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A Fair Trade-off? Paradoxes in the Governance of Fair-trade Social Enterprises

Chris Mason · Bob Doherty

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Abstract This paper explores how fair trade social enterprises (FTSEs) manage paradoxes in stakeholder-oriented governance models. We use narrative accounts from board members, at governance events and board documents to report an exploratory study of paradoxes in three FTSEs which are partly farmer-owned. Having synthesized the key social enterprise governance literature and framed it alongside the broader paradox theory, we used narratives to explore how tensions are articulated, how they can be applied within an adapted paradox framework, and how governance actors seek to mitigate paradoxes. The paper contributes to current debates in social enterprise scholarship concerning hybridity (Pache and Santos, Acad Manag Rev 35(3):455–476, 2010; in Institutional logics in action, Part B (Research in the sociology of organizations), 2012), hybrid organizing (Battilana and Lee, Acad Manag Ann 8(1):397–441, 2014) and operational tensions (Smith et al., Bus Eth Q 23(3):407–442, 2013) by illustrating empirically how the central social/enterprise paradox manifests in FTSEs governance arrangements. We build on the paradox categories proposed by Lüscher and Lewis (Acad Manag J 51(2):221–240, 2008) and adapted in Smith et al. (Bus Eth Q 23(3):407–442, 2013) by developing a recursive model of legitimacy-seeking governance processes, conceptualizing how boards seek to mitigate, but not necessarily resolve, paradoxes.

C. Mason (✉)
Faculty of Business and Law, Centre for Social Impact Swinburne, Swinburne University of Technology, Melbourne, VIC 3122, Australia
e-mail: christophermason@swin.edu.au

B. Doherty
The York Management School, University of York, York, UK

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Introduction

Current research indicates a need for clearer understanding of how social enterprises operate and create both economic and social value for society (Battilana and Lee 2014; Dacin et al. 2011; Smith et al. 2013). Yet there remains a disconnect between these calls for action and how much we know about the barriers that block effective social enterprise theory and practice (Haugh 2012). The benefits of social enterprise are well documented, since they aim to produce social benefits for defined communities utilizing trade or commerce (Galera and Borzaga 2009; Kerlin 2010). The contributions that social enterprises make to revitalizing communities are economically important, as are the possibilities social enterprises offer to disadvantaged social groups to re-build their lives and engage in long-lasting social engagement (Battilana and Dorado 2010; Mair and Martí 2006). Mintzberg and Guilhereme (2012) argue these social initiatives aim to address the failures of both the for profit and government sectors.

However, unlike other organizations, social enterprises perform a particular blend of hybridity (between social goals and entrepreneurial means) and these competing logics appear to influence managerial tensions and challenges, particularly in the areas of mission, finance and management of people (Doherty et al. 2014). Social enterprises face challenges related to joint accountability to both social and economic objectives (Battilana and Lee 2014). Cornforth and Brown (2014) explain that an acute source of tension in social enterprises is the dual mission. Social enterprises rely on commercially generated revenue

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to sustain their operations and are therefore at risk of prioritizing commercial activities over their social mission which is of course their *raison d'être*. Although there are many different streams to social enterprise research, there is general acknowledgment of a need for more practice-based empirical evidence to frame understanding of their management (Battilana and Lee 2014; Mintzberg and Guilhereme 2012). One such stream is social enterprise governance research, which has been able to obtain insights where tensions arise and manifest in organizations, connecting managerial experiences with the interface between governance actors and core stakeholders. Prior studies have already provided empirical insights, and we know that board members are likely to have conflicting interests that governance processes aim to manage and resolve (Pache and Santos 2010; Ramus and Vaccaro 2014).

