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Diversity management for innovation in social enterprises in the UK[†]

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This paper examines the linkages between diversity management (DM), innovation and high performance in social enterprises. These linkages are explicated beyond traditional framing of DM limited to workforce composition, to include discussions of innovation through networked diversity practices; reconciliation; and funding options. The paper draws upon a UK-based national survey and the case study data. Multiple data collection methods were used, including semi-structured interviews, questionnaires and workshops with participant observation. NVivo and SPSS software packages were utilized in order to analyse the qualitative and quantitative data, respectively. We used thematic coding and cropping techniques in analysing the case studies in the paper. A broad range of conflicting and supporting literature was enfolded into the conversations and discussion. The paper demonstrates that social enterprises exhibit unique characteristics in terms of size and location, as well as their double remit to add value both economically and socially. As a conclusion, we argue for social enterprises to consider options for DM in the interests of maximization of innovation and business performance. We contend that further research is needed to describe how social entrepreneurs draw upon their various 'diversity resources' in the process of innovation.

Keywords: diversity; social entrepreneurship; innovation and performance

1. Introduction

Diversity management (DM) is a management idea which is underpinned by a belief that managing difference in the workplace can contribute to organizational performance. It can be defined simply as a management philosophy of recognizing and valuing heterogeneity in organizations with a view to improve organizational performance (Wright et al. 1995; Gilbert, Stead, and Ivancevich 1999; Orlando et al. 2004). As a management idea, DM only dates back to the late 1980s in the USA (Litvin 1997). However, it has gained wide international recognition and adoption internationally in the past two decades (Özbilgin and Tatli 2008). Despite its rapid diffusion, research in the area has remained focused on large firms in the private sector. As such, there is a significant lack of literature regarding DM as it relates to small firms, voluntary service sector organizations and social enterprises.

In this paper, we seek to address this gap in literature by posing our central research question: what is the potential of DM to contribute to innovation in

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social enterprises? We argue that social enterprises can and do leverage diversity to promote innovation in their policies and practices of work. However, social enterprises face unusual challenges due to the nature of their double remit of adding value both economically and socially. Within that framework, we aim to explore the ways in which DM can help social enterprises to enhance innovation and business performance, and so the potential of DM to contribute to social entrepreneurship. To do that, we first review the literature on social entrepreneurship and diversity. We then explore the interplay between social entrepreneurship and DM in the areas of innovation, networking, reconciliation and funding. The paper draws upon a UK-based survey and the case study data to explicate these linkages beyond narrow views of DM as relating only to workforce composition and accommodating characteristics distinctive to social enterprises.

The UK government defines a social enterprise as ‘a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or community’ (Department of Trade and Industry 2002). This is in contrast with the corporate sector, where profit and increasing shareholder value are the primary goals, although these firms are increasingly considering the social and environmental impacts of their business. Making an explicit link with innovation, Mulgan et al. (2007b) define social enterprises as enterprises that pursue social innovations with the aim of developing and implementing new ideas (products, services and models) to meet social needs. Again, the social dimension is the driver. Innovation is about bringing creative ideas into being. In this way, innovation is a process of mediation between established routines at work and uncharted activities that are brought to bear by creativity. Many authors insist that it is the element of innovation that characterises social entrepreneurship and that the activities need to lead to the creation of something new, rather than just the replication of existing enterprises or practices (Austin, Stevenson, and Wei-Skillern 2006; Shaw and Carter 2007). However, Spear’s (2006) study only found a limited degree of innovation in the six UK case studies he researched. Nonetheless, he did find that innovation was present at different stages in the social entrepreneurial process.

In pursuing their objectives, social enterprises tend to need to address a number of diversity challenges. First, they may need to accommodate the requirements of a wider range of internal stakeholders, e.g. investors, employees and managers, with different priorities and potentially conflicting interests and viewpoints. Second, they may also need to consider external diversity, i.e. the public’s concerns and perceptions, environmental activists’ reactions and many other non-technical issues (Hall and Vredenburg 2003). Chell (2007) recognizes that the social entrepreneur, like their business counterparts, have to coordinate scarce resources, but arguably they come under more pressure as they have to meet the double or even triple bottom line (financial profit, social benefit and environmentally responsible production). In addition, although some social problems require solutions that are incremental in nature, many require fundamental and systemic transformations or change, which challenge the status quo (Gladwin, Kennelly, and Krause 1995; Noci and Verganti 1999; Mulgan et al. 2007a).

