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Beyond Philanthropy: Community Enterprise as a Basis for Corporate Citizenship

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ABSTRACT. In this article we argue that the emergence of a new form of organization – community enterprise – provides an alternative mechanism for corporations to behave in socially responsible ways. Community enterprises are distinguished from other third sector organisations by their generation of income through trading, rather than philanthropy and/or government subsidy, to finance their social goals. They also include democratic governance structures which allow members of the community or constituency they serve to participate in the management of the organisation. Partnerships between corporations and community enterprises therefore raise the possibility of corporations moving beyond philanthropic donations toward a more sustainable form of intervention involving long-term commitments to communities. At the same time they change substantively the nature of any collaboration by allowing relationships to proceed on the basis of mutual advantage, thereby broadening their appeal and scope. In doing so, partnerships build capacity and enfranchise communities in a way that avoids the paternalism that has traditionally characterised relationships between corporations and voluntary sector organisations. Power relations are transformed because partners are seen as sources of valuable assets, knowledge and expertise, rather than recipients of patronage or charity.

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KEY WORDS: community enterprise, social enterprise, corporate legitimacy, corporate social responsibility, local accountability, partnership, resource dependency, stakeholder engagement

Introduction

While many writers have argued for the importance of corporate social responsibility (CSR), there has been very little scholarship that considers how corporations should manage their CSR activities in order to use their resources to deliver the greatest improvement in social outcomes. This is surprising given the substantial sums that are being invested by corporations in CSR, the potential benefits for both corporations and local stakeholders, the rising levels of expectation surrounding CSR and its potential to encourage economic regeneration, and the level of effort devoted to persuading corporations to consider themselves 'citizens' with rights and responsibilities in relation to a range of stakeholders. It is perhaps even more surprising given that CSR is all too often poorly directed, unfocused, and ineffectual in generating social benefits (Alexander, 1997).

We believe that these difficulties stem partly from corporations' continued reliance on philanthropy as the dominant mode for delivering CSR initiatives which fall outside the boundaries or core operations of the firm, and which in practice consists mainly of uncoordinated and piecemeal donations to 'worthy' local causes (Porter and Kramer, 2002). This is symptomatic of the fact that these kinds of CSR activity are regarded as peripheral in many companies, with the relevant departments and teams operating quite separately from other management functions (Brammer and Millington, 2003). However, much of the blame can also be attributed to the voluntary-sector organisations through which corporations channel resources. CSR is usually 'sub-contracted' to non-profit organisations in the third sector which are responsible for delivering the social benefits as corporations are unlikely to have (or are unwilling to commit) the necessary resources or expertise in-house. These organisations are often viewed as recipients of charity: they are rarely considered as equal partners or as sources of entrepreneurship, knowledge and innovative ways of managing and organising.

In this article, we argue that the emergence of a new form of organization – community enterprise – provides an alternative mechanism for corporations to behave in socially responsible ways.[1] Community enterprises are distinguished from other third sector organisations by their generation of income through trading, rather than philanthropy and/or government subsidy, to finance their social goals. In this sense, there are clear parallels to be drawn with the social enterprise movement that is now well developed in the US, the UK and elsewhere. Unlike most social enterprises, however, community enterprises are multifunctional organisations engaged in several different kinds of initiative designed to contribute to local regeneration in a holistic way, and include democratic governance structures which allow members of the community or constituency they serve to participate in the management of the organisation (Pearce, 2003). A well-known UK example is Westway Development Trust, a large community enterprise which uses the surpluses it generates from renting workspace to local businesses and running a sports centre to invest in a range of community-focused services including education and training opportunities for local people, and supporting local enterprise (www.westway.org).

Partnerships with community enterprises thus raise the possibility of corporations moving beyond philanthropic donations, toward a more sustainable form of intervention which involves long-term commitments to communities. At the same time they change substantively the nature of any collaboration by allowing relationships to proceed on the basis of mutual advantage, thereby broadening their appeal and scope. In doing so, these partnerships build capacity and enfranchise communities in a way that avoids the paternalism that has traditionally characterised relationships between corporations and voluntary sector organisations.

We focus in this article on the UK experience. There are several reasons for this. Perhaps most importantly, the UK's social economy in general, and community-based organisations in particular, have developed in quite distinctive ways in recent years. Also, the development of community enterprise has been strongly supported by the UK government. This has led to the rapid growth of the sector, and to the emergence of a cadre of 'community entrepreneurs' with a distinctive set of skills and competencies. Moreover, these organisations have been the subject of much policy-focused research, and yet they remain largely ignored by academic commentators. Despite our UK focus, however, we believe that our arguments have important implications for corporate–community relations across the developed and developing worlds – the difficulties of managing CSR activities are shared by corporations regardless of geography, and community enterprise is an organisational form that is applicable wherever corporations are working to achieve CSR outcomes.

In developing our arguments, we make three contributions to current thinking about CSR. First, we outline the characteristics of community enterprise, which is playing an increasingly prominent role in local regeneration in the UK. Community enterprise is little known outside of the British context, and this article seeks to introduce the interesting developments in the UK to a wider audience. Second, we describe the main challenges faced by corporations in their efforts to improve their citizenship behaviour, an issue largely neglected in the academic literature where the focus of attention to date has been the extent to which corporations should be socially responsible (i.e. the ethics of CSR). As this debate is now well developed, it is important that researchers begin to widen their discussions to include the pressing realities of managing CSR activities. Finally, we propose a new mode of CSR governance with the potential to build relationships between corporations and their local stakeholders, and to improve the delivery of CSR outcomes. We contend that this approach has the potential to address the problems of effectiveness and accountability that plague much CSR activity.

The article proceeds in the following manner. In the next section, we outline the changing nature of CSR and the pressures placed upon corporations to encourage stakeholder engagement and behave in socially responsible ways. We then discuss the dominant structures corporations currently use to govern CSR activities, noting their limitations and short-term focus. Following on from this, we describe the emergence of community enterprise as a distinctive organisational form in the UK. Finally, we discuss the implications of these partnerships for managing stakeholder relations and addressing the moral obligations that are increasingly placed on corporations by a range of social actors.

