

**PAPER: EURESCO Conference, "Social Capital: Interdisciplinary Perspectives"
University of Exeter, 15-20 September 2001**

**"SOCIAL CAPITAL IN THE SOCIAL ECONOMY: THE GROWTH DYNAMIC
OF THE THIRD SYSTEM"**

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ABSTRACT:

The concept of social capital has in recent years become increasingly common in debates across Europe about local economic and social development, social exclusion and the growing social economy. A definition familiar to the European Union through its Article 6 Local Social Capital programme describes it as - "features of social organisation such as networks, norms and social trust that facilitate co-ordination and co-operation for mutual benefits'. Thus, the role of social capital in - "restoring social cohesion, reinforcing local networks and formal and informal groups which seek to facilitate integration of excluded persons into work and start-up businesses and co-operatives" - is increasingly recognised, especially in the development of intermediate organisations under Article 6 Local Social Capital. What is more, the "main drivers of the creation of social capital are people and non-profit organisations that develop initiatives that contribute to the creation of employment and strengthening of social cohesion".

But how can we indicate that social capital has contributed or has been created in such ways? This is one key task of the CONSCISE Project - "The Contribution of Social Capital in the Social Economy to Local Economic Development in Western Europe" - a European Framework V project carrying out fieldwork in 8 different localities in 5 European Regions.

Crucial to this task is clarity of definition. In Europe the Social Economy is most often described as being composed of organisations who are independent from the state and provide services, goods, and trade for a social purpose and are not for private profit distribution. This seems to suggest that the social economy can be viewed as no more than the sum of its parts; namely social enterprises. Such a characteristic makes the social economy synonymous with what has for many years been referred to in the UK and elsewhere as the wider Third Sector (i.e. neither private nor public). But more recently the social economy is viewed less as a sector in its own right and more as an approach to achieving certain types of output; those which meet social needs through economic activity which tends to be rooted in local and often deprived communities. This is more akin to the emerging European concept of the **Third System** which includes the traditional core bodies of the social economy but has the capacity as a concept to take on board these new and complex forms of **inter-organisational relationships**. It is seen as a new dynamic force. The suggestion is clearly that the social economy is something more than the sum of its parts. In this view a new dynamic is evident in the social economy. Just as the motivating force of the private sector is productivity and profit and that of the public sector is reproductivity and welfare, the social economy is in the process of generating its own dynamism. Central to this dynamism is social capital; how actors in the social economy use and generate it. This paper will focus upon this specifically.

INTRODUCTION

There have been many claims made regarding what the social economy contributes to society and calls for the development of it to be included as a central element of policies to tackle the problems of disadvantaged regions and neighbourhoods throughout the European Community and beyond (e.g. Pearce, 1993; CLES, 1996; Campbell, 1999; CEBSD, 1999; DETR, 1999; LGMB, 1998; Oatley, 1999; OECD, 1999; Westall, 2001). These claims might be summarised as being mainly about the creation of jobs, training, skill enhancement, and providing needed goods and services that the private sector will not or the public sector cannot provide (Evans, 2001). There have over the years been

those who view these claims and or the evidence for them with some scepticism (Hayton et.al. 1993, Hayton, 1996; Amin et.al. 1999). However, others have focused upon how the making of such claims and their evaluation has led to perceptions of failure and has indeed diverted the attention away from the potential of the social economy to effectively address issues of social cohesion, social inclusion, and the empowerment of individuals and communities and new forms of local development (e.g. Chanan, 1999; Brickell, 2000; Mayo et.al., 1998). Central to such views is a concern for what kind of economy should be developed in the twenty first century. In this way "by focusing its bid for authenticity on conventional economic grounds, particularly on its ability to create employment, the social economy movement is in danger of neglecting the central contribution it might make to the emergence of an alternative template for the economy as a whole." (Chanan, 1999, p. 361). Such an alternative template addresses the kinds of questions which were posed in the UK during the recession years of the 1980's about the relationships between public / private, formal / informal, paid / unpaid work (Massey, 1988). This 'template' ultimately problematises the issue of the relation between economy and society which the social economy hinges upon.

In this paper we will try to indicate the importance of social capital to an understanding of a growing social economy organised around what are being identified as 'third system' values, which in turn is important to an emerging model of development which does not make artificial distinctions between the social and the economic. Such a focus highlights tensions between the local and global, individual and society, ownership of and access to resources and the function of the first, second and third "sectors" in the emerging European society. Reference will be made throughout the paper to the work of the CONSCISE Project, a European Framework V programme of research which is examining the contribution of social capital in the social economy to local development in Western Europe. In particular three contextual relationships between social capital and social economy will be examined.

THE CONTRIBUTION OF SOCIAL CAPITAL IN THE SOCIAL ECONOMY TO DEVELOPMENT: SOME CLAIMS

Generally assessments of the contribution of the social economy in the UK remain in the realm of numbers and types of jobs, organisations and turnover generated. One of the more recent surveys of the social enterprise sector in England and Wales was undertaken in 1997 by the Local Government Management Board in association with the Local Government Association (LGA) and the Community Enterprise and Co-operatives Forum for Local Authorities and Partners in England (CECFLAPE). This survey of local authorities (with 106 LA's responding - i.e. 26% of those surveyed) revealed the existence of 889 enterprises (those receiving support from LA's) which yield 1,566 paid and 2,962 unpaid/volunteer positions (LGMB, 1998). The survey calculated that the cost per paid job created stood at £9,792 with the total level of expenditure by LA's in community enterprise standing at £8.3m. Some commentators (e.g. Cooper, 1999) estimate jobs in the wider 'third sector' to be at between 0.5 and 1m (1.5 to 5% of total UK employment) but the outer limits of such estimates use the European social economy definition of co-operatives, mutuals, associations and foundations (known collectively as CMAF) which includes (for the UK at least) the voluntary sector, and some higher

education institutions. In the UK the funded voluntary sector alone accounts for 2.2% of all paid employment. A more recent government estimate considered that there were around 450 social enterprises in operation with a combined turnover of £18m in the UK (DETR, 1998).