Elliot (2006, cited on <http://www.nesta.org.uk/social-innovation-definition/>) distinguishes social innovation from business innovation. Social innovation is described as having a cultural bias, emphasising the importance of ideas and a vision of how things could be different and better. Harrison, Price, and Bell’s (1998) study

suggests how diversity may be relevant to social innovation in the long term. The authors argue that whilst surface-level diversity (based on demographic attributes) is important in the operation of work groups in the short term, deep-level diversity issues to do with attitudes and beliefs become more important in the long term. Therefore, in the longer term, deep-level diversity can play a significant role in social innovation in groups. As such, the management of such diversity is pivotal for the effectiveness of team outcomes.

Social innovation occurs to satisfy unmet human and societal needs, whereas business innovation is market- and consumer-driven. Traditionally, the entrepreneurial process has focused only on economic value, whereas in this wider definition, opportunities are pursued and entrepreneurial activity results in both economic and social values. Bessant and Tidd (2007, 299) agree with this assertion, stating that, 'the primary concern is about generating value rather than wealth. Wealth creation may be a part of the process, but it is not an end in itself'. Similarly, DM contributes to organizational performance, which is broader than wealth. Therefore, it is possible to situate the discourses of both social enterprise and DM on the same platform, as they are attempts to transcend emotive and highly polarized discourses of 'social ends' and 'equality' versus 'ruthless commercialism' in order to reconcile commercial and social logics. Furthermore, as Granovetter (1992) suggests, these two logics are intertwined. Therefore, in this paper, we examine the linkages between commercial and social logics at work, in particular between DM, innovation and performance in social enterprises.

2. Literature review

The terms social entrepreneurship and social enterprise have emerged since the late 1990s, although examples can be found from more than 100 years ago (Dart 2004). The terms describe the work and structures of community, voluntary and public organizations, as well as private firms working to solve social problems that have not been solved by the traditional mechanisms. Dart (2004) found that many social enterprises formed hybrid structures with a mix of non-profit and for-profit activities, with organizations becoming more market focused, client oriented, revenue generating, commercial and business like. Chell, Karataş-Özkan, and Nicolopoulou (2005) indicate that these not-for-personal-profit enterprises need to comprise business activity which generates value for social ends and wealth to enable reinvestment and sustainability of the organization, and thus, requires entrepreneurial leadership to recognize and pursue entrepreneurial opportunities. Nonetheless, the main objectives are still predominantly social rather than for profit (Shaw and Carter 2007).

Social enterprise is growing. According to figures from Atkinson, Tuohy, and Williams (2006) and the existing data for the social enterprise sector, there are at least 55,000 social enterprises in the UK with a combined turnover of £27 billion per year. Social enterprises account for 5% of all businesses with employees and contribute £8.4 billion per year to the UK economy – almost 1% of annual gross domestic product (GDP) (Social Enterprise Coalition 2007). The forms that these enterprises take vary widely. However, these enterprises are often fairly small companies. They are generally understood to operate in complex multiple stakeholder contexts. Their multiple stakeholder contexts require social entrepreneurs to develop competencies in brokering agreements and reconciling the different agendas of these stakeholders.

Diversity for social entrepreneurs is not only limited to their stakeholders but also their sectoral and professional networks. There is existing literature on the role of networks in a start-up organization's success, where research has been conducted from both sociological and economic academic perspectives (Witt 2004). 'The network success hypothesis states that founders can gain access to resources more cheaply by using their network contacts than by using market transactions, and that they can even acquire resources from the network that would not be available via market transaction at all' (ibid, 394). Hite (2006) found that a critical challenge for emerging entrepreneurial firms is to understand and manage their network of ties, which will evolve as the organization grows. Cohen and Winn (2007) suggest that an important source of entrepreneurial opportunity is the role of other entrepreneurs.

Most of the research in this field has been conducted with for-profit organizations operating in traditional commercial settings. Recently, research has started to focus on social entrepreneurs (e.g. Zadek and Thake 1997; Dees 1998; Thompson 2002; Johnstone and Lionais 2004; Austin, Stevenson, and Wei-Skillern 2006; Thompson and Doherty 2006; Chell 2007) and the differences and similarities between these entrepreneurs and those operating in the commercial sector. In the three cases studied by Johnstone and Lionais (2004), successful social entrepreneurs showed an ability to build successful teams both within and outside the communities within which they were operating. The authors also noted that these entrepreneurs needed to be able to effectively communicate their vision, but this may sometimes be difficult to achieve due to the high levels of innovation involved in the projects themselves. In some instances, this difficulty may also be exacerbated by social entrepreneurs being 'actively marginalised by the public and private institutions that exist to promote progressive social change' (Zadek and Thake 1997, 31).