We propose that, to bring cohesion between these theories, the field requires data of significant depth, to illustrate which combination of these theories proliferates in practice (Dacin et al. 2011). While some insights have been gleaned from a re-working of corporate governance theories, there remains the prospect they do not satisfy the different missions and expectations that social enterprises have, for example their competing logics and the associated consequences (Diochon and Anderson 2011; Pache and Santos 2010). Social enterprise dual mission means that board members are simultaneously exposed to institutional pressures to achieve financial sustainability, generate social value and build and maintain close relationships with a range of stakeholder groups (Mason 2010). Battilana and Lee (2014) propose that governance plays a central role in ensuring social enterprises maintain their joint accountability, thereby resisting pressures to drift toward either social or commercial objectives at the expense of the other. Also, the field currently lacks an in-depth study of social enterprise governance, which explores the experience of governance alongside the depiction of difficulties and tensions (Battilana and Lee 2014). To assess and theorize social enterprise governance tensions, we utilized paradox theory in our analysis and assessment of their impact on a number of social enterprise stakeholders. We synthesized key research on organizational paradoxes (Bloodgood and Chae 2010; Lewis 2000; Lüscher and Lewis 2008; Poole and Van de Ven 1989; Smith and Lewis 2011) and applied this to an assessment of social enterprise governance literature. This provided exploratory theoretical framing, leading to the development of the core research question: *How do top management teams in Fair Trade social enterprises manage paradoxes?* This question sets the scene for deep inquiry of how governance actors articulate tensions that reflect the central premise of a social/enterprise paradox. By framing these articulations within narrative themes, we aim to illustrate the process these individuals follow in managing the paradox.

Over a period of 6 years (2009–2014), we conducted an intensive narrative enquiry of three FTSEs, each of which operates and sells Fairtrade products in international markets. The narratives were constructed from 41 semi-structured interviews, observation (direct and participant) of 17 governance events including: board meetings, producer Annual General Meetings, producer conferences and strategic planning days and documentary evidence such as board meeting minutes. This totaled 22 days of observation. The data from each case was analyzed and simultaneously theorized, using open coding and thematic analysis. We identified four core tensions arising in social enterprise governance narratives: *social/commercial benefit*, *conflicts of interest*, *producer participation*, and *resource pressures*. Having applied these themes against the paradox framework proposed by Lewis (2000), Lüscher and Lewis (2008), Smith and Lewis (2011) and Smith et al. (2013), we conceptualize that governance actors recursively offset these challenges by focusing on the benefits of social mission and business model. Consequently, we argue that board-level tensions result in the creation of strategies and mechanisms that seek to mitigate them. This builds on current research that theorizes social enterprise as a test bed for hybrid organizing (Battilana and Lee 2014).

Based on our findings, we revisit the salient social enterprise governance literature and propose that there are a number of contributions arising from our study. Principally, we note that the complexity of multi-stakeholder governance models make it hard for social enterprise boards to satisfy competing logics. We extend governance theory by bringing governance actors into our theorizing, conceptualizing governance at the micro-level of analysis and connecting it to a broader theoretical framework. Furthermore, we contribute to ongoing research of the social enterprise phenomena and hybrid organizations by showing how the social/enterprise paradox plays out in governance arrangements, and the kind of legitimacy-seeking actions that governance actors pursue.

Literature Review

There is an enduring interest in social enterprise that crosses social, political and cultural boundaries (Kerlin 2010). A SE is an organization that trades, not for private gain, but to generate positive social and environmental externalities (Santos 2012). Early SE research was dominated by efforts to define their distinctive characteristics and explain their emergence (Austin et al. 2006; Chell 2007) and was succeeded by studies that investigated SE management and performance (Murphy and Coombes

2009; VanSandt et al. 2009). Much of the early writing on SE was atheoretical and searching for the positive (Parkinson and Howorth, 2008) and in response more recent research has advanced new theories to explain their emergence (Tracey et al. 2011), management (Battilana and Dorado 2010; Pache and Santos 2012) and, more critically, the ethics, power and emancipatory aspects of SE (Teasdale 2012). The impact of SE dual mission is manifest clearly in managing the tensions between commercial opportunity exploitation and pursuit of social mission (Smith et al. 2013; Zahra et al. 2009). Although it is legitimate for SEs to generate profits, they are not profit maximising (Wilson and Post 2013). SEs differ from commercial ventures in terms of the centrality of their social mission (Chell 2007), The pursuit of financial sustainability and social objectives requires the generation of sufficient revenue to invest in business activities at the same time as maintaining investment in social projects (Moizer and Tracey 2010) to create social value (Mair and Martí 2006) and drive forward social change (Alvord et al. 2004; Steyaert and Katz 2004). This challenge requires SEs to craft a balance between acquiring resources to build and maintain competitive advantage and using resources to engage with their key stakeholder groups. Although the trade-off between economic and social objectives has been acknowledged (Austin et al. 2006), an alternative view is that the creation of social value might be closely linked or even integral to the successful achievement of economic outcomes (Wilson and Post 2013) that in turn generate financial resources to be employed to achieve their social mission (Dacin et al. 2010, 2011).