Corporate social responsibility

Over the last 40 years or so, corporations have faced pressure from a broad range of stakeholders to become more socially responsible.[2] These pressures stem from a variety of sources. Most significant, perhaps, is the rise of a more radical form of consumer activism. Public scepticism concerning corporate motives, as evidenced by corporate scandals reporting unethical behaviour (e.g., Enron, Anderson and WorldCom), alleged abuse of basic human rights and exploitative labour policies (e.g., Nike and Levis), the economic impact of CSR lapses linked to reputational risk and damage (e.g., Union Carbide), and the potential for consumer boycotts (e.g., Shell), have forced corporations to monitor their social performance closely. More is implicitly and explicitly expected from corporations extending beyond their economic purpose and legal responsibilities (Hess et al., 2002), and much public criticism has resulted from their failure to meet societal expectations (Sethi, 1975).

The growth of socially responsible investing (SRI) has also been a significant catalyst for CSR, with many investors pushing for greater disclosure of information about social and environmental issues to help them make more informed investment decisions (Clark and Hebb, 2004). Related to SRI, another source of pressure on corporations is the emergence of global standards covering a range of social and environmental issues. These standards are having an increasing impact upon firm-level behaviour (Clark and Hebb, 2004; Stiglitz, 2002). Examples include the Coalition for Environmentally Responsible Economies (CERES) Principles which provide a mechanism for environmental reporting, the International Labour Organization (ILO) Labour Standards which promote employment rights and opportunities, and the Global Sullivan Principles which seek to reduce racial discrimination in employment. While, at one level, these are voluntary codes of practice implemented at firms' discretion, a growing number of institutional investors in the UK and the US are using these principles to screen their portfolios, and the scale of pension fund and other investment flows means that corporations must increasingly be sensitive to them.[3]

The academic view of CSR

Alongside these developments, a large body of academic literature on CSR has emerged. This literature is fragmented, and incorporates a range of positions and perspectives.[4] Its origins can be traced to the 1950s and 1960s when the huge surpluses generated by many US corporations prompted some commentators to put forward a 'moral case' for socially responsible behaviour (see, for example, Bowen, 1953, and McGuire, 1963. This rested on the assumption that corporations have, or should have, a range of obligations to society commensurate with their power and influence, and the benefits they derive from being embedded within a broader social system (Litz, 1996). These authors prompted a tenacious and widely publicised backlash from Levitt (1958) and Friedman (1962) who argued that the sole purpose of the corporation should be to increase, within legal and ethical constraints, shareholder value. As CSR behaviour is likely to decrease profitability and/or increases prices, it cannot be justified in light of corporations' fiduciary duties unless it can be shown to achieve specific commercial benefits (Pinkston and Carroll, 1996).

During subsequent decades, new ways of conceptualising CSR emerged. In the 1980s and 1990s stakeholder theory gained popularity. Underpinning this view of the firm is the belief that corporations have obligations, including moral obligations, to a broad range of stakeholders in addition to their shareholders (Clarkson, 1995, Gibson, 2000, Maignan and Ralston, 2002), and that their legitimacy is dependent upon the maintenance of reciprocal relationships with them. Indeed, stakeholder theory is embedded within a broader debate about corporate legitimacy (Davis, 1973) and organizational public responsibility (Preston and Post, 1975). Wood (1991), for example, argued that firms which lose the confidence and support of their stakeholders become illegitimate and cannot survive: "customers stop buying products, shareholders sell their stock, employees withhold loyalty and best efforts, government halts subsidies or imposes fines or regulates, environmental advocates sue" (p. 697). Some scholars have gone as far to suggest that corporations are experiencing a "crisis of legitimacy" which threatens the existence of the corporate form as an institution (Schlusberg, 1969).

More recently, the notion of corporate citizenship has become predominant within the CSR literature. Matten et al. (2003) argued that corporate citizenship is currently used in two ways. The *limited view* equates the term with philanthropic and voluntary activities which are undertaken by firms in local communities, while the *equivalent view* considers corporate citizenship as essentially a synonym for CSR, whereby corporations seek to minimise the negative consequences of their activities while maximising the positive ones (Marsden and Andriof, 1998). They propose an *extended view* which considers that corporate citizenship is a partial attempt by corporations to assume responsibility for protecting those social rights that were formally the responsibility of Government, and which the welfare states of developed countries are no longer willing (or perhaps able) to fulfil. They suggest that this is a reflection of the fact that corporations have replaced governments as the "most powerful institution in the traditional concept of citizenship" (p. 117). This is a dangerous position, they argue, because corporations are motivated by self-interest rather than altruism and are likely to participate only in those activities that are deemed to be of benefit to them. The extended view of corporate citizenship resonates with Eells and Walton's (1961) description of the corporation as a "private polity", and Galbraith's (1967) classic account of the range and scope of corporate activities in 20th century capitalism (Schlusberg, 1969).

Other scholars have attempted to put forward a 'business case' (alternatively referred to as enlightened self-interest (Smith, 2003) or utilitarian approach (Swanson, 1995) for CSR, arguing that many projects designed to promote societal goals may enhance profitability and shareholder value. This is most readily achieved, from this perspective, when CSR activities contribute to the overall mission of the corporation (Husted, 2003; Waddock and Boyle, 1995), and in particular when they allow corporations to realise direct and indirect economic efficiencies. CSR activities might lead to the creation of good will, increased customer loyalty, cost savings arising from avoiding or pre-empting legal or regulatory sanctions, enhanced legitimacy among stakeholders, and improved morale and loyalty, thus reducing staff recruitment and training costs (Adams et al., 1998; Esrock and Leichty, 1998; Hooghiemstra, 2000).

Our research question

Despite these conceptual innovations, we agree with Matten et al. (2003) who argued that much academic debate on the ethics of CSR continues to be characterised by sterile and ideologically driven discussions between, on the one hand, those commentators who believe that the business of business is the maximisation of profits and, on the other hand, those who insist that corporations have wider obligations to the communities in which they are embedded.[5] It is not our intention to become embroiled in arguments about the rights and responsibilities of corporations, and what constitutes ethical behaviour. We seek to shift the debate away from questioning the rationale for CSR behaviour to identifying ways in which the CSR agenda of the firm can be effectively and efficiently addressed through its strategic activities – issues that have been largely ignored in the academic literature despite the burgeoning of CSR-related scholarship, described above.