Chell (2007) expands the definition of entrepreneurship to include both business and social enterprises and describes it as the process of 'recognizing and pursuing opportunities with regard to the alienable and inalienable resources currently controlled with a view to value creation' (p. 18). Spear (2006) refers to this phenomenon as distributed entrepreneurship, where external organizations or groups often play key roles in the operation of the social enterprise and support the entrepreneurial activity over a significant period of time.

It can take considerable time and effort for a social enterprise to secure presence in the market, to secure funding, and gain access to volunteers and the pro bono professional advice that they need. They need to build reputation and capabilities that encourage others to work with them and to invest in them. In this field, there is often considerable competition for grants and government contracts, volunteers, community mindshare, political attention, clients or customers and talent (Austin, Stevenson, and Wei-Skillern 2006). Social entrepreneurs are often required to manage a wide diversity and complexity of relationships and often operate within 'community' or 'collective' structures (Shaw and Carter 2007).

Although the role of external organizations and groups is recognized in the literature on entrepreneurship in general and social entrepreneurs in particular, no research has explored the need for diversity or the management of diversity either within the social enterprises or within their networks. Our review of literature suggests that the challenges that are facing social enterprises require attention to surface-level diversity, i.e. demographic diversity including gender, ethnicity, age,

sexual orientation, disability among others, as well as deep-level diversity, i.e. attitudinal diversity, including forms of commitment, attachments, beliefs and opinion.

3. The DM debate: Innovation and social enterprises

Before we examine the linkages among diversity, innovation and social enterprises, it is useful to discuss DM in the UK, where it enjoys a rather ambivalent status. Some critical scholars have considered it as an extension of neo-liberal discourses which reduce workplace diversity to the level of individual difference, and as such, challenge moral, legal and social arguments for equality of opportunity (Prasad and Mills 1997; Lorbiecki and Jack 2000; Wrench 2005; Noon 2007). Such criticism broadly focused on two main pillars of the mainstream approach: the individualistic definition of diversity and the overwhelming emphasis on business case arguments.

Zanoni and Janssens (2003) point out the tendency to define diversity on individual terms and to ignore structures of power and inequality in the dominant discourses of diversity. Simultaneously, the business case rhetoric for DM is built upon the treatment of employees as assets, and workforce diversity as added value, providing the organizations with a competitive edge (Liff 1996). Hence, workforce diversity is often treated by the proponents of DM as a magic formula that automatically provides the employers with a competitive edge (Thomas 1990; Cox 1991, 1993; Cox and Blake 1991). This in turn means that, in the mainstream DM literature, employees' interests are an issue of consideration as long as they contribute to business outcomes.

Several authors have warned against the dangers of an exclusive focus on the business case (e.g. Dickens 1994, 1999; Noon 2007). Lorbiecki (2001) commented that it is not surprising that employers feel more comfortable with the DM approach emphasising the business case, rather than ethical values of equality and justice. However, as Liff (1996) stated, integrating equal opportunities and DM approaches, rather than presenting them as opposing philosophies, may be the way forward in combating discrimination in the field of employment. Furthermore, recent research suggests that organizations with sophisticated approaches to the management of diversity embody not only business case arguments of diversity but also moral, social and legal case arguments for equality (Tatli et al. 2007).

The main attention of protagonists (both proponents and opponents) of DM has been devoted to an organizational level of analysis and issues of workforce diversity in large firms, predominantly in the private sector. Such narrow framing of DM in the UK has led to three serious omissions in the literature, which we seek to address in this paper. First, DM is mainly studied in large firms in the private sector in the UK. Small firms and voluntary and public sector organizations have remained under-researched with only a few remarkable exceptions (Woodhams and Lupton 2006a, 2006b). Social enterprises, as predominantly smaller organizations which place emphasis on both economic and social values, are therefore, an important exclusion in the research topography of DM and innovation.

Second, DM in the UK is considered mainly in the context of employment relations (Lorbiecki and Jack 2000; Kirton and Greene 2006). This means that wider implications and issues of managing diversity, such as in creativity and innovation, customer relations, financial and accounting systems, performance management processes, strategic management as well as competitive practices of firms, are largely

ignored in the extant literature. If this lack of academic interest was accepted as a benchmark for organizational practices, DM would have been subsumed under the human resource management function and its impact would have remained limited to employment relation concerns. However, research suggests that DM is taken up as a wider concept in some organizations which have more sophisticated approaches that transcend employment relations issues (Tatli and Ozbilgin 2006). In this paper, we examine the evidence on firms which goes beyond human resource management issues in order to address the issues of diversity and innovation.