Defined as "nongovernmental, market-based approaches to address social issues", there is much that can be learned from social enterprise about how hybridity can enable a balancing of competing organizational demands (Kerlin 2010 p. 164). Prior research argues that a range of theories can explain how social enterprise works (Dacin et al. 2011; Smith et al. 2013; Wilson and Post 2013), including stakeholder, institutional, organizational identity, and paradox approaches. Whichever way social enterprises are studied, whether at organization or field-level, their hybridity is often the cause of significant insights and emergent tensions (Battilana and Lee 2014; Brandsen et al. 2005; Doherty et al. 2014; Pache and Santos 2012). Current research focuses on conceptualizing these insights and tensions as paradoxes, because this reflects the accommodation of complexity and conflict that is often present in hybrids, connecting social enterprise with broader theories of organizations (Smith et al. 2013). Further evidence is required to explore alternative approaches to paradox management in social enterprises, as well as the organizational structures that support this (Smith et al. 2013). This leads us to consider governance because an understanding of board structures, accounts and observing governance processes directly addresses hybrid organizing at a senior organizational level. As the organization paradox literature shows, internal actors are at the heart of defending/blocking/transforming paradoxes (Bloodgood and Chae 2010; Lüscher and Lewis 2008; Sundaramurthy and Lewis 2003). They form an important link between the ideological tension at the core of the organization (*social/enterprise*), as well as the performance of socially enterprising activities. Thus, the following broad research question frames the main goal of this paper:

> RQ: How do top management teams in social enterprises manage paradoxes?

Paradoxes and Social Enterprise Governance

Paradoxes in management research have been studied extensively (for excellent and comprehensive overviews, see Lewis 2000 and Smith and Lewis 2011) and refer to "the interesting tensions, oppositions, and contradictions between theories which create conceptual difficulties" (Poole and Van de Ven 1989, p. 564). As Lewis (2000) explained, the paradox framework begins with *tensions*, particularly when contradictions become apparent. Sundaramurthy and Lewis (2003) illustrated these tensions in their conceptualization of corporate governance control versus collaboration. Amason's (1996) study of conflict among strategic decision-makers explains that individuals then progress to reduce impact of the paradox, and reinforce the group processes that reduce conflict and maintain stability and order. However, over time and through exploration, a management phase emerges as critical for organizations seeking to work toward resolving tensions. This process allows stakeholders to accommodate organizational paradoxes, while offering internal actors a method of working through difficulties.

Lüscher and Lewis (2008) used paradox as a lens to explore how an organization 'works through' paradoxes of *belonging*, *performing* and *organizing*. Belonging paradoxes have identity tensions at their core, arising between individuals and groups with differing values and sense of belonging in an organization. The power of these tensions is reinforced by struggles to manage the (presentation of) collective uniformity within the organization, while allowing the co-existence of unique individual positions that may subvert or distort the collective identity. Performing paradoxes are illustrated by the multitude of possible demands on an organization's resources and outputs. Thus, performance creates a tension where stakeholder groups, with their own expectations regarding organizational performance, seek to assert the primacy of their demands over those of other groups. Where these demands are essentially oppositional, such as the production of economic efficiencies alongside social benefits, the performance paradox emerges. Finally, organizing paradoxes center on the difficulty in determining the methods for achieving organizational outcomes. These processes, also largely embedded within organizational structures, result in seemingly opposing goals, such as control and flexibility (Smith and Lewis 2011). Each paradox is framed by the identification of dilemmas that lead to the articulation of paradoxes by individuals. Thus paradoxes become a facet of organizational realities once they are discovered and addressed into becoming 'workable certainties', helping to explain the tensions underlying social activities, and how individuals discover, maintain and/or resolve paradoxical situations (Pache and Santos 2012).

Social enterprise represents a novel site for exploring paradoxes, at *conceptual* (for example, definitional and typological issues) and *social practice* (where paradoxes are brought to light and experienced by practitioners). First, with regard to conceptual paradox, social enterprise research principally deals with conflicting emphases on social and economic benefit (*social/enterprise*), and the broader contribution of social enterprises to societies and national economic discourses (Rothschild 2009; Young 2006). However, the articulation of this as a paradox is largely absent, with only a few studies to date focusing on the stories of individuals and teams within social enterprises, and what this reveals about social/enterprise tensions (Dey and Teasdale 2013; Pache and Santos 2010; Nicholls 2010; Smith and Lewis 2011). The paradox is constituted by barriers to achieving a balance between social and economic benefit, including: under-developed organizational identities, poor stakeholder management, mission drift, corruption, legal form issues, resistance to professionalization, and governance failure (Bull 2008; Diochon 2010; Ebrahim et al. 2014; Jones and Keogh 2006; Mason 2010; Ramus and Vaccaro 2014; Seanor and Meaton 2008; Smith et al. 2013).