We should make clear at this juncture that we consider effective CSR in terms of the attainment of social outcomes, rather than the benefits that accrue to corporations from their CSR activities. Where possible we believe that CSR should involve dialogue with local stakeholders, look for long-terms solutions that build capacity rather than offer a 'quick-fix', and be responsive to local needs and priorities. It must be recognised, of course, that these may not constitute the primary motivations for corporations as they embark on CSR initiatives – business related issues such as image and reputation very often constitute a more pragmatic set of concerns. Nonetheless, underpinning our analysis is the assumption that many corporations seek modes of governance which allow them to best achieve their social objectives given resource constraints.

In 1997 the National Commission on Philanthropy and Civil Renewal in the US published a report which evaluated "private charitable efforts". The Commission's Chairman concluded that most donations did little to offer long-term solutions to social problems, to develop community capacity or to build community-based institutions: "[m]uch of American philanthropy is ineffective, sometimes wrongheaded, and occasionally counterproductive. Our criticisms apply to individuals, foundations, corporations, and the recipient organisations themselves" (Alexander, 1997). Although some of the blame is apportioned between actors, much of the criticism in the report is reserved for third sector organisations which are accused of being inefficient, poorly organised and unimaginative; behaving more like bureaucracies than entrepreneurial ventures designed to tackle social issues in innovative ways. In this article we argue that CSR rooted in philanthropy reinforces these phenomena and should be regarded as part of the problem rather than part of a potential solution. In the following section, we critique existing approaches to the governance of CSR and then offer an alternative.

The governance of corporate social activity

Regardless of their motivations, when corporations have agreed upon their social objectives and priorities, their next step is to consider the mechanisms through which these are to be achieved. This involves selecting a mode of governance that allows the delivery of social outcomes while ensuring that available resources are used effectively, and can be particularly challenging for corporations with limited experience of CSR or engaging with local stakeholders. Husted (2003) neatly describes the three main forms of governance that corporations can use to deliver their CSR objectives (see Figure 1). The models broadly correspond to the market, hierarchy and hybrid forms of contractual governance outlined by Williamson (1985), and provide a useful way of conceptualising the management of socially responsible corporate behaviour. The strengths and weaknesses of these approaches, as well as a fourth approach outlined later in the article, are summarised in Table I.

The *charitable contributions approach* represents the dominant method used by corporations to manage their CSR activities, and is the archetype of corporate philanthropy. It involves the donation of resources to a third sector organisation, which is responsible for delivering the objectives as specified by the corporation. The level of involvement between the corporation and the recipient of the funds tends to be limited, and corporations do not actively participate in the delivery of social outcomes. For corporations, there are a number of advantages to this approach. In particular, it allows them to switch resources between third sector organisations in response to changing social priorities, or because they believe another recipient organisation is able to achieve their social objectives more effectively and/or at a lower cost. It also enables them to adjust their levels of CSR expenditure in relation to firm performance. Thus, from the perspective of corporations, it is a very flexible approach to CSR, which affords high levels of power over recipient organisations, but low levels of control over how social outcomes are delivered.

TABLE I

Summary of the main approaches to the governance of corporate social activity

Approach	Strengths	Weaknesses
Charitable Contributions	- Allows corporations to switch resources between third sector organisations in response to changing social priorities, or because they believe another recipient organisation is better able to achieve their social objectives - Allows corporations to adjust CSR expenditure in relation to firm performance	- Corporations have little direct control over the delivery of CSR outcomes - Many third sector organisations lack the capacity to achieve social outcomes effectively - Third sector organisations become dependent on corporations, thereby stifling social innovation; planning for the long-term is difficult because donations are usually awarded for finite periods - Many third sector organisations lack local accountability and legitimacy, and effectively form a barrier between corporations and communities
In-house Project Structure	- Allows corporations to control the delivery of CSR activities, as well as resource expenditure - Enables corporations to integrate CSR into its operations, and to ensure CSR objectives are consistent with the strategic objectives and capabilities of the firm - Facilitates community participation because the corporation liases directly with local stakeholders	- Requires high levels of investment, with many corporations unable or unwilling to meet the costs of employing the relevant expertise in-house - An inflexible approach to CSR; high sunk costs make it difficult for firms to adjust the scope and scale of their CSR activities in response to changing priorities
Collaborative Form	- Allows corporations and third sector organisations to develop and implement jointly strategies for addressing social problems - Builds CSR capacity within corporations which can be applied to other projects - Gives third sector organisations a degree of security and stability, and enhances their capacity to deliver social outcomes	- Third sector organisations remain heavily reliant on the transfer of resources from corporations. This has serious implications for their capacity for social innovation and their long-term development trajectories - Unlikely to enable long-term community capacity building - Does not allow for community engagement and accountability; as with the charitable contributions approach, the third sector organisation forms a barrier between corporations and communities

Partnership	- More equal relationship between corporations and their CSR partners - Facilitates learning and innovation with regard to tackling local issues - Builds community capacity in a way designed to contribute to long-term and sustainable development - Facilitates relationships with local stakeholders that allow for transparency and local accountability	- Requires high levels of commitment and investment from both parties, and for these to be maintained over time - Outstanding questions remain about the integrity of community enterprise as an organisational form - Unclear whether participation and the use of 'local knowledge' lead to more effective community development

For the recipient, however, the opposite is true: third sector organisations that rely on philanthropy and other donations are dependent upon their donors for their survival. Planning for the long-term is difficult because funds normally run for finite (and relatively short) periods, making it difficult for them to offer security of employment to organisational members, and more generally to develop core competencies through the recruitment and retention of suitably qualified human resources. Indeed, a study by Matthews-Joyce (Unpublished masters thesis) found that in order to sustain themselves, grant-dependent third sector organisations are often forced to make commitments and undertake activities for which they lack the relevant experience and expertise. The result is that social outcomes are often neither fully nor effectively delivered, and donors become frustrated at the failure of recipients to meet adequately their expectations.