Finally, the link between DM and innovation has been relatively well explored in recent years (Benschop 2001; Bassett-Jones 2005; Gratton et al. 2007). The research in this field suggests that diversity in teams is correlated with innovation potential and outcomes. Despite increased research activity in this field, most research adopts narrow definitions of innovation and diversity, drawing on etic research which does not engage with rich contextual factors which deem processes of innovation and management of diversity intricately interrelated and embedded in unique contexts of organizations. Examining a number of case studies, we provide emic insights into processes of innovation and DM which help us reveal the significance of context.

Thus, the contribution of our paper to literature is threefold as we seek to address the above gaps in literature through examination of qualitative and quantitative data from case studies of social enterprises as well as a national survey.

4. Methodology

In this study, we have used a mix of qualitative and quantitative research methods in order to ensure rigour in the multilevel investigation of our research question and to cancel out the method effect (Saunders, Lewis, and Thornhill 2003). The method effect refers to the fact that each research method has its unique strengths and weaknesses. Considering this fact, a combination of methods potentially provides a more complete picture of the research object. The advantages of mixing research methods are frequently mentioned in literature (Bryman 1988; Punch 1998; Neuman 2000; Sayer 2000; Flick 2002). For instance, Layder (1998, 51) in summarizing the 'rules' of his 'adaptive theory' advocates a mixed methods framework: 'social research should employ as many data collection techniques as possible in order to maximise its ability to tap into all social domains in depth'.

First, we report in this paper the findings of a quantitative survey which was commissioned by the Chartered Institute of Personnel and Development (CIPD). The study was conducted in 2006, generating 285 completed questionnaires from diversity officers across a cross-section of organizations of all sizes, sectors and regions in the UK. Descriptive statistics from the findings of this survey are used to highlight the relationship between certain firm attributes, such as sectoral location and size, and sophistication of their DM practices. The quantitative data which were generated through the survey set out the context for our investigation. These data assisted us in scoping the field of DM, whilst the six qualitative case studies provided us with in-depth insights into the various examples of initiatives that link diversity and innovation.

The case study approach (Eisenhardt 1986; Yin 1994) enabled us to select cases based on their relevance to our research question. This meant that we have selected case studies in social enterprises within which DM and innovation were clearly

linked. We have also selected case studies to examine different dimensions of these linkages between our core concepts. Case studies are not generalizable, but rather provide rich contextual insights. Eisenhardt's theory building process was adopted by the authors and adapted with the insights and advice from qualitative research authors, such as Yin (1994), Strauss and Corbin (1990), Miles and Huberman (1994) and Silverman (2000).

It is recognized that findings and patterns are more reliable, stronger and more grounded in real-life contexts when they are corroborated across multiple participants (Gibbons et al. 1994; Yin 1994; Silverman 2000). The multi-level approach employed by this research fully exploited the unique insights possible from different perspectives. Within the cases, multiple data collection and analysis methods were used, including semi-structured interviews, questionnaires and workshops with participant observation.

Reflecting on Guba and Lincoln's (1981) four criteria for assessing the robustness of qualitative data, i.e. credibility, transferability, dependability and confirmability, we have taken a number of measures. Credibility of the data suggests the acceptability of the assertions in the paper by the participants. To ensure credibility of our data, we have offered the participants in each of our studies a verbatim transcription of their interviews and the opportunity to provide feedback on them. We have also discussed our preliminary findings with them in the respective field studies. Transferability is the extent to which our data have explanatory power in other settings. There is a degree of transferability as we present contextual expositions which would yield well for future comparative examinations of the same phenomenon in other sectors. Indeed, we provide such comparison as we include studies of innovation and diversity in other sectors of work. Dependability of the data is about the extent to which the research can capture the dynamically changing nature of the context. To achieve this, we provide a sense of situatedness in time and geography in our case studies. We do not treat context as fixed, but changing and unfolding. Confirmability of research means that the interpretation of the data is agreeable to peers. Working in teams for data collection and for co-authoring the paper, we have engaged in extensive debate about our research design, methods, data and interpretation. During the co-authoring phase we have used functionalities of the word processing software to insert comments, questions and queries regarding the aspects of the paper. This process was also repeated at the revision phase, improving the confirmability of our findings.

We used thematic coding, with themes chosen from literature, and cropping techniques (in order to focus on our thematic choices) in analysing the case studies in this paper (Strauss and Corbin 1990; Miles and Huberman 1994). A broad range of conflicting and supporting literature was enfolded into the conversations and discussion in accordance with Robson (1993) and Eisenhardt (1986). These activities broke simplistic frames and generated a deeper understanding. The revised list of constructs was combined, restructured and new concepts emerged.