However, whilst a dominant focus upon generating jobs and providing goods and services remains, it is increasingly the case that many of the claims for the social economy in terms of empowerment and combating social exclusion are based upon its potential and ability to build capacity and social capital. For instance in the UK, the report of one of the 18 Policy Action Teams informing the government's National Strategy for Neighbourhood Renewal claimed that "The social economy can make a significant and valuable contribution to the building of social capital and the economic regeneration of deprived communities. This can be achieved by:

- providing services, such as intermediate labour markets (e.g. helping match local people to jobs)
- helping to develop the skills of local people, by providing training and work experience and
- creating employment opportunities

In all these activities social enterprises help to foster pathways to 'integration' for socially excluded people." (Treasury, 1999, p. 108). That elsewhere in the same report, recommendations are made to the effect that there should be a "change in culture of social enterprises and voluntary sector, away from grants towards loans" (Treasury, 1999, p.117) lead others to identify such policy manouvres as "having more to do with the potential of the social economy to offset public expenditure and absorb some of the risk to the exchequer (all in the name of social inclusion, democratisation and 'empowerment') than an attempt to encourage real economic alternatives or a genuine transfer of power to excluded communities." (Amin et.al., 1999, p.2050)

Across Europe the picture is more dominated by impelling evidence that the social economy is a significant contributor to the overall economy in Europe. A Eurostat study in 1993 revealed that the social economy employs 1 in 25 of the European workforce and an EU commissioned study in 1993, the Emerging Sector study of voluntary organisations in 7 member countries found they employed 11.8 million people in 1990 (12% of service sector jobs), and utilised the energies of 4.7 million full time equivalent volunteers. There are also certainly indications of growth since these surveys as current estimates for social economy sector jobs in the EU stand at 6.4 million (4.4% of total employment), and the EU estimates that the sector is set to grow further with a potential to create another three million jobs in the service and manufacturing sector (European Commission, 1995). A Eurostat study of the social economy in 12 member countries in 1990 indicated that there were 1.3 million co-operatives, mutuals and voluntary organisations involved in some kind of trading activity, employing 5.3 million people and having a combined turnover of £1 trillion (Eurostat, 1997).

The 1997 Treaty of Amsterdam however marks a turning point in thinking about the European economy of the future, with both an emergent knowledge economy and issues of combating social and economic polarization and social exclusion clearly in focus. As a

consequence social capital has become a notion increasingly apparent in policy dialogues and has found its way into innovative programmes. For instance, the European Commission is keen to pursue the establishment of local milieu, which will generate 'local social capital'. To this end a Local Social Capital programme was set up by the Employment and Social Affairs DG in 1998 as an Article 6 Pilot Project of the European Social Fund. Article 6 projects are innovative projects established to assist in the development of future policy expressly around the content, methods or organisation of employment promotion and vocational training. With an overall budget of 25m euro for this the aim of the EC was to support a limited number of projects in areas of member states which displayed serious exclusion and long-term unemployment problems. The scope of the pilot led to some ambivalence as to its aims and the roots of this would seem to lie in the very understanding of local social capital – which “for the purposes of this call ... means an intermediary organisation - operating at regional or at local level – capable of providing backup for people who pool their resources with a view to carrying out micro-level projects” (Employment and Social Affairs DG). These intermediate structures manage the grant (an average of 1m euro per project) and are responsible for channeling funds to project promoters. The organisations that take on the task of intermediary structure in the pilots must “come up with answers to questions such as:

- What steps should be taken to give confidence and real prospects of success to all individuals wishing to launch their own project for integration into the world of work?
- What role should the local backup structure fulfill from the viewpoint of the local groups?
- Which practices are the most appropriate for setting in place arrangements accessible to the parties concerned under conditions they find suitable?" (ibid.)

An evaluation of the Article 6 Local Social Capital pilots will report in 2003, but some initial findings from local evaluations commissioned are that the ambivalence in definition has created problems. For instance, the perception of some potential project beneficiaries is that Local Social Capital refers expressly to the grant funds; this causes some confusion, especially when these beneficiaries are told that grants are not for capital expenditure!

Yet the Article 6 Local Social Capital programme as a whole adopts a familiar perspective on social capital seeing it as “features of social organisation such as networks, norms and social trust that facilitate co-ordination and co-operation for mutual benefits” (ibid.) with the aims of “restoring social cohesion, reinforcing local networks and formal and informal groups which seek to facilitate integration of excluded persons into work and start-up businesses and co-operatives” (ibid.). Within this the programme considers that the “main drivers of the creation of social capital are people and non-profit organisations that develop initiatives that contribute to the creation of employment and strengthening of social cohesion” (ibid.). Despite this there is a surprising absence of what might be considered social economy projects among those in receipt of support from the intermediary organisations charged with developing local social capital by the methods identified.

If however we assume the veracity of the claims for social economy to encourage alternative forms of economic and local development, empowerment and combating social exclusion, and the central role of social capital in this, we are still left to provide convincing evidence of this within the terms of the claims made in the UK and Europe. In this endeavour we not only require an operational definition of social capital but a clear idea of what the terms social economy and social enterprise refer to.