In addition, this approach does not allow for dialogue between the corporation and the community, as the third sector organisation effectively forms a barrier between the two. The corporation relies on the third sector organisation for information about local needs and priorities, but there are serious questions about the accountability of these organisations to the communities and constituencies they seek to help. Many have no formal processes for engaging with key stakeholders or disseminating information to them. This has led to greater scrutiny of third sector organisations, and calls for more transparency and membership engagement (see, for example, Christensen (2004) and The Global Accountability Report published by the One World Trust (Kovach et al., 2003).

The limitations of the charitable contributions approach have led many corporations to consider alternative governance mechanisms through which to structure their CSR activities. Some companies have adopted an *in-house project structure*. This involves the establishment of a department or unit within the firm that is responsible for developing and delivering CSR objectives. An important implication of this approach is that it allows corporations to control the delivery of CSR activities, as well as resource expenditure. It also enables firms to build a coherent set of activities which are integrated and consistent with the strategic aims and organisational capabilities of the firm. Moreover, it facilitates community participation because the corporation liases directly with local stakeholders.

However, the significant levels of investment needed for in-house CSR projects mean that they remain relatively uncommon: the sunk costs associated with this approach render it difficult for in-house project teams to undertake different kinds of activity, and to adjust the scope and scale of their CSR activities in response to changing business conditions or social circumstances and priorities. In particular, the skills and expertise required to deliver CSR objectives effectively, especially those that involve community capacity-building, are beyond the scope of most corporations. In other words, and with the exception of the most straightforward CSR activities, an in-house project structure only becomes viable when the CSR objectives of the firm correspond closely with its core activities. For example, this approach might be appropriate for a construction firm which decides to commit resources to building affordable housing in expensive areas where low income families are unable to access the property market. As such, it does not appear to have the potential to improve significantly firms' CSR performance across a broad range of issues, or to drive a new form of corporate citizenship behaviour which is responsive to local needs.

A more promising mode of governance which represents a greater organisational commitment on the part of corporations than the charitable donations approach, and enables them to address a much broader range of activities than the in-house project approach, is the *collaborative form* of CSR. Its use is often indicative of the fact that corporations are attempting to take a strategic view of CSR, and it is becoming increasingly popular as corporations are placed under greater pressure to deliver social outcomes. Crucially, it allows corporations and third sector organisations to develop and implement jointly strategies for addressing social problems, and gives both parties a measure of responsibility and control over their delivery. It also builds capacity within corporations which learn, for example, to develop realistic expectations with regard to social outcomes, and to manage resources in order to support third sector organisations effectively. The resulting body of knowledge can be applied to other CSR activities and collaborations. For third sector organisations, the longer-term commitment implied by this approach, the level of resources from corporations, and access to support structures (such as IT and logistical infrastructures) allows for a degree of stability and security, and significantly enhances their capacity to deliver social outcomes. The collaborative mode of governance is thus generally more effective than the previous approaches.

Despite these strengths, it is a much less radical form of partnership than might be imagined at first sight. Indeed, it is subject to many of the criticisms of the charitable contributions approach. At the core of the issue is that the third sector organisation remains heavily reliant upon the continued transfer of financial resources from the corporation. The dependency created by this form of asset transfer has a significant bearing on the nature of the relationship, and the capacity of the third sector organisation to exhibit entrepreneurial and innovative behaviour. As in the charitable contributions approach, the recipient is unlikely to be regarded as an equal party where knowledge and skills are shared between participating organisations. This has clear implications both for the way that social issues are addressed, and the ability of third sector organisations to think long-term about their development trajectories. Should the corporation choose to withdraw resources, the recipient organisation may be unable to continue operating unless an alternative source of income can be found. This approach to CSR does not enable community capacity building, and indeed is symptomatic of the dependency which often acts as an obstacle to community regeneration, rather than a means of development. Nor does it address the issue of community engagement and accountability discussed above, as the barrier between local stakeholders and the corporation (and indeed the third sector organisation) remains.

It is our contention, therefore, that the charitable contribution, in-house project and collaboration approaches each suffer from a number of weaknesses, raising serious questions about their suitability for the management of large-scale CSR initiatives. We believe that for a more effective kind of corporate citizenship to emerge, corporations must move beyond this kind of philanthropy towards a more equal relationship with third sector organisations and indeed the communities in which they are located. For this to happen, the character and form of 'recipients' need to be considered, both in terms of their financial independence and sustainability, and their relationship with the constituencies they serve. In the following section we outline the emergence of community enterprise as a distinctive organisational form, arguing that it has the potential to create a fourth (and more effective) mode of governance through which corporations can manage their CSR objectives.

Community enterprise as the basis for corporate citizenship

Community enterprise has its roots in 'civil society' – organisations which act in the public interest but independently of the state or the private sector (Diamond, 1996). At the same time, it is part of a wider social enterprise movement concerned with 'trading with a social purpose', which includes social firms, co-operatives and mutuals (Pearce, 2003). Community enterprise is often described as a subset of social enterprise, and the two organisational forms have much in common. In particular, community enterprises, like social enterprises, have a strong commercial ethos and generate a substantial part of their revenue through trading – they rely upon 'enterprise' rather than philanthropy and government subsidy to finance their social objectives. This means that social and community enterprises are not wholly dependent upon external sources of funding. In contrast to corporations, however, their assets are held in trust for the constituency they serve, and any surpluses are reinvested in the business or the community. Thus they can be considered a hybrid form of organisation, combining social outcomes with wealth creation. Perhaps inevitably, these developments have led to social and community enterprises being encouraged to think and act like businesses in other ways. For example, the language of markets and customers, and a focus on accountability and performance measurement increasingly permeate social economy organisations, and many who work in the sector have studied on mainstream and/or specialist degree programmes at business schools (Paton, 2003).

There are, however, important differences between social enterprise and community enterprise. In the first instance, and unlike most social enterprises, community enterprises are based around strong local linkages and have democratic structures which allow the involvement of organisational members in the governance of the enterprise (Pearce, 2003). The membership normally includes the residents of a defined local community (although it may constitute a community of interest), as well as other stakeholders such as partner organisations, investors and customers. Boards of Trustees are usually elected by the membership and include community representatives, with the membership normally defined as the residents of a specific location. Most operate on the principle of 'one member, one vote'. In addition to engaging with stakeholders and allowing them a voice in organisational affairs, community enterprises are expected make explicit efforts to be accountable to them. Of course, residents may choose not to participate in community enterprise, or indeed other institutions of civil society, but the idea is that local people have the opportunity to become involved in the development of organisational objectives, and the initiatives in which community enterprises direct their resources.