The governance of social enterprises is defined as "strategic and operational board-level leadership, enabling service users, managers, trustees and other defined stakeholders to create and maximize social benefit" (Mason 2009, p. 216). Governance is a suitable site to explore social enterprise paradoxes because it brings together controlling partners and core stakeholder beneficiaries at the most senior organizational level. Governance processes offers a source of insight into the tensions that lead to paradoxes, and how these paradoxes are managed. In Table 1 we synthesize paradox issues and prevailing social enterprise governance frameworks, to illustrate where governance theories fit and where tensions exist.

There are three major critical gaps emerging from this synthesis. The first is how social enterprises aim to rebalance organizational goals to maximize their social impact on a defined community (Spear et al. 2007, 2009), which in practice can be rife with problems and conflict (*performing paradox*). The emphasis here is how governance facilitates close alignment between intended mission and activities (Huybrechts 2010). Agency theory has commonly been used as a basis for board and governance structures that control managerial activities and align their interests (Fama 1980; Jensen and Meckling 1976). Although the responsibility for this closeness ultimately resides with the board, agency theory assumes that the board can both recognize and resolve conflicts over how mission is actualized through appropriate commercial and social activities (Mordaunt and Cornforth 2004). Likewise, stewardship theories of governance seek to promote aligned interests by selecting board-level partners who have key expertise that enhance performance (Donaldson and Davis 1991; Muth and Donaldson 1998). Yet, this view neglects managerial competencies and overlooks the value of effective systems that control activities (Low 2006; Sundaramurthy and Lewis 2003).

The second is how social enterprise governance manages to bring disparate groups together through mutual interests while managing these interests appropriately (*organizing paradox*). These two aims often conflict where the creation of appropriate structures and processes are sub-optimal, hindering the achievement of multiple, shared objectives among partners (Diochon 2010). Resource dependence theory is useful in explaining how access to resources are secured from the influence of external partners (such as Government) who are co-opted onto the board (Heimovics et al. 1993). While maintaining resource inflows and sustaining the organization, this approach risks recruiting too many board members and creating a more complex decision-making processes (Kiel and Nicholson 2003). Furthermore, minimizing the role of non-board actors in organizational decision-making leads to further control issues, such as ongoing resource commitments to managerial or administrative structures in lieu of direct investment in social programs. Managerial hegemony, where sub-board structures influence appropriate strategic direction 'from below', also indicates power imbalances between board and non-board (Huse 2005). This brings the concerns of agency theory back in—ceding control to management can dilute board control and risk de-legitimizing the role of stakeholders in the social enterprise (Cornforth 2004). In order to resolve tensions the governing committee is at the heart of a dialectical exchange between primary stakeholders and other partners who have conflicting needs, interests and influence on the organization's structures.

Finally, alongside their provision of structural form and instrumental direction, governance frameworks also aim to

Table 1 Overview of paradox typologies, management, and social enterprise governance

Paradox identification (Lüscher and Lewis 2008; Smith et al. 2013)	Applied to social enterprise	Fit with existing social enterprise governance theories	Unresolved governance tensions
Performing	Social outcomes should be aligned between social and economic processes Management should be controlled to enable these outcomes	Agency theory	Inability to align interests between core stakeholders, board-level partners and management due to conflicts of interest. Can be exacerbated by large, more complex organizational structures
	Social performance is enhanced by focus on external expertise on the board	Stewardship theory	Board-level focus may focus on board partnerships and neglect sub-board structures, impacting on managerial performance and social mission
Organizing	Ability to organize is enhanced and sustained by resources obtained from external supporters	Resource dependency theory	Internal conflicts and power imbalances disrupt path dependencies, risking resource scarcity and damage to trust relationships
	Internal infrastructure is determined by the board and achieves social mission in an optimal fashion	Managerial hegemony theory	Failure to control management impacts on the stability of internal structures Power imbalance away from board toward management
Belonging	Individual/collective sense of unified organizational identity fosters mission and structural coherence	Stakeholder theory	Political climate influences and distorts organizational values Ineffective and inequitable balance of stakeholder needs, causing mission drift

