work with to enable them to take greater control of their own destinies. The social entrepreneurs may share many common characteristics with private high-growth firms, for instance having clear vision and goals, professionalism, dynamism and ability and willingness to identify and realise opportunities. There is an important difference however, in that the needs of all the stakeholders are paramount, in particular those receiving the services or goods, rather than concentrating on growth or profits. This means that social and private entrepreneurs may take different opportunities. For instance, some identified opportunities may not be taken by the social entrepreneur if they detract from meeting the needs of clients.

In summary social entrepreneurs exhibit entrepreneurial behaviour in a variety of ways including developing innovative ways of operating, pulling together and allocating resources from many sources, and sometimes setting up or transforming new organisations. They differ from private commercial entrepreneurs in their focus upon their performance in achieving their social objectives rather than private or financial returns.

Illustration - Robert Owen

One of the most famous social entrepreneurs of the Victorian era was Robert Owen (1771-1858). He spanned both commercial and social entrepreneurship in Britain and

America becoming one of the greatest social reformers of his time. Born the son of an ironmonger and saddler in Newtown in Wales, Owen started work as a shop assistant. By the time he was 30 he managed a cotton spinning mill in New Lanark, Scotland, eventually employing 2,000 workers, including 500 apprenticed children from local pauper workhouses. He introduced radical management practices to his mill based upon 'principles of justice and kindness'. These included moving towards an eight-hour working day and good housing for the mill workers in 'co-operative' villages. He also set up an experimental, utopian community in New Harmony, Indiana, but that community lasted only a few years.

Owen also wrote about and provided education for the workers' children. This was innovative at the time being based upon offering a good living and schooling environment with patience and kindness in class rather than education based on punishment. He became the part-owner of the New Lanark cotton mill (which today is an historic museum and park) and reduced working hours from 14 hours a day to 12 and tried to reduce them further to 10 hours or lower. Despite high profits at the mill he was prevented in doing this by his partners so he found new investors to buy the mill. To celebrate his return after this the people in the village unhitched the horses on his carriage and pulled it through the streets by hand.

Owen combined 'goodwill' towards staff and others with efficient organisation. He was extremely innovative in both commercial and social terms, and well ahead of his time. Many of his management and social ideas are now accepted so widely that they are considered 'common sense'. Although some of his approaches to worker discipline would today be described as a 'paternalistic', they helped lead the way to the better conditions of today. In later life he became more radical in his criticism of

the 'social system' and stressed even more vigorously the importance of reforming human character (Robert Owen, Writings, 1991 edition).

Community Businesses

Community businesses (or community enterprises as they are sometimes called) are mainly focused upon the wider benefits to the wider community rather than to members. A prime community benefit is often through providing work, while others include physical improvements to neighbourhoods such as tree planting, or social services to local residents etc. A community business can be defined as a trading organisation which is set up and controlled by the local community and which aims to create ultimately self-supporting jobs for local people. The profits of the business go towards creating further employment or providing local services or assisting other schemes of community benefit. The distinguishing features of community businesses are: that they trade their goods or services and so are businesses; their purpose is to provide economic, social or physical benefits for the community; they should be accountable to and controlled by people in the community; and profit is not the main objective. They normally try to make a profit in terms of income covering costs (otherwise it would need to find somebody to provide a continuous subsidy) but do not distribute this to the members or owners of the business.

The members or owners of the community business are usually restricted to local people or those with an interest in the area who then contribute a nominal membership fee and have voting rights but have no claim on the assets or profits of the businesses. Hence this is a part of a social as well as economic network as discussed in chapter 6. Commonly in the UK the businesses are set up as companies limited by guarantee (so the owners only risk their membership fee if the business goes bankrupt) and with

charitable tax status. The actual trading is then carried out by subsidiary companies (such as shops, factories, services etc.) who pay taxes etc. as other businesses, but who pass their profits back to the charitable main company.