CLARIFYING CONCEPTS: EXPLORING RELATIONSHIP AND CONTEXTS:

The debates surrounding the concept of social capital are relatively recent and have fermented since Coleman (1990) made this notion central to his functionalist reconstruction of social theory and Putnam (1993) identified its potential for exploring how civics is central to an assessment of the workings of democracy. From its roots as a simple analogy to describe a set of characteristics of social networks (e.g. Jacobs 1961), the concept of social capital has ranged from on the one hand being declared a critical conceptual tool to on the other hand a heuristic device (Schuller et.al. 2000). This apparent conceptual chaos might be a concern for hardheaded economists (Fine, 2000), but is quite a common experience for most other inhabitants under the roof of social science. Indeed, we might observe a parallel with the notion of “alienation”. Just a generation ago this concept commanded a similar level of academic interest, and – albeit to a limited degree – also flowed into policy making. There were even attempts to develop indicators of what is an essentially abstract concept of alienation, to measure for instance its presence in actual work situations in terms of powerlessness, meaninglessness, isolation and self-estrangement. There were even those who identified that putting the concept of alienation to work in such a way was a blatant attempt to divest the concept of its political edge and remove it from a Marxist to a sociological framework (echoing an aspect of the contemporary critique of social capital; Fine, 2000). Some already see just such a fate for social capital; for instance, Portes and Landholt (1996) speculate on a possible shift from “intellectual insight appropriated by policy pundits, to journalistic cliché, to eventual oblivion”. It is therefore imperative to develop at least a broad consensus around what social capital is, how it is produced and consumed and what ‘role’ it plays in the social economy. To get to this stage work remains to be done to tidy up the more blatant misconceptions of what social capital is. For instance, in the social economy one of the most prevalent of these misconceptions is that since social enterprises are enterprises with social objectives, so it follows that the social economy is an economy where social aims are top of the agenda, and social entrepreneurs are entrepreneurs with a social mission. By extension therefore social capital becomes capital made available for the pursuit of social aims; and when we say capital here we do mean a stock of material or financial assets.

This however is not to suggest that a clear-cut and incontrovertible definition of social capital can be arrived at; as already noted it may mainly serve as a heuristic device (Schuller et. al. 2000). Yet the absence of a clear definition is what Ben Fine describes as the root of the ‘chaos’ he surveys in the social capital field (Fine, 2000). We should again be reminded of concepts of an older vintage. The closely related notion of ‘community’ - which along with alienation was for Robert Nisbet (1966) one of six organizing concepts in the sociological tradition - has been the object of definitional dispute since the

foundations of sociology were laid. For instance George Hillery (1955) famously surveyed the array of attempts to define “community” and found at least 94 different versions (isolating three features of common ties, area and social interaction); there were even calls in the late 1960’s for the abandonment of such a normative notion in favour of the more concretist “locality social structure” (Stacey, 1969). Community may even be considered a closely related precursor of social capital sharing, amongst other features, a function as normative prescription (for the call ‘we need more community’ read ‘we need more social capital’), central to a utopian endeavour. As Le Bon (quoted by Norman Dennis, 1968) said "community is one of those words where whenever it is used, heads become bowed in reverence"; such is its emotiveness that we can and do readily think of falling into ‘bad society’; but ‘bad community’? This is not to say that social capital has taken a similar trajectory, if only because of the burgeoning literature on the ‘down side’ of social capital. But we could of course rattle off a list of other topical, yet definitionally contentious concepts: regeneration, social exclusion, and capacity building are just three that are pertinent to the research of the CONSCISE Project.

The CONSCISE Project is working in 8 localities in Western Europe to explore the relationship between local social capital and social enterprises in the social economy. The working definition of social capital that the project has adopted is that it consists of resources within communities which are created through the presence of high levels of -

- trust;
- reciprocity and mutuality;
- shared norms of behaviour;
- shared commitment and belonging;
- both formal and informal social networks; and
- effective information channels
 - which may be used productively by individuals and groups to facilitate actions to benefit individuals, groups and community more generally.

The emphasis here upon ‘community’ (both geographical and interest based) both contextualises social capital and makes the connection to the kinds of social enterprises that the project is concerned with – i.e. locality based. Furthermore, emphasis is firmly upon social capital as a ‘resource’ to be productively deployed for further actions of individual, group and community benefit. In essence then this predisposes the view of the relationship between social capital and social enterprise to one where local social capital becomes a ‘soil’ in which local social enterprises grow. Thus –

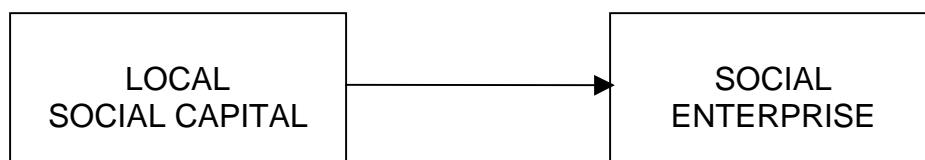


Diagram 1

For many years research and best practice had indicated that the development of social enterprise is more likely in localities where a strong sense of local community pertains (Cooper et.al., 1991). In the contemporary situation an abstract ‘sense’ of community is

likely to be replaced by a more rigorous and identifiable set of characteristics which taken together constitute a resource of “local social capital” as described.

But it is of course also the case that local social enterprises are likely to generate local social capital and for that to be what Coleman (1990) calls “appropriable” – available for other uses. Thus there is a second contextual relationship–

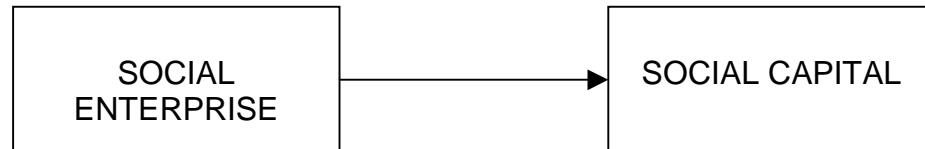


Diagram 2

As we have already established, we might expect social enterprises to be characterized as organisations appropriate to the production of social capital and this is clear from the working definition that CONSCISE adopts for social enterprise. Social Enterprises:

- are *not-for-profit*
- seek to meet *social aims by engaging in economic and trading activities*
- have legal structures which ensure that all assets and accumulated wealth are *not in the ownership of individuals* but are held *in trust* and for the *benefit* of those persons and / or areas that are the intended beneficiaries of the enterprise’s social aims
- have structures in which full participation of members is encouraged on a *co-operative basis* with equal rights accorded to all members.