enmesh cultural values through an organization. These values exert a powerful influence over organizational sense-making, identification, and shape strategy and action (Golden-Biddle and Rao 1997; Scott and Lane 2000; Seanor and Meaton 2007). Yet there also exist tensions, relating to stakeholder representation on governance structures (i.e., the board), and how this portrays a collective identity at the top organizational level (*belonging paradox*). In turn, the interests of core stakeholders should be represented in a singular vision and value-set. Yet this normative position inevitably returns to an instrumental and core problem in stakeholder theory, namely how to assess, capture and confer *stakeholder legitimacy* (Dart 2004; Parmar et al. 2010). In this context, we use this term to refer to the collective perception of social enterprises *moral legitimacy*. Moral legitimacy is defined by Suchman (1995, p. 579) as "[reflecting] a positive normative evaluation of the organization and its activities", and has been applied to social enterprises in later research, notably Dart (2004). Cornforth's (2004) assessment of cooperatives and governance as a 'paradox' highlights the unfixed nature of social enterprise governance, thus positioning legitimacy acquisition in between theories. In adopting this term, Cornforth surveyed the traditional and emerging theories surrounding nonprofit organizations, and proposed that different models of board operation bring together conflicting governance ideals. There are several alternative models suggested to achieve effective social enterprise governance, such as specific institutional and cultural norms on governance practices (Mason et al. 2007; Mason 2012); and/or based on communitarian principles (Ridley-Duff 2007). Also over the past decade a number of countries have developed new social enterprise legal forms such as low-profit limited liability company (L3C) in the United States, community interest companies (CICs) in the UK and benefit corporations in the United States. According to legal scholars Katz and Page (2013) these new legal forms mark the will to recognize social enterprises as distinct organizations that are neither typical for profits nor typical nonprofits. This provides greater legitimacy of the dual mission in the eyes of important stakeholders. However as several authors, argue that no matter what legal status social enterprises adopt they will continue to experience internal tensions between the dual logics (Battilana and Lee 2014; Ebrahim et al. 2014; Katz and Page 2013). None of these models accommodate the problems arising from internal conflict over values and identity/identification. Furthermore, governance models that promote multiple-stakeholder frameworks actually add complexity to these tensions, by bringing in multiple claims on organizational mission, direction and performance (Fransen 2011). Not all of these stakeholders will be able to resolve their claims satisfactorily, which exposes a flaw in commonly used governance frameworks, as well as highlighting the paradox of social enterprise governance.

We seek to explore how top teams within social enterprises govern, when faced with a number of paradoxical challenges as framed above. Existing research does not satisfactorily explain why social enterprises may struggle to deliver social value through their governance arrangements, which are key to controlling organizational activities and stakeholder relationships. Additionally, we risk assuming that social enterprises successfully manage stakeholder relations and this directly links to the conferment of moral legitimacy. In fact, there is emerging research in social enterprise on the tensions created by managing both the dual logics (social and commercial) and multiple identities across a range of stakeholder groups. Pache and Santos (2012) report on the governance crisis in WISEs (worker integration social enterprises), where sometimes local sites are decoupling from the social mission to strive for commercial objectives. Smith et al. (2013) also show that trying to construct multiple identities can lead to internal governance problems, particularly where there are significant external institutional pressures at play such as when contracting with larger public sector bodies. They argue that gaining legitimacy with a range of stakeholders and managing multiple identities is a key skill required at board level. Therefore, more empirical and experiential data is needed before social enterprise can be regarded as a successful model to manage stakeholder relations (Diochon 2010; Haugh 2012). In the following section, we set out our methodological approach and empirical setting to explore these issues further.