One of the case studies used in this paper comes from the CIPD Diversity Management Action Research Project. This project was formed by members from 10 large public, private and voluntary sector organizations in the UK, a consultancy organization, along with two academics and CIPD staff. The action network involved four meetings a year, across 5 years between 1999 and 2004. Each organization conducted their own DM research project and the group meetings encouraged

sharing of good practices and results from these studies and subsequent diversity interventions over 5 years. The data collected from the action research project were in the form of meeting notes, as well as exchanges and case studies, authored by the members of the team, drawing on original interviews, focus group and network meetings. Interviews were recorded and transcribed, and detailed notes were taken in the meetings and subsequently transcribed.

Another of the case studies is from a project on equal opportunities in the private sector recruitment agencies in the UK funded by the Equal Opportunities Commission (EOC). Qualitative data from this case study come from interviews and documentary sources. Interview material from this case study was recorded and transcribed verbatim. Two co-authors of this paper conducted interviews with policy makers, attended a meeting of the Diversity Forum in the same institution and reviewed documentary evidence. In regular meetings, the Diversity Forum brings together members from the recruitment agencies in the UK and social enterprises which are invited in order to foster collaborations.

Interviews were also held with the founders of three UK-based social enterprises that had recently been formed. The first enterprise (EF) addresses ethical issues in the fashion industry, the second enterprise (EE) develops solutions for more efficient energy use and the third (HC) works with the homeless. The interviews lasted between 1 and 2 hours and were recorded and transcribed verbatim. The issues explored in the interviews were around funding, innovation and DM.

5. Results and discussion

First, we present and discuss the results of the quantitative survey, which demonstrates the link between DM and innovation performance, whilst highlighting the different levels of diversity practices achieved. Then, from our analysis of the six case studies, we present the three predominant themes which emerged: networked diversity; diversity as reconciliation; and diversity and funding. Under each theme, we discuss the cases which best articulate this theme, although all cases had elements of each theme present.

5.1. *DM and innovation*

The national survey revealed general support for the instrumental benefits of DM among the diversity officers surveyed. The respondents held strong beliefs regarding the contribution of DM to high performance and innovation at work. A total of 85% of the respondents in the questionnaire survey believed that DM promotes high performance, and 83% of the respondents believed that DM fosters innovation and creativity in their organizations.

The study that we present here also demonstrated that the sophistication of DM practices varies extensively across industrial sector and organizational size (Tatli et al. 2007). Tatli et al. (2007) have developed a scale to measure the level of organizational sophistication in DM. The measure incorporates 146 variables covering macro-drivers for DM in organizations and organizational level DM practices and policies. These variables are measured through closed-ended questions. The items range from basic DM activities (for example, *does your organization have*

a written diversity management or equal opportunities policy statement?) to more advanced ones (e.g. *What actions are taken in order to maximize employee engagement in diversity policies? Is your organization a member of any external networks or groups on diversity/equality?*).

The most sophisticated organization in the survey scored 122 out of a highest possible score of 146, and the lowest score was zero, obtained by five organizations. The average sophistication score across all respondents was 52.

The level of sophistication has been argued to be a better measure than single measures such as driver, activities policies, and the overall power and influence of the diversity managers in organizational change. Small firms tend to be less sophisticated in terms of their DM approaches than large- and medium-sized firms. This may be due to multiple factors, including affordability and available know-how of DM (Table 1). Furthermore, it is interesting to note that private sector firms are less sophisticated than both public sector and voluntary sector firms. Public sector firms appear to have more sophisticated approaches to management of diversity than the other two sectors (Table 2).

Although the sophistication index data do not directly focus on social enterprises, our insights from the analysis of survey results are useful in terms of setting the wider context for the UK organizations and revealing the gaps in and challenges of the DM practice. For example, the sophistication index suggests that social enterprises, by the virtue of their predominantly small sizes, are likely to remain under-informed about DM approaches. Indeed, a comprehensive literature search conducted by the authors did not reveal any papers to date examining the linkages between diversity and innovation in the context of social enterprises. Therefore, in the absence of directly relevant evidence, we suggest that social entrepreneurs can benefit from studies on other sectors of work and employment which bring to their attention how DM can be leveraged to improve performance and innovative potential. In this paper, we seek to extend the work of Gratton et al. (2007) and Bassett-Jones (2005), and to explore how social enterprises can develop and use techniques that help them to capitalize on diversity for more innovative outputs, whilst managing the inherent conflicts that will arise.

Table 1. Sophistication score and organizational size.

Percentile	Size		
	Large (1000+ workers) N = 108	Medium (250-999 workers) N = 66	Small (< 250 workers) N = 101
20	8.3	19.7	29.6
40	11.1	24.2	34.7
60	17.6	18.2	17.8
80	27.8	21.2	14.9
100	35.2	16.7	3.0

Note: Measures of organizational size are borrowed from CIPD.