A further interesting characteristic is that social enterprises encourage *mutual co-operation* although whether all social enterprises share this characteristic is disputed.

It is this, albeit disputed, further characteristic of social enterprises that enables us to conceive of a Social Economy – a term that is popular in the European Community and which has been in circulation since the mid 1980’s at least – but in addition one which is more than just a ‘sector’ “containing” social enterprises, but is centred upon shared values and relationships; what we refer to as a Third System. The roots of a shared European definition of the Social Economy lie in the creation by the Mitterand administration in France of 1984 of a government department for L’Economie Sociale under which the ‘three families’ of L’*economie Sociale* (which in the UK correspond to co-operatives, mutuels and associations and to which has more recently been added foundations to create what is often referred to as CMAF) signed up to a common set of principles: voluntary membership, solidarity, independence from government, democratic governance, voluntary boards, social as well as economic objectives, and profit for the purpose of rewarding capital not being a primary aim.

Within the CONSCISE Project Social Economy is that sector of economic activity which is made up of social enterprises (local and other), but is also centred around:

- shared values about the satisfaction of needs, not for profit principles, co-operation and self-organisation.
- pursuit of a new mode of production

- a mode of economic integration characterized by norms of reciprocity
 - which make it both a sub-sector of the broader third system and distinct from the public and private sector.

At one level we can therefore view the social economy in its relationship to the formal economy both locally and globally by reference to three clear sectors. These are the private and profit oriented sector , the public / state sector and a broad Third Sector.

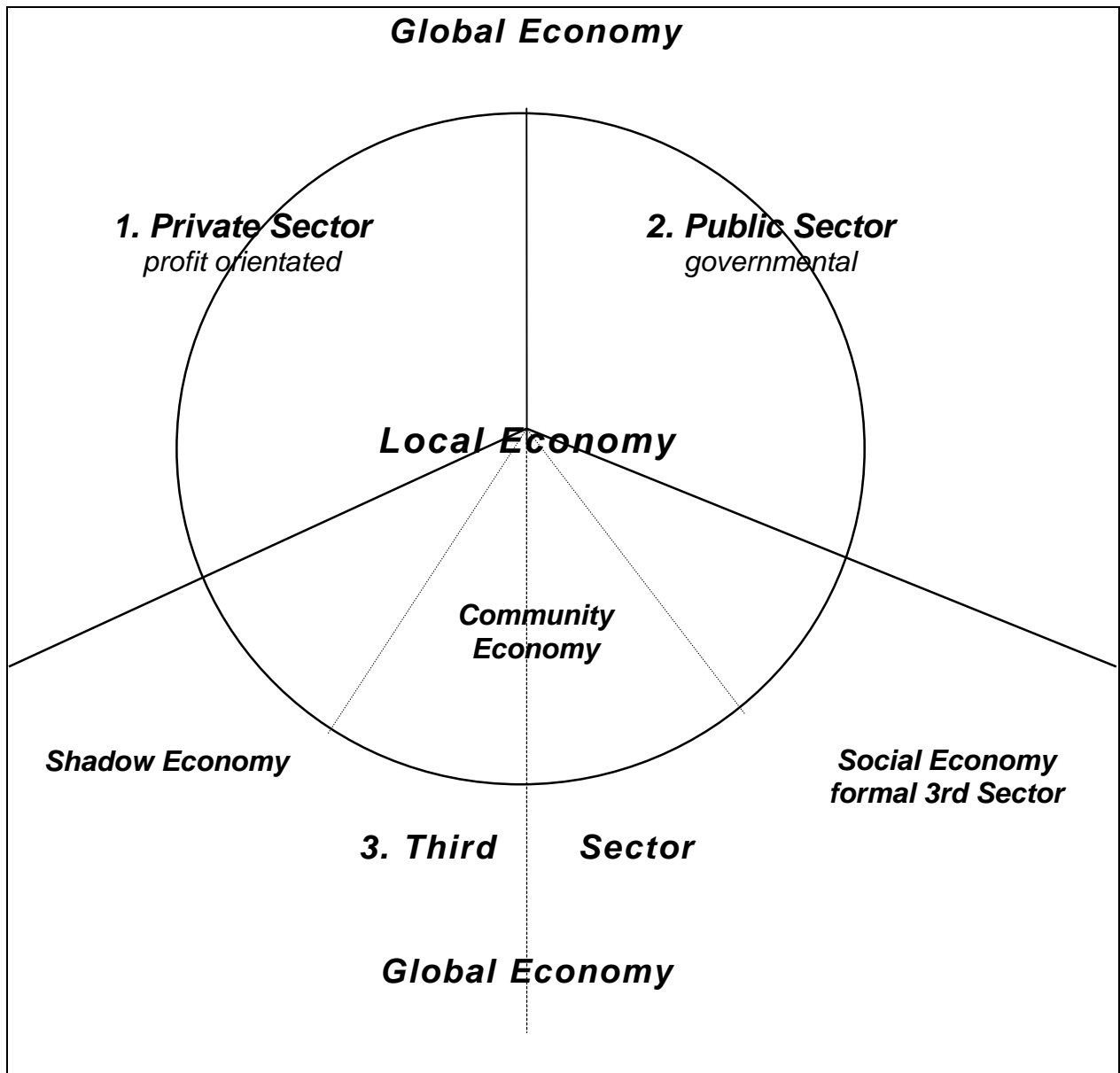


Diagram 3: Sectors of the Economy (Concise, 2000)

This "Third Sector" is more or less equally divided in terms of economic activities between those in the 'shadows' or largely informal, and those more apparent and formal

activities. It is upon closer inspection of this “Third Sector” that we begin to identify the range of largely informal activities which both draw from and generate local social capital (see Diagram 4).