A second significant difference between social enterprises and community enterprises concerns the scope of their respective activities. While social enterprises tend to be focused on a small number of core activities and operate as single businesses, community enterprises are multifunctional organisations responsible for a variety of local initiatives, including supporting enterprise (both social enterprise and mainstream enterprise), developing property and other local assets, and sponsoring community benefit schemes. Pearce (2003) traced this organisational form to the community co-operative movement which emerged in the Highlands and Islands of Scotland in the 1980s. He summarised the concept as follows:

> "The principle behind the multifunctional idea is simply that the income generated by an assortment of trading activities and projects can sustain a stronger and more skilled management capacity than any of the individual enterprises or projects alone. Equally, that central capacity can also offer development support to new enterprise and initiatives, some of which might be run as part of the multifunctional company itself while others are established as independent community enterprises or projects" (pp. 48–50).

The recent growth of community enterprise in the UK stems to a large degree from policy initiatives implemented by the 'New Labour' Government elected in 1997. Central to these initiatives are the notions of 'enterprising' and 'sustainable' communities. These concepts are never clearly defined but, in general terms, refer to regeneration which is endogenous (in other words, community-led rather than government-led), which is funded through market-based activity rather than government or other subsidy, and which builds local economic capacity. The idea is that communities define their key local issues and challenges, and are empowered to develop long-term solutions to them. While they work in partnership with corporations and public sector organisations, they avoid dependency. Indeed, embedded in the philosophy of community enterprise is the belief that communities are best placed to organise and manage their renewal (see www.enterprising-communities.org.uk for fuller account of the UK policy context).

Local ownership of assets (especially physical assets such as buildings and land) is central to community enterprise. Consider the following quotation taken from a recent Local Government Association Briefing which explains how community enterprise is intended to function:

> 'The disused school with broken windows. The boarded up library. The town hall that lies empty. The surplus office units. The derelict land, strewn with litter. Many local authorities and other public bodies have their share of public assets which over the years have become liabilities. A cost to the authority in terms of blight, a focus for crime, and lost opportunity... Change is taking place. Local authorities are carrying out audits of their asset holdings... Community groups are discovering new uses for old assets – and seizing opportunities for new build. They can draw on local energy and knowledge. They can draw on a national network of know-how. They can access new forms of investment. The result is a special form of social enterprise – community enterprise. The disused school becomes workspace units for local traders, the old library is transformed into a creative industries centre for young people, the town hall is now a sports and leisure complex, the office units provide a hub for community and voluntary organisations to share back-office services and reduce costs, the derelict land is now a flourishing farmers' market. Surpluses from rents and trading are recycled back into community enterprise, regeneration and renewal. All creating wealth in communities and keeping it there' (LGA Briefing, Spring 2004, p.1).

In order to balance their social and commercial objectives, community enterprises adopt a number of strategies (Boschee, 2001). Of course, these strategies are not mutually exclusive, and community enterprises may combine two or more of them. Some engage in *unrelated business activities*, where the enterprise trades in markets that are not connected to its social mission and uses the surpluses to subsidise the component of the enterprise which is responsible for social outcomes. In effect, the enterprise is considered as two distinct parts, with the revenue generation part quite separate from the delivery of social objectives, at least in an organisational sense. For example, Riccall Regen 2000 runs a conference facility and catering service, the profits from which are used to subsidise a range of community-focused services including literacy and numeracy classes for adults, sports facilities and a nursery (www.riccall.co.uk).

Others rely upon *affirmative businesses* which are designed to provide employment, support and/or training for excluded or marginalised groups such as the disabled, the long-term unemployed, and homeless people. They operate in a wide range of sectors, and their social mission is achieved through the establishment of intermediate labour markets. Trinity Community Partnership is well known for its work in this respect. It has a number of affirmative enterprises, including a pantry, a café and a recycling business designed to employ people with disabilities. In addition to providing meaningful employment for a group which is often excluded from the labour market, the profits from these and other businesses are used to provide further training and support for disabled people (www.trinitypartners.co.uk).

A third way that community enterprises achieve both social and commercial objectives is through the provision of *mission- or product-driven services*. Organisations that adopt this strategy seek to generate revenue through providing services for groups which have access to minimal state or private sector provision. Common examples include public transport and banking facilities in rural areas, the development of renewable sources of energy, and support services for marginalized groups. For example, Attercliffe and Darnall Community Enterprises has its own driving school which offers subsidised driving lessons for local unemployed people in an effort to