Table 2. Sophistication score and sector.

Percentile	Sector		
	Private <i>N</i> = 127	Public <i>N</i> = 107	Voluntary <i>N</i> = 41
20	29.1	10.4	10.3
40	32.3	12.2	23.1
60	17.3	17.4	20.5
80	14.2	26.1	28.2
100	7.1	33.9	17.9

5.2. *Networked diversity*

It is often a challenge for small firms to achieve numerical diversity, due to the small size of their pools of staff and customers in competitive labour markets which are characterized with skill shortages. As explained in the previous section, size presents a challenge for organizations to leverage DM in a way to promote performance and innovation at work. 'Networked diversity' presents an innovative solution to difficulties which small firms may experience in managing diversity. We define networked diversity as any set of management interventions which try to bring external diversity to the organization, not only through practices of recruitment and human resource management, but also through building effective connections and network relationships with other organizations, such as suppliers, local communities and consumer groups that house greater diversity. In this way, the organization which pursues networked diversity can draw on diversity within its broad network of relationships. We present below two case studies which provide effective examples of networked diversity.

5.2.1. *Diversity forum, recruitment and employment confederation*

Social enterprises may benefit from using professional networks in two ways. First, the social enterprises may benefit from the experience of commercial enterprises through their interaction in these networks. Second, they may network with relevant professional networks to help the network members gain a better understanding of their social causes. In this way, they may solicit corporate support for their socially informed values and beliefs. These were clearly demonstrated in our case study of the Recruitment and Employment Confederation and their Diversity Forum initiative.

The Diversity Forum of the Recruitment and Employment Confederation brings together private sector recruitment agencies with public sector agencies, social enterprises and charities to collaborate in the field of diversity. The Diversity Forum invites social enterprises, voluntary and private sector organizations which deal with homeless, ex-offenders, women and minority ethnic groups among others to present their work during the forum. These meetings present opportunities for social enterprises to foster links and network ties with other enterprises and organizations. Linking up with organizations which provide support for traditionally excluded and disadvantaged groups also allows private sector recruitment agencies to benefit from

networked diversity in terms of access to wider pools of potential clients through these social support organizations.

In the case of the network between organizations which work with homeless individuals, ex-offenders and recruitment firms, it was clear that network members have gained considerable awareness of available mechanisms of support and collaboration in return for attending forum meetings. Such networks can also help social enterprises to understand how the commercial logics operate in the sector. As the social enterprises navigate commercial sectors in pursuit of social ends, learning to survive in competitive business contexts is important for them. In this way, they are building capabilities for distributed entrepreneurship (Spear 2006) and learning to access resources in these networks which may not be otherwise available to them (Witt 2004; Shaw and Carter 2007).

5.2.2. *CIPD diversity management action research project*

Tatli and Ozbilgin (2006) identify that the dearth of formal routes to diversity education renders networking an important interface for DM learning. The participants of the CIPD Diversity Management Action Research Project, with 10 members from large UK employers across all sectors, concur with this finding. These participants agreed that they turn to professional networks for support and examples of good practice. The Action Research Project has allowed for cross-fertilization of ideas on DM between practitioners representing firms which were at different stages of development and levels of sophistication in terms of their diversity practices. The firms were also from public, private and voluntary sectors. Therefore, innovation was facilitated through knowledge transfers across levels of experience and sectoral boundaries. One particularly interesting aspect of the project was the emergent collaboration between two members of the project: one from the public sector (a national bank) and the other from a voluntary sector organization (a national charity).

The main focus of the bank was on linkages between external and internal diversity among customers and staff members, in particular the contribution of aligning diversity to organizational performance. The collaboration between the managers from the bank and the voluntary service organization has inspired the human resource manager from the voluntary sector organization to reflect on external and internal diversity issues as it pertained to their volunteers, who are mainly upper- and middle-class women, and their customers, who are less-privileged women and men. The charity runs a restaurant in an inner city hospital, which has predominantly Southeast Asian patients. The restaurant initially had very less customers as the food was prepared and served by the volunteers, reflecting their own taste. The restaurant achieved a turn around in its service delivery to a broader range of hospital patients after food provision was designed to reflect external diversity, the diversity of the patient population. Developing an awareness of internal and external diversity presents an innovative approach that helped the charitable organization to achieve improved performance, through DM intervention.