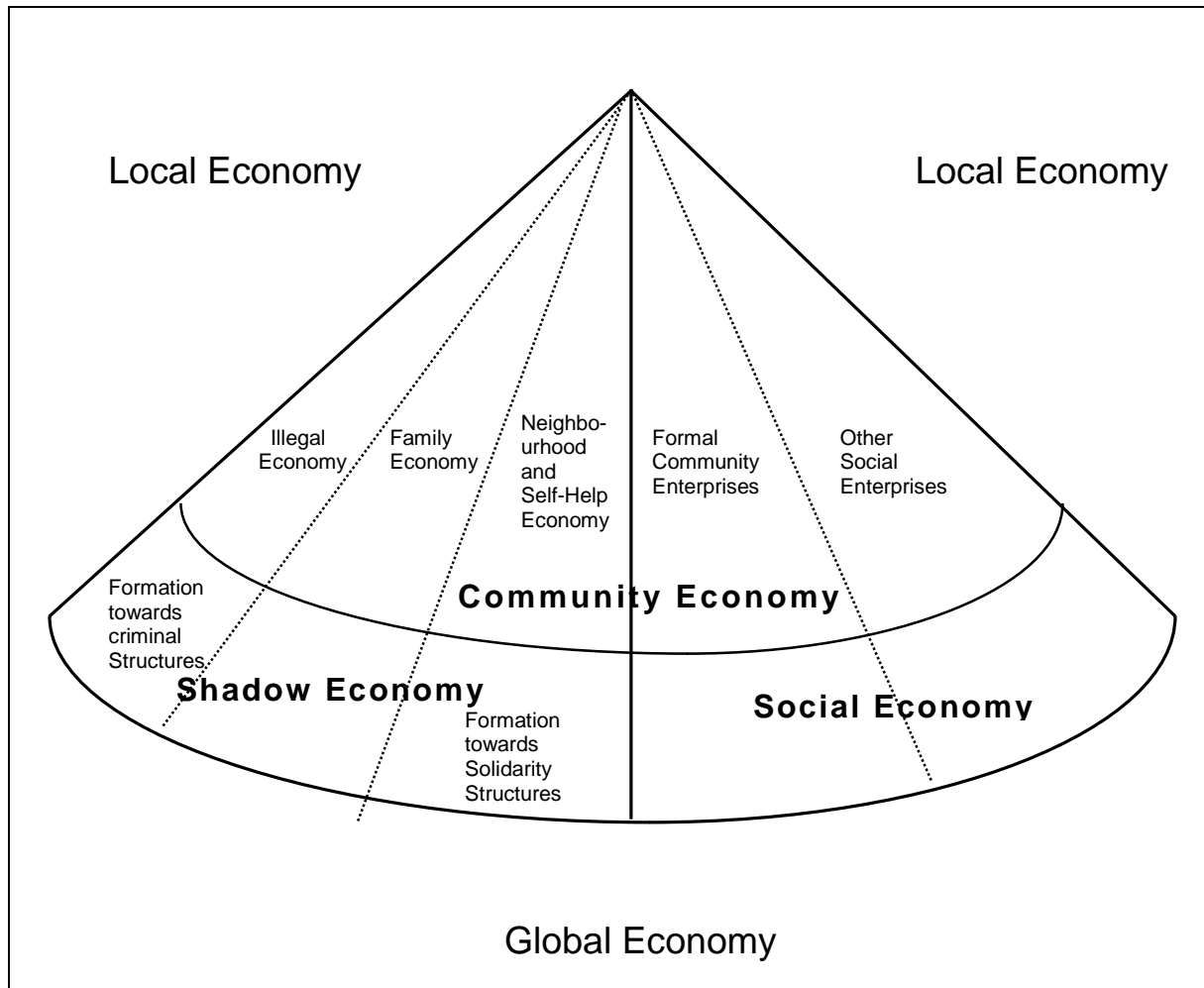


Diagram 4: The Third Sector (Concise, 2000)

Whilst not going as far as Jeremy Rifkin, who takes the view that the market sector creates market capital, the government sector creates public capital and the civil – or third – sector creates social capital (Rifkin, 1995), it is clear that the range of activities found here might be a rich and diverse source of social capital (both up and down side, bonding and bridging). It should be noted however that the focus of the CONSCISE Project are the two segments referred to as the Community Economy, and the concern here is not just how social enterprises grow out of and use local social capital or how they also generate new social capital, but to investigate the extent to which via inter-organisational relationships (the local interdependencies of social enterprises) the local social economy might be seen to grow. Thus a third contextual relationship can be identified, as depicted in diagram 5.