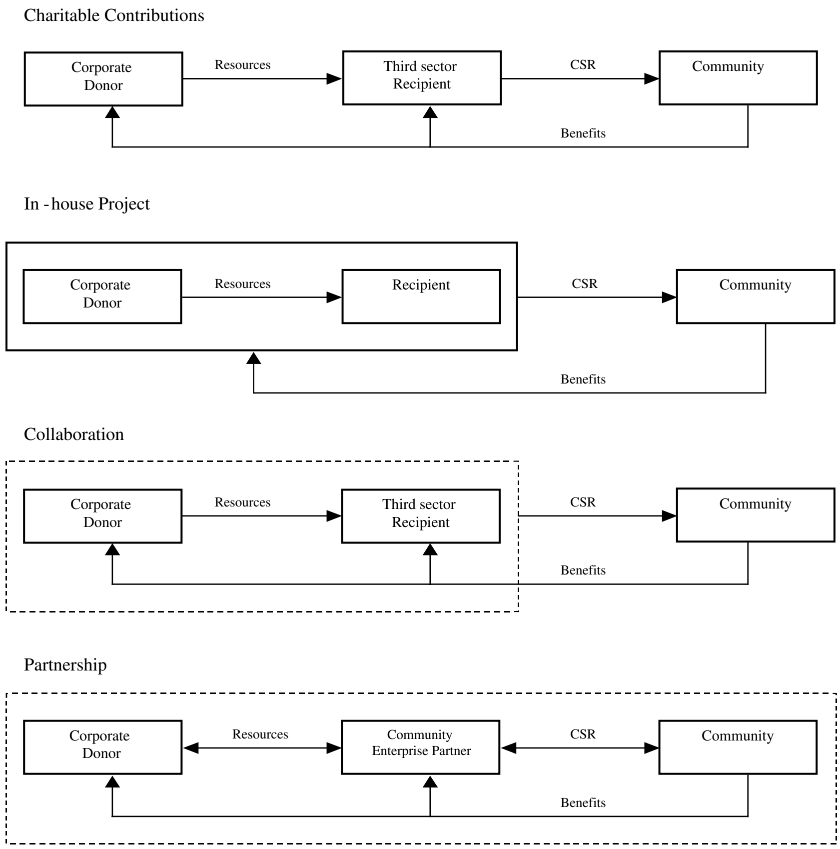

Figure 1. CSR governance structures (adapted from Husted, 2003).

help them back into the labour market and improve their mobility (www.adce-joblink.org.uk).

Community enterprise does not have a distinct legal form in the UK, although most operate as Companies Limited by Guarantee, with restrictions about the distribution of profits enshrined in their Memorandum and Articles of Association. Many are also registered charities. However, at the time of writing a Government bill which includes proposals to create a new legal structure for community enterprises – Community Interest Companies (CICs) – is progressing through Parliament. If, as expected, the bill becomes law, CICs will be subject to the same legislation as corporations, but with a number of additional features in order to ensure they remain community focused. To qualify for CIC status, which will offer organisations many of the tax and other advantages of charitable status within a corporate framework, community enterprises must pass the so-called 'community interest test' administered by an independent regulator (DTI, 2003a; NCVO, 2003).

In the consultation document published by the Department of Trade and Industry in 2003, and which outlined how the community interest test is designed to work (DTI, 2003b), it was stated that the test for CIC status will consist of two parts. To pass the first part, organisations must convince the regulator that they exist for the benefit of their community (or more generally to serve the public interest), and that any surpluses will be reinvested appropriately. To pass the second part, organisations need to satisfy the regulator that "access to the benefits to be provided will not be confined to an unduly restricted beneficiary group" (p. 3).

Having achieved CIC status, and in an effort to improve accountability, CICs will be required to submit an annual report to the regulator which outlines the strategies they have adopted in the pursuit of their social objectives and the ways in which they have involved key stakeholders. In order to overcome the barriers to finance faced by many third sector organisations, the bill will introduce a 'lock' on assets and profits. This will make it easier for community enterprises to secure capital from private investors, while ensuring that their assets remain under local ownership. Controversially, it will also mean that CICs will be able to issue shares and to pay dividends. However, dividends will be capped by the regulator (at a level yet to be determined), and although investors will be considered as stakeholders with a legitimate interest in the organisation's activities, they will not be able to exert control over CICs.[6]

Community enterprise and the governance of CSR

Earlier in the article we outlined the three dominant approaches that corporations use to structure their CSR activities, as described by Husted (2003). Figure 1 illustrates a fourth approach to the governance of CSR which involves community enterprise, and which we have called the *partnership* approach. It shares some features of the collaboration model outlined earlier in the article, but differs substantively from it in several important respects, notably in terms of the interaction between participating organisations, the role of local stakeholders, and ultimately the ability of corporations to contribute to local regeneration. Unlike the other approaches outlined in Figure 1, this mode of governance involves a two-way transfer of resources between the partners rather than a one-way donation from corporation to third sector organisation. The resources in question include financial resources as the costs of a given project or partnership may be shared between partners, as well as knowledge and intellectual capital. In addition, the dotted line incorporates the corporation, the third sector organisation (in this case a community enterprise), and the community, suggesting interaction and interdependence between all three actors. Communities are thus brought into the CSR process in a way that is rarely possible in the other modes of governance.

The partnership approach can take three forms, each of which serves a different purpose and involves varying degrees of cooperation, integration and risk between participating organisations, as well as varying 'returns' in terms of local capacity-building. The three forms are strategic partnerships for local regeneration, supplier relationships and joint ventures.

In the first instance, by engaging with community enterprises in *strategic partnerships for local regeneration*, corporations can take advantage of the local knowledge embedded within places. Because they are rooted in their local community, community enterprises are well positioned to understand local needs and priorities and can work with corporations to help ensure that resources are channelled effectively. Moreover, their close links with local authorities and other public sector agencies make possible a coordinated approach to regeneration. This allows for a more strategic form of CSR which involves dialogue with, and gives a voice to, local people.

For example, corporations and community enterprises may choose to invest in an initiative to deliver affordable childcare for working parents, or to improve the sports facilities in a particular area, or to develop an asset as affordable managed workspace for local businesses. Where possible, community enterprises will seek to ensure that projects become financially sustainable, and thus ensure that these initiatives do not remain dependent upon corporate or other sources of funding in the medium and long-terms. As noted, some initiatives may generate surpluses which can be reinvested in other local projects – this is the essence of community enterprise. This form of partnership involves relatively low levels of integration between participating organisations, minimal risk, and does not require either party to surrender autonomy over other aspects of their operations.

It is a particularly attractive option for corporations because community enterprise provides innovative ways of channelling resources which allow social investments to yield long-term benefits. Also, as revenue generating organisations, community enterprises have their own resources which they may choose to commit to a particular project, and thus the costs of some projects are likely to be shared. For the community enterprise, the main benefit is the inflow of extra resources which can be used to develop capacity and improve services in the local economy. Moreover, the community enterprise retains a large degree of control over the way the money is spent, and is able to ensure that it meets the community agenda rather than (or perhaps as well as) the corporate one.

Despite these strengths, strategic partnerships are essentially a sophisticated form of philanthropy which capitalises upon the ability of community enterprises to act as agents of regeneration. Community enterprises are also, however, businesses which generate revenue through trade to achieve their social missions. The other two forms of corporate–community enterprise partnership that we envisage are concerned with building the capacity of community enterprises as businesses. This is clearly fundamental to the sustainability of community enterprises, their viability as financially independent organisations free from the constraints of grant funding, and to the notion of 'enterprising communities'.