Research Context

We chose to study FTSEs because they offer rich data that illustrates the presence and management of organizational paradoxes. According to Moore (2004, p. 331) fair-trade is defined as "a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade…fair trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and campaigning for changes in rules and practice of conventional trade". Thus, fair trade includes at least three dimensions including; an economic (trade), a social (producer support and relationships) and a political one (education and advocacy). In particular the economic activity is presented as a tool to serve the social goal. Hence, fair trade is regarded as a highly hybrid concept made up of a number of paradoxes (Huybrechts and Defourny 2008; Renard 2003). Battilana et al. (2012) discuss those integrated hybrid social enterprises who achieve their mission by integrating the beneficiaries as customers e.g., microfinance organizations. In the case of these FTSEs in this study they integrate their beneficiaries as both suppliers and owners and are therefore examples of unique integrated hybrids. With increasing mainstream corporate involvement the fair trade market continues to grow and by 2013 had reached global sales of $7 billion (Doherty et al. 2013). This mainstreaming of fair trade commenced in 1991 with the launch of the UK hot beverage FTSE Cafédirect, whose aim was to break into mainstream supermarket distribution. Cafédirect is a 100 % fair trade company and is regarded as a leading social enterprise—for a history of Cafédirect see Davies et al. (2010). Further FTSEs were launched in 1998 with Divine Chocolate Ltd (Divine) and in 2007 with Liberation nuts which is a Community Interest Company (Davies et al. 2010; Tiffen 2002). All three companies have distribution in both the UK and international markets with Divine in 2006 having set-up Divine Inc. in the USA. To further strengthen the producers' position in the fair trade value chain all three FTSEs have unique governance models, which incorporate producers as shareholders and therefore equity owners. These governance models allow producers to gain added value from the entire value network and not just the selling of the primary commodity (Doherty and Meehan 2006). Constructed from both documentary analysis and checking with board members, Appendix Table 3 provides an overview of the key structural and mission characteristics of the three FTSEs and shows they possess multi-stakeholder orientated governance models owned by a combination of producer groups, NGOs such as Twin Trading and social investment financial institutions such as Oikocredit. They also prioritize small-holder farmers in their missions. All 3 boards have a series of non-executive directors from the commercial sector and all 3 current chairs of the boards have successful track records in the commercial sector having worked for blue chip companies.

All three organizations choose to forgo profits as part of the fair trade certification system, by paying to producer groups both the fair trade and social price premiums (Liu and Ko 2012). The fair trade premiums are often paid as an extra bonus payment to farmers with the social premium being used for funding community infrastructure projects. In addition, all 3 FTSEs go beyond what is required by the fair trade system and choose to fund out of profits their own Producer Partnership Programmes (PPPs) plus a share dividend when they make a profit. For example Cafédirect have agreed at board level to split any profits 3 ways: one third to the PPP, one third to shareholders and one third reinvested in the business. Hence, these farmer-owned FTSEs with their multi-stakeholder settings promised to be a fruitful one for exploring the management of governance in FTSEs.

Method

To explore the emerging paradoxes in social enterprise governance, we deployed a narrative inquiry research design, drawing on the experiences of three FTSEs. The purpose of narrative inquiry research is to uncover the biographical nature of lived experiences (Chase 2011). Applications of this approach are varied, covering a range of research disciplines, and there is no fixed method for its deployment. For this study, we are directed by the preceding discussion on paradox and governance together with the exploratory nature of our research question (Atkinson and Delamont 2006; Czarniawska-Joerges 1994). Narrative inquiry is useful and distinctive as a research method, because it places the accounts of lives at the center of the phenomenon under study. This opens up unique opportunities to collect narratives that illustrate the similarities (or indeed differences) of shared experiences. Since lived experiences are highly variable from one person to the next, narrative inquiry encourages a pluralistic approach to data collection so researchers can understand how narratives shape, and are shaped by, the narrative reality (Chase 2011). In tracing the histories of an organization, as well as the meaning of those histories in context and over time, narrative inquiries encourage stories from a range of narrators (and sources), providing the platform for hearing other voices that can easily by silenced by a dominant discourse. That said, we are also mindful of the disadvantages of this approach, which tend to center of the assertions of validity claims arising from narrative accounts of a phenomenon (Clandinin and Rosiek 2007). These subjective accounts are grounded in the world-view of the narrator and, if based on exploratory interview findings, report a rather specific ontological account. In narrative inquiry, researchers are more interested in the meaning attached to stories, rather than their historical accuracy alone (Connelly and Clandinin 1990). In order to accurately frame the histories and contexts surrounding narrative accounts, researchers can adopt multiple data collection strategies to complement or contrast the stories arising in the narrative accounts (Hollingsworth and Dybdahl 2007).

In order to clarify governance paradoxes in social enterprises, narrative inquiry enables us to capture the voices of those involved in both the past and present governance arrangements of the sampled organizations. This crystallizes a wealth of experiences from a range of individuals involved in organizations, reporting temporal accounts of how things ‘were’, and how they ‘are’. Organizations therefore reflect these many accounts that build up histories of sense-making. We are mindful that narrative accounts can be highly subjective and influenced by temporal factors, the proximity to key events, and assigned role in the organization (Lewis 2000).