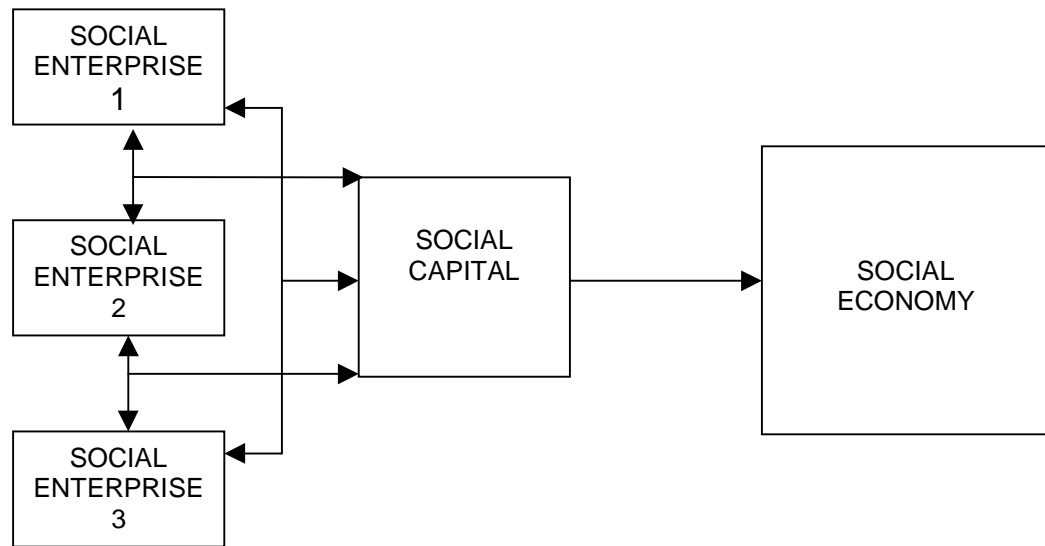


Diagram 5

In this context the mode of economic integration (Polanyi, 1968) specific to the third sector, or more rightly Third System, which is characterized as reciprocity, is clearly suited to producing social capital. Moreover the social capital produced in these inter-relationships lends a growth dynamic to an emergent Third System (Birkhölzer, 2000). Now this term Third System "includes the traditional core bodies of the social economy but has the capacity as a concept to take on board these new and complex forms of inter-organisational relationships. It is seen as a new dynamic force." (NEF, 1999) The suggestion is clearly that the social economy becomes more than the sum of its parts and (drawing on Polanyi's characterisation) just as the motivating force of the private sector is productivity and profit and that of the public sector is reproductivity and welfare, so the social economy is in the process of generating its own dynamism based on mutuality, reciprocity, partnership and co-operation. Mike Campbell, in his evaluation of the European Commission Employment and Social Affairs Directorate's Third System Employment and Local Development capitalisation programme made the point that through enhanced levels of civic engagement the Third System builds social capital and thus local capacity (Campbell, 1999). It is this "engagement" that is vital to this "new mutualism".

We have thus far identified three contextual relationships between social capital and social economy. Firstly, that social enterprises may emerge from and use local social capital. Secondly, that social enterprises produce social capital. Thirdly, that relationships between social enterprises generate social capital which characterizes a social economy. In the remainder of this paper we will tentatively reflect on some initial fieldwork enabling us to explore some issues and dilemmas.

LOCAL SOCIAL CAPITAL AS THE 'SOIL' FOR SOCIAL ENTERPRISE

Here we examine issues of evidence, the question of 'community' and access to and use of social capital resources.

The Question of Evidence:

The first concern here is what might count as evidence that local social enterprises have indeed emerged from local social capital as we have defined it, and that local social capital is identifiable in chosen localities. In the CONSCISE Project we have used a mixture of methods to produce locality profiles that are intended to explore the nature of local social capital in selected locations (Conscise, 2001a). This has involved the establishment of what we refer to as local 'soundings groups' (to act as gatekeepers, informants, advisors and discussants for the research), the generation of local data profiles, a social enterprise survey and a local social capital questionnaire survey.

Although both specific and comparative analysis of the profiles is limited to date, initial indications are that apart from in isolated rural locations the sources of social capital for the social enterprises is not intrinsically local. For instance, in the London fieldwork location the most successful cluster of social enterprises, that we are currently focusing on for the next phase of the research, draws from the associational / interest group ties around environmental concerns. That social enterprises may not be intrinsically rooted in locality poses problems for current UK Government policies associated with neighbourhood renewal in which support (e.g. of the SBS and Business Links) is to be given to social enterprises in mainly 'disconnected neighbourhoods' which are unlikely to be the 'root' of such initiatives (Smallbone, et.al. 2001).

The Issue of 'Community'

That local social capital is most evident in local social structures which display indications of being a 'community' (e.g. Wilmott, 1984, refers to high levels of common interest, interaction and collective identity) is part of conventional wisdom (Coleman, 1990, refers to these as likely to be 'closed communities'). Such localities are rare although we may find localities or neighbourhoods within which certain communities (e.g. ethnic or interest based) are wholly or in part present. Initial evidence from the CONSCISE research suggests however that physically isolated rural locations (there are two of these in the 8 localities selected for fieldwork) display classic features of being closed communities and provide evidence of high levels of 'bonding' local social capital. In Western Europe, more prevalent heterogeneous and socially diverse localities generate problems of the elision of community and neighbourhood. Such localities may contain communities, but these are not necessarily 'place-based' and cut across many neighbourhoods and beyond. They may display strong bonding ties and seemingly strong bridging ties across the sites of their local manifestation, but such bridging ties are often attenuated bonding ties. This kind of network complexity creates problems in the implementation of neighbourhood based regeneration and renewal policies (Evans and Cattell, 2000).

Furthermore, the long-term sustainability of any social enterprises that emerge from 'closed' local communities (those well bonded but with less apparent bridging ties) must

of course be in doubt. For example, the low skill base of some communities for LET schemes or low financial wealth of some communities which have very high levels of bonding social capital and the impact of this for long term sustainability of, for instance, a credit union drawn from such a 'common bond'. This raises the issue of the balance between bonding and bridging social capital and 'ideal types' of local development that emerge as a consequence of extremes of each of these (Woolcock, 1998). However, more broadly we might speculate that different types of third sector activity both use and generate different types and levels of social capital. Most clearly bonding and bridging social capital will vary in its presence and role according to whether we are focusing on different segments of Diagram 4.