Community enterprises engage in a wide range of business activities, and produce many products and services for which corporations are potential customers. These include products and services that may be regarded as peripheral to corporate activity, such childcare provision, catering, and office and conference facilities, as well as those which have a more central role in the functioning of corporations. For example, community enterprises are increasingly becoming involved in social and environmental impact assessments, the development of renewable energy and energy efficient technologies, and the provision of different kinds of training and HR development. Developing *supplier relationships*, which could mean using community enterprises as 'preferred suppliers', is one way in which corporations can help to improve the competitive position of community enterprises.

This might involve close collaboration to ensure that the products and services in question fit with corporations' requirements and processes. In so doing, corporations are able to transfer knowledge, experience and technology to community enterprises. This kind of partnership is commonplace and has worked effectively in other sectors, most notably in technology-based industries (Kanter, 1989), and has the potential to lead to resource savings for corporations. Stable relationships with suppliers can also help firm competitiveness. Developing supplier relationships with community enterprises involves greater levels of risk than strategic partnerships, although this clearly depends on the centrality of a given product or service to the functioning of the corporation. The levels of integration and coordination required are also higher. But the advantages for community enterprises, which benefit from stable customer relationships and from the transfer of business knowledge and expertise, may be considerable. Of course, if they are unable to maintain sufficiently high levels of quality and service, they run the risk of losing an important source if income which may effect existing social commitments.

Joint ventures, whereby community enterprises and corporations collaborate to exploit a business opportunity, constitute a third form of corporate-community enterprise partnership. It is likely that any such venture will be closely related to the corporation's core activities, and it may or may not have a social focus. Joint ventures require significant capital investment from both parties, and very high levels of coordination and cooperation. The risks are also high – there must be a commercial logic for the joint venture if it is to be sustainable in the long term, and it must have the capacity to generate surpluses for both parties. Without this logic, the venture essentially constitutes an elaborate form of subsidy, and the drain on corporate resources renders it unlikely to be viable in the long-term.

Although the levels of risk and integration, as well as resources, are the highest of the three forms of partnership, the benefits in terms of CSR are also likely to be the most significant. Like supplier relationships, joint ventures allow corporations to work closely with community enterprises in order to transfer knowledge and expertise which can be used to improve their business performance, but the level of knowledge transfer is likely to be much greater. This might relate to technological and product-based activities, and/or to business processes such as marketing, supply chain management and HR development. A significant challenge faced by many community enterprises, in part because of resource constraints, is the acquisition of business support and consultancy services in order to improve their productivity and competitiveness. Joint ventures provide a mechanism for this knowledge transfer. In addition, the income stream generated by the venture has the potential to provide a reliable, long-term source of revenue which can be invested in the local community. Moreover, the commercial benefits to corporations should not be underestimated. These include access to new markets, revenue streams and tax benefits,[7] as well as the marketing opportunities associated with investing in a community-based organisation.

The high levels of risk, investment and cooperation, and the corresponding loss of autonomy, mean that large-scale corporate–community enterprise joint ventures remain uncommon. However, a proposed joint venture between a community enterprise and a multinational energy provider in south Wales to build an eight-turbine wind farm may prove to be a watershed in corporate–community enterprise partnerships, and provide a template for future initiatives (see www.artsfactory.co.uk).

The supplier relationship and joint venture forms of partnership, focused as they are on building the commercial viability of community enterprises, means that corporations are less involved in community-focused social initiatives than the strategic partnership approach. Thus corporations are working towards community capacity-building indirectly. However, it is normally the case that corporate partners would have a place on the Board of the community enterprises with which they have partnerships, and therefore some input into their local economic strategies. And given that the three approaches are not mutually exclusive, it may be that corporations choose to engage in strategic partnerships as well as business relationships.

The partnership approach appears to present a number of advantages over other modes of CSR governance. In the first instance it offers a more sustainable and effective approach to delivering social objectives. The key point is that it alters the nature of the relationship between the relevant actors. Inequality of power and resources is a significant impediment to effective relationships in general, and to learning and knowledge transfer in particular (Lave and Wenger, 1991). As noted, the partnership approach involves a two-way transfer of resources between the partners rather than a one-way donation from corporation to third sector organisation, the financial independence of community enterprises addressing in part the power disparities that characterise 'traditional' corporate-third sector interactions.

These more equal relationships facilitate learning on both sides, and provide a more conducive context for innovation to take place. For community enterprises learning is likely to centre on the skills and competencies required to build stronger businesses, while corporations may improve their understanding of local markets and priorities, and learn how to engage with local stakeholders. Moreover, community enterprises tend to have a greater ability to deliver social outcomes than other third sector organisations. This is partly because of their established resource base – unlike most third sector organisations they are able to attract and retain human resources with specialist skills, and to develop continuity in terms of their strategic development and core competencies. They also specialise in building local capacity in a way that is designed to contribute to long-term, sustainable development trajectories.

While improved CSR outcomes is an important strength of the partnership approach, equally significant are the implications for the management of stakeholder relationships. Andriof and Waddock (2002) suggested that current conceptions of corporate citizenship are centred on the belief that corporations are integrated into a broader socio-economic system. This implies, first, that there should be a process of 'interactive engagement' with stakeholders, and second, that corporations must be sensitive to power relationships and interdependencies between stakeholders. The disconnect between corporations and communities seems to be at the heart of concerns about the apparent erosion of corporate legitimacy, and in many ways corporations' interest in CSR and corporate citizenship is a direct response to this perceived threat (Schlusberg, 1969). The local linkages and democratic governance structures of community enterprises give them the potential to act as a bridge between corporations and communities. Community enterprise thus has the potential to provide a framework through which corporations can establish reciprocal relationships with local stakeholders that allow for transparency and local accountability. At a time when the role and responsibilities of corporations as social actors is under intense scrutiny, community enterprise offers an opportunity for local engagement which confers upon them a degree of legitimacy that is rarely achieved by corporations in the Anglo-American world.