In terms of economic theory, the community business would seek to value the externalities it creates (such as extra job, or a more pleasant physical environment in a run-down area) as major components of its benefits. So it may achieve a much lower financial return than, say, a private company, but this would be compensated for by taking account of the non-pecuniary social benefits. Hence a community business which only just breaks even in financial terms (without any return on its original capital) may still be worthwhile if other net benefits outweigh the opportunity cost of its resources. While the marginal private costs may be lower than the marginal private benefits for the business, the marginal social benefits are greater than the marginal social costs. In such circumstances no private company would normally set up a business there in the long term expectation of only breaking-even in financial terms and without a return on capital. Hence community business may set up in depressed neighbourhoods or sectors where other businesses would not. Of course, most community businesses will seek to obtain a higher return than break-even, subject to their other objectives. From a public policy perspective, the externalities resulting from support to any such business would be included in the decision on whether to offer any grants etc.

During the last two decades community businesses have undergone considerable change in many places, such as Scotland or US inner city areas. In the past many community businesses have focused upon satisfying perceived social needs of the community, such as the desire for jobs in depressed communities or local services like a cafe, where these have often been unable to survive financially without public

subsidy. After the closure of many such businesses later community businesses often focused upon creating financially viable (at least break-even) businesses so that they would not have to rely upon the uncertainty of public subsidy. Many of the community businesses, often failed partly due to lack of management expertise and limited markets. Other community businesses moved on to trying to create a 'community of interest'. In this approach, rather than locate a business (such as a childcare facility) in a poor neighbourhood where demand may be low, they would locate it in a more profitable location such as a city centre site. The benefits would go back to the poor neighbourhood in terms of the jobs in the facility going to local people and financial surpluses being spent for the benefit of the neighbourhood. The community business creates a coalition of interested groups such as parents, employers with staff needing childcare etc. There may, of course, be some conflicting interests between the various stakeholders, with parents wanting cheaper care and the wanting better paid jobs etc.

Community businesses have sometimes been successful in industries ranging from wood manufacturing to recycling companies, housing and cafes. However, in practice it is extremely difficult to measure the real benefits of community businesses and many of the businesses have failed once their subsidies from the public sector were removed. Nevertheless, hundreds of such businesses exist in the UK and many other countries providing useful benefits to their local economies. They also help develop new enterprises and entrepreneurial skills and behaviour often among the most disadvantaged communities, and provide some help in empowering local people to gain some control over their lives and their communities.

For over a century in the USA, community-based non-profit (or 'not-for-profit') organisations have been active in operating businesses from providing and running

hospital and social services, to property development and providing loans or even venture capital. Many of the government training schemes have been delivered by such organisations, such as the Federal JTPA training programme. A common form of such organisations is the Community Development Corporation (CDC), such as the Watts Labor Community Action. This was set up with funding from various foundations, government and other sources in Los Angeles in the 1960s after riots. The view is that a community controlled company would be able to invest to help local employment and training, to improve housing for local poor people and to reinvest profits back into socially useful projects. CDCs have received considerable support from government. For instance, in Massachusetts the Community Development Finance Corporation provided finance on flexible terms for working capital and property costs, together with management advice, to CDCs where there is a clear public and community benefit. However, there have been criticisms of some CDCs due to lack of professional expertise and business experience. Also there has sometimes been conflict within the organisations over the relative importance of the social and economic objectives and between the organisation's advocacy and development roles.

Co-operatives

Another form of 'non-traditional' business structure is the co-operative. These primarily seek to benefit their members rather than specifically the wider community but they often also have wider social objectives. Most common are retail co-operatives where customers gain a share of the profits or 'dividends', marketing co-operatives where a number of private producers come together to market their products (such as

farmers in the Mid-West of Canada and the USA sharing grain storage facilities), or producer co-operatives where the members of the co-operative are its workers.

Retail co-operatives have been popular for centuries. In England, the Sheerness Economical Society in Kent started a co-operative shop linked to a bakery in 1816. In the next decade the London Co-operative and Economical Society set up the first co-operative newspaper called 'The Economist' and started bulk buying goods for the needs of their members, estimating a savings of a third in their living expenses (Birchall, 1994).