The recollections of key stakeholders will be tempered or accentuated by time, because sense-making is a dynamic and open-ended process (Chase 2011). The way that informants construct their narratives of events are influenced by variables such as emotions, memories, politics, and so on. Thus, we consider narratives as fragments that do not portray either an objective organizational reality, or as Atkinson and Delamont (2006, p. 166) put it, an “authentic self”. Rather they represent a few of many different accounts of what ‘was’ and what ‘is’, articulating the underlying frictions that build the sense of paradoxes in organizational life.

There is also the nature of involvement in governance, hence proximity and role, which will require clear explanation of informant role and current association with the organizations. This factor will flavor the narratives since each informant will have (or had) a proximity to key events and particular access to governance and decision-making processes. Furthermore, in relation to role, stakeholders will have expectations and relationships that determine the type of paradox as it relates to them, and how it is (or was) managed. We seek to accommodate these three issues by developing overarching meta-narratives for the organizations in the study, based on the accounts of several key stakeholders across the organization. In so doing, we make clear the informant role, and the status of their association with the organization (i.e., past or present). Temporal factors remain important to the overall construction of the narrative and enhance the total story being told. This will be a central component of how organizations identify and manage paradoxes based on past experiences and current practices.

Data Collection

In narrative inquiry, it is common to use different sources of highly complementary evidence. As Atkinson and Delamont (2006, p. 165) explained, the collection of narrative accounts should go beyond the typical in-depth interview. They argue that procedures should reflect the “social and cultural context in which such tales are told, and to recognize that all cultures or sub-cultures have narrative conventions”. In which case, as Fig. 1 illustrates, we deployed a sequential, tri-partite method for data collection, emphasizing social context, social action and individual performance (as narrative). This is used to avoid the critique levied at narrative approaches that they lack a connected view of narratives and their relative meaning outside of their origin. We view the building of an organizational narrative of paradox as enmeshed in contexts that support the existence of social action. In turn, social action and activities, such as governance and the practice of governing, are typical representations of how organizations ‘play out’ internal tensions. Finally, the descriptions of individual narrative that refer to social actions, link the individual experience with an organizational narrative (i.e., governance paradoxes). These three levels interact and inform each other, creating analytical opportunities to

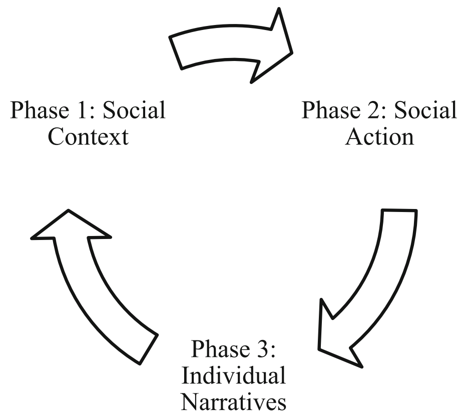

Fig. 1 The relationship between research phases

contrast three levels of analysis within our defined conceptual framework.

The Relationship Between Research Phases

First, to determine social context, we accessed documentary evidence from published and internal company sources including: annual reports, minutes of board meetings, and AGM shareholder briefings. This allowed us to properly frame the background social context for each organization, portraying their history, mission and board characteristics and setting the scene for further analysis of the findings.

Second, we sought out an appropriate means to examine social action, which would demonstrate the playing out of paradoxes in context-specific practices. Thus we directly observed governance events such as board meetings, shareholder meetings and producer conferences combined with participant observation of events such as board meetings, annual general meetings of producer groups and strategic planning workshops. These observations were used to gather direct evidence of the processes and activities involved in governing these FTSEs. Field notes were written before and after periods of observation, and facilitated by an open coding approach as described in the Data Analysis section. These key observed events are listed in Appendix Table 4.

Finally, to complement the context specific observations, we conducted a series of 41 semi-structured interviews. The interview questions focused on balancing both positive and negative perceptions of governance. Therefore interviewees were asked to reflect on the effectiveness of governance structures, particular challenges (past and present), delivery of benefits to stakeholders, and mechanisms for managing governance in these international FTSEs. We adopted the interviews as the most appropriate method to capture the individual narratives, to illustrate the experiential side of paradoxes. Our later analysis links these narratives into the social practices from which they arise and inform, and into the broader organizational context.