Finally, for those corporations that care less about achieving social outcomes, building local economic capacity and forging meaningful relationships with stakeholders, and more about reputation and minimising expenditure, we contend that there is a strong commercial logic to the partnership approach. Community enterprises tend to have high profiles in the communities in which they are based, and partnering with them may provide significant public relations benefits as well as improved access to local markets. And of course, given that the ultimate aim of community enterprise is financial sustainability, this approach allows corporations to switch their resources to other projects (or withdraw resources all together) once a given project becomes viable.

Conclusions

In this article we have argued that traditional approaches to the governance of CSR are often inadequate. The shortcomings we have outlined relate to the nature of the third sector organisations which are the recipients of philanthropic corporate donations, the resulting resource dependency that this creates, and a corresponding absence of local accountability, legitimacy and participation. We do not wish to suggest, however, that community enterprise is a panacea for CSR or an easily implemented solution to these difficulties. There are clearly limits to the outcomes that partnerships between community enterprises and corporations can achieve, and we acknowledge that it is not an approach which is suitable in all circumstances – it is our view that the partnership approach is likely to be most effective on larger-scale initiatives requiring a high degree of commitment and significant levels of investment from both partners, and which combines two or more of the three forms of partnership outlined earlier in the article. Philanthropy may be more appropriate where CSR objectives are straightforward, and/or limited in their scale and scope, or where a given objective is closely related to a corporation's core activities.

There are also fundamental questions which remain outstanding about the integrity of community enterprise as an organisational form. The sector is in its infancy in the UK, and despite the rhetoric and extraordinary levels of expectation surrounding its capacity to deliver economic regeneration and build 'sustainable communities', the reality is that only a relatively small proportion of community-based organisations have managed to make the transition from philanthropy and government subsidy to financial independence through market-based activity (Amin et al., 2002). Is it realistic to expect community enterprises to generate surpluses where there has been market failure, and/or to compete against mainstream businesses while at the same time achieving a range of social outcomes? Considered in this light, community entrepreneurship appears to be much more complex than mainstream entrepreneurship, requiring a huge diversity of skills and high levels of commitment from organisational members.

The issue of accountability and community participation adds yet another layer of complexity. The difficulties of assuming homogenous communities are well documented by scholars who have studied community development initiatives in the South. Of particular note is Cooke and Kothari's (2001) edited volume entitled *"Participation: The New Tyranny?"* Building on earlier scholarship such as Guijt and Shah (1998) and Cornwall (1998), the authors suggest that power relations within communities based on factors such as gender, ethnicity, age and religion are often ignored or neglected, the result being that the 'community view' that most often emerges is that of its most powerful groups. Doubt is also cast on the assertion that participation and the use of 'local knowledge' lead to more effective community development.

And yet there are examples of remarkably successful community enterprises which have played a major role in the regeneration of the communities in which they are embedded through market-based activity, and with local people playing a leading role. These include Ibstock Community Enterprises (ICE), an organisation which fought to restore basic financial services to the rural community of Ibstock (Leicestershire) after the only bank in the village closed its branch and removed its cash machine on the grounds that they were not financially sustainable. ICE now operates a building society franchise and two cash machines, both of which are profit making, and has expanded in scope to provide a range of community-focused services. (www.ibstock.org). Another notable community enterprise is Sherwood Energy Village which is currently redeveloping a former colliery as a centre for environmentally sustainable technologies, and a location for businesses based upon sound ethical and environmental principles. (www.sherwoodenergyvillage.co.uk).

These and many other community-led organisations in the UK illustrate the potential for community enterprise as a mechanism for community renewal and local capacity building, and show what can be achieved when communities are given an opportunity to shape local circumstances. Although corporations are beginning to recognise the potential of community enterprises as partners through which to achieve their CSR objectives, there are relatively few current examples of corporate–community enterprise partnerships. We believe such partnerships have significant potential for improved CSR performance and for encouraging corporations to play a progressive role in their communities – both of which are surely prerequisites for improved corporate legitimacy. They may also play an important part in the development of community enterprise as a financially independent and sustainable form of economic activity.

Stern and Barley (1996) eloquently pointed out the futility of debating whether organisational societies engender positive or negative consequences, as it is clear that they produce both. "Rather, the sociologically crucial point is that organizations have not only become prominent actors in society, they may have become the only kind of actor with significant cultural and political influence" (p. 148). As arguably the most powerful form of organisation in early 21st century capitalism, it is important that we understand how corporations can harness their resources for the wider social good, should they choose to do so. We believe that community enterprise offers a viable alternative to existing approaches, and the basis for meaningful dialogue between corporations and the communities in which they are embedded. If corporate citizenship is to move beyond rhetoric, this kind of local engagement needs to become much more widespread. However, it is certainly not an easy option or a 'quick fix' – the levels of commitment required are far higher than those currently exhibited by most corporations. And of course, engaging with local stakeholders means not simply listening to what they say, it also means incorporating their views into strategic decision-making. In their role as 'citizens' and their quest for legitimacy, corporations may have to concede some of their autonomy.

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Notes

[1] Community enterprise takes a number of different forms, but the form that we focus on in this article, and which has become the dominant form in the UK, is known as the Development Trusts model, see www.dta.org.uk.

[2] The pressures faced by corporations to be socially responsible have ebbed and flowed during this period, but the general trend has been an upward one.

[3] The California Public Employees Retirement System (CalPERs), the New York City Employees Retirement System, and the University Superannuation Scheme in the UK have all used social and environmental regulatory standards to guide investment decisions (Clark and Hebb, 2004).

[4] In this section the key developments are outlined briefly. Given the extensive nature of the debates and the constraints of space, it is not possible to do justice to the complexities or subtleties of the literature. For an excellent overview see Andriof and Waddock (2002).

[5] See Wood (1991) for a notable exception.

[6] Community enterprise is a small but rapidly growing sector of the UK economy with significant political momentum behind it, and the introduction of CICs is likely to fuel its development further. However, there is already a substantial number of community enterprises in operation, some of which are engaged in relationships with corporations of varying degrees of formality. Thus our arguments are not dependent on the introduction of the CIC legislation.

[7] The UK Government's Community Investment Tax relief programme allows investors a 5% credit against its tax liability in each year for 5 years when investments are made through Community Development Finance Institutions (CDFIs).

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