Access to and Use of Social Capital Resources:

That social capital cannot be 'owned' is a well established tenet of the debate (Coleman, 1990). That it is appropriable and convertible to other forms of capital is also clear. But it has also become a central aspect of the debates that where individuals and groups stand with respect to access to resources of social capital will vary. Without wishing to go too deeply into the implications of Bourdieu's view on social capital at this point (e.g. Bourdieu, 1977; Bourdieu and Wacquant, 1992) the equivalence of ownership here might be viewed as 'access' to the resources of social capital. The reason that this is not a manifestly debated issue is because the question of access appears to be integral to the 'boundedness' of social capital itself – the question of 'membership rights' or 'network access'. Without access to the benefits of the leverage and support value offered by social capital resources we could not conceive of the individual involvement that sustains social capital. Indeed the whole issue of social exclusion can be elaborated in terms of access to social capital (where financial exclusion and social exclusion = exclusion from financial capital and social capital respectively). Moreover when the network ties tend to be vertical (Putnam, 1993) then the issues of differential power within groups and 'gatekeeping' of access to social capital become very apparent.

These kinds of distinctions are characteristic of the dilemmas surrounding the role of the social entrepreneur in the social economy. Charlie Leadbetter (1997) reckons that "social entrepreneurs set in motion a virtuous circle of social capital accumulation. They use networks of support to gain access to buildings and money, to recruit key staff and create an organisation capable of growing." The skills of such 'community leaders' (whether natives or outsiders) are thus considered crucial to the further development of social enterprise and the social economy. However, the problem of both dependency and demotivation of other community members as a consequence of the activities of the 'charismatic' social entrepreneur are also present, and there is also the possibility of the destruction of social capital if the social entrepreneur leaves the network (Waite, 2000). Changes in the quality as well as the quantity of participation in 'social capital forming networks' and in regimes of governance are thus barometers of local social capital, and excessive reliance on social entrepreneurs can destroy this. This is why the new forms of mutualism place a premium on involvement alongside broad and active participation and not just token ownership, although both of these features remain vital to social enterprise and social economy. Social capital is thus central to growing a social economy with distinctive third system values.

SOCIAL ENTERPRISE AS A PRODUCER OF LOCAL SOCIAL CAPITAL

There are a considerable number of claims for social enterprise to be a rich source of social capital, mostly for the obvious reason of having a basis in mutuality and reciprocity. However, little consideration has been given to how different types of social enterprise may generate different levels and types of social capital. Recent research (Smallbone et.al., 2001) identified 17 varieties of organisation (to which we might also now add time banks; see Seyfang, 2001) that can be conceived of as social enterprises. That this can include such diverse entities as building societies, community foundations, LET schemes, intermediate labour market schemes, social firms, consumer co-operatives, housing co-operatives, employee share ownership programmes (ESOPs), community loan funds, friendly societies, mutual insurers, charitable trading arms, agricultural co-operatives, development trusts as well as the more regular workers co-operatives, community businesses and credit unions, reflects such diversity as the European social economy (CMAF). The variations in exclusivity, degree of participation, openness, stakeholder diversity and type of management structure all have an impact upon the extent and type of social capital that may be generated. For instance whilst Intermediate Labour Markets arguably construct bridging social capital for participants, credit unions rely heavily upon the evidence of a common bond - i.e. the presence of bonding capital. Some types of social enterprise rely upon vertical social ties in their managerial structure (e.g. community business) others are more horizontal (e.g. time banks). Some have exclusive or restrictive membership (e.g. workers co-operatives, credit unions) others are open (e.g. building societies). With some of these types of social enterprise it is difficult to see how they generate any significant level of social capital (e.g. charitable trading arms, mutual insurers and building societies) others have this as an explicit aim - e.g. LET schemes and time banks - and embody generalised trust.

A way of explaining this variation is possible however. In the CONSCISE Project we are using augmented social audit techniques to examine the extent to which individual social enterprises generate social capital (Conscise, 2001b). Social Audit is a technique (dependent initially upon keeping a form of social accounts) which enables individual organisations to examine their social impact (Pearce, 1996). They mostly proceed by establishing a measurement of the degree to which an individual organisation achieves any of their adopted and stated social objectives. Social audits are therefore well suited for application to social enterprise. However, social audits work on the basis of explicitly stated social objectives and in most cases, social enterprises do not have objectives related to the use and generation of social capital. In the CONSCISE Project fieldwork this has necessitated both devising such objectives and negotiation their inclusion in the social accounting and auditing process (Conscise, 2001b). Although these are still undergoing discussion, these objectives broadly cover two main areas (see below), and these are to be framed as questions posed to stakeholders of the local social enterprise.

Social Capital Objective 1: To use social capital in sustaining our social enterprise by....

- using relations of trust with social economy and other organisations and with relevant individuals
- engaging with social enterprises and other local organisations in order to receive help on a reciprocal and mutual basis
- receiving support from a strong local network
- using a sense of shared commitment and belonging to the locality (insert the name of the area)
- using the shared values and norms of behaviour in the local social economy
- using extensive information channels

Social Capital Objective 2: To create and generate social capital for the benefit of the local community by....

- building relations of trust with social economy and other organisations and with relevant individuals
- engaging with social enterprises and other local organisations in order to offer help on a reciprocal and mutual basis
- contributing to and supporting local networks
- contributing to a sense of shared commitment and belonging to the locality
- strengthening the shared values and norms of behaviour in the local social economy
- building up information channels and sharing information

SOCIAL ENTERPRISES PRODUCING SOCIAL CAPITAL TO CREATE A SOCIAL ECONOMY

The third and final context of social capital in the social economy is the extent to which inter-organisational relationships between local social enterprises generate social capital for the growth of existing and new social enterprises. The fieldwork to examine such relationships in the CONSCISE research has only recently commenced, but we can again identify three main issues at this early stage.