The most famous early retail co-operatives were those of the Rochdale Pioneers in the Lancashire cradle of the industrial revolution. In the 1840s the life expectancy in the town was 21 years, 6 years less than the rest of England, and starvation was quite common. The co-operative started with 40 members and £28 in capital. They sold butter, sugar, flour, oatmeal, candles, tea and tobacco. The first year's takings were £710 and their capital had grown to £181 with a surplus of £22. By 1880 membership was 379 times greater at over 10,000 while capital and sales were both around £300,000 (over a million dollars at the time) and the surplus around £50,000. This provides clear evidence of collective entrepreneurial endeavour which succeeded despite having very poor members and customers and a depressed local economy. It's success was also despite major difficulties in the external environment during the period, such as the cotton famine during the American Civil War and a number of major recessions.

Since then retail co-operatives have spread throughout the world including the Harvard Coop beside Harvard University on Cambridge, Massachusetts. They have also moved into sectors such as banks or savings and loans societies. Indeed, although not strictly co-operatives, in the UK the main funders of loans for house purchase

have been the Mutual Building Societies, owned by their borrowers and savers. In the 1990s many of them converted into public companies, which immediately became some of the largest UK banks. There still remains a commercial Co-operative Bank operating throughout the UK.

Marketing co-operatives are widespread especially in farming areas and it is still common to see grain stores of farmer co-operative alongside the rail tracks in North America where the farmers may share storage facilities and jointly transport and sell their grain to far off markets.

Producer co-operation also have a long history. A co-operative flour mill was even established in Woolwich in London as long ago as 1760. In theory the co-operative members trade off their utility curve (which will include the social or non-pecuniary benefits of being a member) against the revenue curve. Hence, they may forgo increased net revenue per member in order to maintain or increase employment and so may employ more people than an equivalent private firm. While there are still small producer co-operatives scattered across many countries there are few successful large scale ones.

In most of developed world, co-operatives are generally no longer particularly significant forces in retailing or production. One notable exception is that of the Mondragon Co-operative in the Basque region of Spain (Barker, 1997). This was set up in 1954 by a local priest Don José Maria Arizmendarreta to help combat high unemployment of over 20% and wide spread poverty (Whyte and Whyte, 1991). At the start the first five young members of the co-operative raised \$361,604 (and worth about \$2 million in today's money) - a very large sum in such a poor area. Within two years there were 24 employees and by 1958 the number rose to 149 employees. In 1990 the Mondragon Co-operative Complex had 21,241 member employees in over

100 enterprises, worth over \$2.6 billion. The co-operatives at Mondragon are based upon a number of principles such as democracy, where each worker gets a vote, links with education (with the school providing related business training), financial input by employees (which can normally only be withdrawn on retirement), and equity (with originally the top paid staff getting no more than 6 times the lowest wage, although now this gap is wider in order to improve efficiency and to reflect the relative contributions of different members).

All the co-operatives use the Mondragon co-operative bank which, unusually for a bank, has a clear objective of funding new jobs rather than protecting its capital. The bank deliberately supports entrepreneurship through funding, advising and mentoring new co-operative businesses as well as existing ones, with a claimed high success rate of 80% for new enterprises which start up. The bank has therefore both commercial and non-commercial contractual relationships with its clients (the provision of artisan capital and the importance of contracts and social relationships were discussed in chapter 6). This shows the enormous effect that such collective enterprise, along with other entrepreneurs, can make even in areas of low income or high unemployment.

The Public Sector

In the field of government there has been a call for public sector employees and organisations to act more entrepreneurially in order to deal more effectively with key issues, as resources are limited. Peter Drucker (1992) has argued that in recent years one of the major growth areas for entrepreneurship has been in public bodies (especially local government such as municipalities). These include new ways of developing and implementing policies, making effective and innovative use of new

technologies, and taking greater account of the impacts of government on entrepreneurship in the wider economy and society.

There has been a shift in thinking about many government functions from seeing the government as a provider of the services (e.g. employing people to collect refuse) to taking on an enabling role. This enabling role is where the government sets performance standards and ensures that the service is adequately and equitably supplied by private or non-profit organisations (usually following competitive tendering), and allows more entrepreneurial, opportunistic and demand led approaches to be taken. However, although it no longer directly employs people to carry out the function, the government still pays all or most of the costs. As mentioned previously, in chapter 2, a somewhat similar process has also been going on within the private sector with firms sub-contracting out non-core activities.