Networking allows for transfer of knowledge, learning and development of foresight as the network members can benefit not only from successes of other members but also from their failures and challenges in managing diversity. Internal and external networks also offer possibilities of cross-fertilization of ideas across actors from different backgrounds. This provides the ideal conditions for innovation

to flourish (Gemünden, Ritter, and Heydebreck 1996; Swan et al. 1999; Smart et al. 2002; Pittaway et al. 2004). Although the importance of networks for innovation is recognized, Pittaway et al. (2004) found that the theme of diversity of network partners was only present in five of the 163 papers analysed on innovation and networking, and these studies had been conducted in high-technology industries. In our study, networks do not only provide possibilities of collaboration but they also facilitate diffusion of innovative ideas in unexpected ways. Therefore, the outcomes of networked diversity appear both layered and complex.

5.3. *Diversity as reconciliation*

Reconciliation is a golden thread that runs through innovation, diversity and social enterprise. The process of innovation is a process of meditation between new and old. This involves reconciliation of the tensions between the conservative, which seeks to retain the status quo, and the progressive, which seeks to experiment with new ideas. The process of reconciliation that innovation is imbued with is also common to DM practice. Kandola and Fullerton (1998) suggest that DM is about recognizing differences and making organizations more receptive and welcoming of these differences through a set of change management interventions. This implies that the implicit philosophy of DM is one of reconciliation of diverse individual and group interests, attributes and backgrounds in the context of work. In the same way, social enterprise is underpinned by an idea of brokering reconciliation between social ends and commercial means.

5.3.1. *ABX recruitment agency*

The ABX (pseudonym) case study suggests that learning to manage diversity can help social enterprises with one of the key challenges that they are facing. This is the challenge of reconciling divergent agendas of commercial success and social ends, as espoused by their multiple stakeholders.

The ABX recruitment agency in Birmingham is unique, as it provides an interesting example of reconciliation for commercial and social ends. Private sector recruitment agencies experience difficulties in generating competent pools of job candidates across a large number of sectors of work, due to the strength of the competition and skill shortages in the UK labour market. ABX is an agency which is founded by a minority ethnic female entrepreneur in a UK city which is characterized by its ethnic diversity. The founder of ABX believes that valuing diversity is important for identifying and recognizing the best talent. She also thinks that recruitment agencies can play an important role to bring diverse pools of talent to the attention of employers. In this frame, she sees herself as a cultural broker and mediator between employers, who pursue best talent, and diverse pools of talent.

The agency proactively recruits candidates from minority ethnic and religious backgrounds, from discouraged and unemployed groups and from single parents and returners. ABX does not simply provide diversity in terms of its candidates. The owner of the firm says that DM not only brings best talent but also requires attention to diverse demands and challenges to employers. Therefore, the role of the recruitment agent is to mediate and reconcile the demands of the employers with those of individual workers, engaging three parties (clients, candidates and the agency) into a

dialogue of reconciliation through which individual and institutional requirements can be negotiated and accommodated.

5.4. Diversity and funding: ethical fashion, energy efficiency and homelessness case studies

The challenge of obtaining funding was also evident throughout the case studies. Finding funding to start or expand an enterprise, to launch or continue a project is an issue facing most social, community and voluntary sector organizations at one time or another (Austin, Stevenson, and Wei-Skillern 2006). There are a range of sources of funding from grants, loans, sponsorship, investment, service contracts and income generation. How to find the right funder and how to approach them are the difficult issues faced by social enterprises, because of the diversity of sources and processes for accessing these sources effectively. DM could help to better manage the processes by which funding sources are found and accessed.

Three of the case study organizations discussed the difficulties of accessing funding. One social enterprise (EF), whose remit was to address ethical issues within the fashion industry, was frustrated as it had taken them nearly 3 years to secure funding. This had prevented them from being able to effectively pursue their primary social goals of closing the gap between designers in the fashion sector in the West and their producers located in many regions around the world, for example, Ghana and Cambodia. This social enterprise also aims to help producers establish a better understanding of their consumers. EF had not been able to secure public funding because they did not have a 3-year track record, which was one of the requirements for funding. They had been able to use their networks and contacts to deliver some projects to large clients, and although this had taken them forward, they were still not able to address their desired core issues. Another social enterprise (EE) was developing methods to use energy more efficiently. Their radical ideas for more energy-efficient solutions were meeting resistance from the incumbent energy suppliers and in addition, they felt frustrated that the government would not fund them until their proposed product was shown to be useful and effective. However, they needed the funding to initiate the next stage of research and to try out their technical solutions more fully to really understand what would be needed to solve the targeted social and environmental problems. Finally, the third social enterprise (HC) works with the homeless to help them to better help themselves. This enterprise had experienced confusion regarding where to apply for funding and which networks to align with, as their solutions spanned multiple traditional boundaries and did not neatly fit into a single category. Charities regarded them as a business, business people regarded them as a charity and the government classified them as an odd hybrid of both business and charity.