Firstly, the emergence of clusters of social enterprise enabled by the networked connections and social capital that spread like tentacles from an initial venture provide evidence of the generation of social capital emerging from such inter-relationships. For instance, Forest Recycling in North East London, which was set up in 1988, has led to the establishment and ongoing development of the Hornbeam Environmental Centre, Gannets Café, Whole Works Training, Heat & Energy Efficiency Training, and Beamers LETs scheme as discrete social enterprises. All of these enterprises are supported by an Environmental Forum. Above all such clustering indicates the **appropriability** of such organisational social capital, but it also highlights the role of shared values driving the establishment and growth of the networks involved (which in this case are explicitly values about environmental concerns but also implicitly values central to the third system).

Secondly, the **reduction in transaction costs** (Taylor, 1993) that is enabled through inter-organisational relationships not only has trading and developmental benefits for individual social enterprises, but also means that the development and growth cycles of new social enterprises revolve at faster rates. This is postulated to be because the trust and mutuality engendered amongst a network of social enterprises reduces the transaction times required for the development of new initiatives. This might be considered in terms of the exponential growth inherent in the ‘godfather’ system applied in co-operative

development in the Mondragon region of Spain (Wiener and Oakeshott, 1987; Oakeshott, 1990).

Finally, a **'third system'** might therefore be emerging based upon the values of the social economy (i.e. satisfaction of needs, not for profit principles, co-operation and self-organisation) generating what might be recognizable as a distinctive type of entrepreneurial social infrastructure, and "built upon a bedrock of trust, social networks and norms favouring group reciprocity" clearly identifiable as social capital (Flora, Sharp and Flora, 1997; Flora, 1998).

CONCLUSIONS:

There are many claims that the growing European social economy is driven by 'third system' values in themselves characterised as social capital. However, work still needs to be done to examine whether all of the activities said to be constitutive of a social economy are social enterprise activities that build social capital. Furthermore, the relationship of these social enterprises to more informal and rooted aspects of the broad third sector is still to be fully sketched. The speculation is that 'third system' values and the social capital they generate may only be characterised in some types of social enterprise. Then of course there is the contention as to the legitimacy of the notion of social capital.

If we can establish agreement that social capital can firstly be isolated as a distinctive social phenomenon, and then secondly that it can be manipulated as a means of building the social cohesion and inclusion crucial to local development, we can assess the importance of social economy as a generator of social capital. For those concerned with the potential worth of the social economy, most assessments of social enterprise have been in terms of their potential to create jobs, become self-sustaining and generate collective finance capital, goods, services and skills which the private and public sectors will not or do not provide. Wider benefits of the social economy are said to be evident in the identification of its ability to generate social capital to build capacity, enable local development, social cohesion and inclusion. Moreover the possibility that such social capital is appropriable is central to the logic of such an argument. That the social capital generated by social enterprises is not just available to that specific enterprise, but is available to other often tenuously related activities for local development, is central to the rationale for its inclusion in the development tool kit. In addition of course the social capital generated between social enterprises is considered vital to the building of a social economy motivated by the construction of a shared value system, a third system, which offers a different and relatively new model of development integrating the social and the economic. The potential of this to promote a wider and more inclusive agenda for tackling social disorganisation and social exclusion and alternative models of development in an expanding Europe is clear.

Within this however there has to be recognition of numerous and fine distinctions between the activities included within both the broad 'third sector' and the 'social economy' as part of that (see Diagram 4). It is apparent that different activities and

different social enterprises will generate different levels and 'types' of social capital (in particular bonding and bridging capital). Furthermore, there is a need to examine more closely the issue of differential individual access to social capital resources and the potential for both manifest and latent exclusion from access to such resources. The connections between social enterprise, social capital and the social entrepreneur have still to be fully elaborated and explored in the development process.

Furthermore, the capacity of 'formal' community and social enterprises to generate bridging social capital in contrast to the greater reliance upon and building of bonding social capital in the informal "shadow" economy is only speculated upon at present; again further exploration is required. Within this the role of different ethnic and age groups, and in particular gender difference in generating bonding social capital in the informal economy is a further avenue for investigation.

The tools for both research and development to explore such issues include those currently being refined for use in the CONSCISE Project. Their advantages as tools, techniques and methods lie not only in their capacity to engage research subjects (including individuals, groups and organisations). There is also a further advantage in the degree to which they force us to contextualise (both spatially and historically) our conceptions of social capital in a way that reliance upon secondary and / or survey driven data may not.

The potential for the social economy in Europe to serve as a focus for the creation of jobs, services, goods and training has come to be increasingly recognized in recent years. To this has been added the potential of the social economy to combat social exclusion and provide a focus for tackling the economic problems in crisis regions and localities. Central to these newer claims is the ability of the social economy to build capacity and social capital. However, the greater potency is arguably the capacity of the social enterprise organisations that form the social economy at local, and wider, levels to develop inter-relationships rich in social capital and centred upon distinctive Third System values that are beginning to drive a new model of local development that bridges the social and economic.

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Acknowledgements:

My thanks are due to colleagues in the CONSCISE Project for the convivial and stimulating discussions and sharing of ideas during our project research. Our network is quite clearly constitutes a solid form of social capital! I would like to thank also colleagues in the Social Policy Research Centre and School of Social Science at Middlesex University who have supported and encouraged the work of the project. Thanks are also due to the Research DG of the European Commission for funding our work through Framework V, Improving the Human Potential. Finally, my heartfelt thanks go to Sharon O'Callaghan for her staunch support, encouragement and most helpful comments on drafts of the paper during difficult times.

Mel Evans
September 2001