This enabling process has been underway since at least 1975 in places such as Lincoln, Nebraska. In recent years many local government functions in the UK have been put out to tender, although the existing employees can also bid to continue to run the service. At the national scale the privatisation of many government owned industries, from British Telecom to railways and British Airways in the UK and many other firms world-wide, has now become common place although this was virtually unheard of 20 years ago. This has removed some of the constraints upon the way the businesses operate, including previous limitations on opportunities they could take. Crucially has also usually brought in competition, so forcing the businesses to reconsider what they do and how they do things and to act more entrepreneurially (unless they retain a high level of monopoly power).

There are limits to how entrepreneurial a government department or employee should be. Bureaucratic systems and organisations are usually designed to try to withstand

pressures from vested interests and despotism by the powerful, which must be balanced against any hindering of more entrepreneurial actions. Also people's perceptions of risk and of equity may vary between public and private services, with public bodies usually taking lower risk due to the fear of voter reaction if a risky venture fails. Also they need to deal with all citizens rather than targeting the most profitable. These may mitigate against opportunity taking. For example one way to raise tax revenue would be to have different rates depending on how cheap it was to collect from different people, but this would likely be opposed on grounds of equity. Imagine the uproar if people in one neighbourhood of a town was charged for taking out library books but people in another similar neighbourhood were not. Of course, following the legitimate constraints on government activities still leaves a large amount of scope for greater entrepreneurial behaviour in government in terms of changing what they do and how they do it.

In developing local economies, more entrepreneurial and enabling approaches have often been used by governments. For instance, in many cities and regions attempts have been made by various government, private and 'Third-sector' organisations to create partnerships and by acting more entrepreneurially to develop opportunities for the area or specific industries, 'clusters' of industries or industrial districts (see chapter 6). Many publicly funded local economic development agencies have been set up by government and other bodies to support new firm formation by giving advice, grants, information etc. In England and Wales the network of Training and Enterprise Councils (Local Enterprise Companies in Scotland) provide support for training and business start-up and development (see chapter 9). In the last decade, increasing effort has been made by many such agencies to play an 'enabling' role whereby services are provided by third parties and paid for by the agency. This means that the agency can

keep a more strategic perspective rather than getting involved in the operational details of providing the service. For example a regional development agency trying to support new firms may part-fund a separate body such as a local Enterprise Trust to provide advice to anyone wishing to set up in business.

Another approach is for an agency to use temporary or sub-contracted staff or external consultants to provide some of their services. Given the large range of firms to be dealt with, it is often not possible to have agency employees with specialist knowledge of a number of industries, although they may be able to give more general advice.

Hence they may gain the benefits of economies of scale by using specialist outside consultants or funding specialist organisations who, because of their large number of clients, have specialist knowledge on certain industries etc.

However, there can be dangers in moving too far along the 'enabling' policy, especially in a small-scale unit or organisation as it is often essential to learn the lessons from providing the service in order to develop an effective and efficient policy. Also there must be others with the necessary expertise and other resources.

who can be funded to carry out the service, be they in private, public or 'third' sectors. Finally, the theoretical benefits of economies of scale in providing services are often outweighed by the disadvantages of lack of local knowledge and the lack of continuity on the part of the sub-contracted providers.

In summary there is considerable scope for more entrepreneurial behaviour in all levels of government. However, this must be constrained by legitimate pressures from citizens for government to act in a more risk averse, accountable and equitable manner which takes account of all the long term needs of the community. Hence it may be too simplistic to compare entrepreneurship in government directly with entrepreneurship in private, profit orientated organisations.

Conclusion

This chapter shows that entrepreneurship can have an important role throughout the economy. It illustrated how attempts have been made to bridge social and commercial objectives through business organisations such as community businesses or co-operatives.

Social entrepreneurship shares many of the characteristics of entrepreneurship within the private sector, although there are differences in their aims. However, many social entrepreneurs still seek to obtain profits, although these profits are used to support social objectives to further the purposes of the organisation or to ensure its survival, rather than being distributed to share-holders. Social entrepreneurship is important throughout the economy especially in the development of the growing Third or 'not-for-profit' sector of the economy. Hence it influences the dynamism of the economy and its ability to deal with crucial social, environmental and other changing issues. Finally, while there is scope for greater entrepreneurial behaviour in government, it needs to be recognised that there are sometimes legitimate constraint on such behaviour.

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