These three cases demonstrate the issues for attracting public funding to help social enterprises to deliver social value. The three social entrepreneurs identified that being able to network with and learn from other successfully funded social entrepreneurs was important, mirroring the findings of Cohen and Winn (2007) that the role of other entrepreneurs is often critical to the success of entrepreneurs. The situation is exacerbated in social entrepreneurship, where learning to access diverse and multiple funding sources is more complex, yet access to these sources would help many nascent social entrepreneurs to begin delivering their services earlier.

This area of funding and diversity links to the other areas of networked diversity and diversity as reconciliation, already identified in this research. By improving their network diversity, social enterprises can identify more different sources of funding through their contacts. The funding issue also demonstrates how these social enterprises may need to turn to commercial sources to bring in income to sustain their enterprise and allow them to pursue their social objectives, as identified by Chell, Karataş-Özkan, and Nicolopoulou (2005) and Chell (2007). This requires reconciliation of diverse stakeholder viewpoints and the reconciliation between social ends and commercial means.

6. Conclusion

In this paper it has been argued that there is a potential for DM to contribute to social enterprises, in the interests of the maximization of innovation and business performance. Social enterprises exhibit distinctive characteristics: they are predominantly small in size, and often tackle complex and seemingly intractable social problems which require multifaceted solutions. In addition, they can face unusual challenges associated with their remit to add value both economically and socially, such as cyclic competitive funding arrangements and a dependence on relationships with multiple external stakeholders, which is a form of distributed entrepreneurship (Spear 2006). Whilst there is significant extant literature discussing the importance of DM in a variety of organizational types and sectors, no literature to date has considered how DM in social enterprises might enhance social entrepreneurship. Through several case studies and a national survey, the contribution that DM can make to social entrepreneurship is examined.

Our quantitative survey research confirmed the contribution of DM to innovation performance and showed that the sophistication of DM practices varies extensively, with small and private sector firms tending to be less sophisticated than larger organizations and public or voluntary sector firms, respectively. This suggests that DM is likely to remain an untapped resource for social enterprises, which are located in the small business sector, to maximize the innovative potential. Our six case studies showed that three themes were important for social enterprises to leverage the interplay of diversity and innovation: networked diversity; diversity as reconciliation; and diversity and funding. Our cases also showed that where diversity was being successfully managed, it did appear to have a positive influence on innovation outcomes. In terms of networked diversity, we demonstrate that smaller organizations, which do not have the option of internal diversity, need to look to their networks for the positive influences that diversity can bring. Social enterprises can use networks to benefit from the experiences of commercial enterprises, to find examples of good practice, to seek collaborators, to access diverse pools of talent and to access funding sources.

Reconciliation also offers possibilities for leveraging diversity and innovative potential for social enterprises. By successfully managing and reconciling diverse stakeholder viewpoints across networks and by reconciling social ends and commercial means, opportunities for innovation and further diffusion of innovation emerge. There are clear policy implications arising from our findings. It is necessary to better support social entrepreneurs to achieve increased diversity, better DM and therefore to maximize innovative performance. This can be achieved by facilitating

the formation of networks that link corporate and social entrepreneurs. This will encourage better understanding of the issues faced by each sector and encourage the cross-fertilization of ideas which could lead to social innovation for both. For instance, the success of ABX recruitment agency could be replicated by setting up agents with the aim of reconciling a diverse pool of talent with employers.

Finally, there is a need for clearer routes to funding for social entrepreneurs that recognize the complexity of issues and therefore solutions being pursued. Links between successfully funded social entrepreneurs and nascent entrepreneurs should also be facilitated to help speed up the potential success of new innovative solutions for multifaceted social problems.

A key contribution of this study is the widening of the conceptualization of DM in social entrepreneurship from traditional framings relating to workforce composition to include discussions of innovation through networked diversity practices; reconciliation; and funding options. However, it should be noted that our case studies are limited in nature and scope. We have intentionally selected the cases based on their relevance to our research question. This meant that we have selected case studies in social enterprises in which DM and innovation were clearly linked. We have also selected case studies to examine the different dimensions of these linkages between our core concepts. Case studies are not generalizable, but rather provide rich contextual insights.

We contend that the nexus between diversity and social innovation is a fruitful area for further research. Further work is needed to describe how social entrepreneurs draw upon their various diversity resources and networks in the process of innovation. It would also be valuable to focus future studies on what prevents the pursuit of diversity strategies in social enterprises.

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