We adopted a purposive sampling method to ensure a breadth of data sources were captured, and the informants were selected based on their idiosyncratic specialized knowledge. In summary, the interview sample covered a number of key stakeholders, including board members (original and current board members including investors), senior manager board members and producer representatives on all three FTSE boards. In addition, other key stakeholders such legal experts involved in the set-up of the organizations and customers from the key channels of distribution (e.g., supermarkets, wholesalers) and market analysts were also interviewed (see Appendix Table 5). All interviews were approximately one hour in length, were recorded (where permitted) and transcribed. The exploratory questions from the interview focused on mission, legal form, ownership and board structure, the challenges facing the board and how they were managed.

The identification of both interviewees and key events was based on personal knowledge and surveys of the field: the authors have been researching both the emergence of fair trade and social enterprise since 2002. One of the authors also worked as a commercial manager in the fair trade sector from 1998 until 2003 and has maintained his good relationships with the case companies through a series of research funded projects. Both authors have developed what Lofland and Lofland (1995) describe as deep familiarity with the subject area, and have built a high level of trust and access to the case study organizations. Glaser (1992) argues that gaining privileged access to companies helps to develop a deeper understanding of the organizational phenomena. The data collection process for this study began in June 2009 and continued until June 2014.

Data Analysis

The data analysis comprised of two phases. Based on the premise of our iterative approach to explore paradoxes in FTSEs (shown in Fig. 1), we began by elaborating the key themes emerging from a review of the salient literature (as shown in Table 1), and used an iterative process to uncover 'first-order themes' from the data, and feedback into a re-reading of the theory to validate emergent governance issues. Following Boyatzis (1998) and Fereday and Muir-Cochrane (2008), we concurrently collected and analyzed data, meaning that both researchers consolidated the emergent governance issues and cross-validated their analysis. The open coding approach facilitated effective memoing after the observations and interviews.

This analysis process comprised seven stages, beginning with a close reading the documentary evidence and following through to closer analysis of the observations and interviews. This allowed us to connect key events in the narratives with the organizational timeline. Second, concerning the observations and interviews, memos were used to enable data categorization. This proved useful in developing later analysis, but also in practical terms—for example, board meetings could be fast-paced so capturing every detail was often difficult and therefore the board meeting minutes were complementary. Third, transcripts and notes were read through a second time, independently by each member of the research team, to add further detail to the first-order themes, thus employing open coding. The open coding approach allowed us to convert the three data sets into usable, themed categories, shown in Table 2 (column 1). This stage initiated the process of theorizing the data. Fourth, both researchers again independently reviewed the resultant set of codes to determine the clear semantic difference between themes.

Stage five involved applying the set of fourteen themes to the transcripts to identify the text corresponding to each (see Table 2). Having established the connections there, we extrapolated the themes into dominant governance issues emerging from the data (column 2), connecting these first-order themes with these second-order constructs. This directed our analysis by bridging the narratives, both collective and individual, with existing theories of governance and paradox (columns 3 and 5). In cases where themes might be deemed conceptually similar, such as '*need for role clarity*' and '*need to maintain identity'*, our independent readings were used to unpick the theoretical basis for their inclusion. This process allowed any conflicts in interpretation to be flagged and resolved, with reference to our independent research notes as well as our application of the literature to the research context. As such, our approach was interrogative and dialogical, recognizing the breadth of interpretation of the data could create disagreement and therefore to reduce analytical ambiguities.

During stage six, to verify the accuracy and reliability of our data, all observation notes and interview transcripts were sent back to participants to ensure their views were correctly represented. Miles and Huberman (1994) proposed that data analysis needs to be ongoing throughout the study; hence our repeated interrogation of the data to identify recurrent patterns. Reports from both direct and participant observations were also shared with board representatives in each company to check accuracy. This allowed us to ascertain the validity of our interpretations of the transcripts and the selection of themes through the open coding process. We also used this stage to compare our summarized empirical evidence against the contextualized 'background' narratives obtained from the first data collection stage. Based on the emergent themes, we were then able to interrogate the relevance of the second-order constructs alongside specific company ownership and board structures. The aim here was to anchor the different narratives in governance practice (column 4). This process of closing the loop by bridging the narrative themes with social action and context was central to finding where paradoxes were most acutely experienced in FTSEs, and if/how they were managed. Once this process was completed, the research team wrote up the findings alongside their reading of the salient literature and stated research questions, prompting further questions about our systematic approach, the content of the transcripts and their validity.

Findings

In keeping with our data analysis strategy, we used a two-phase approach to turning the large body of collected data into a set of findings. The first of phase focused on the emergence of tensions at the individual narrative level (captured by interviews), and at the social practice level (observed at key governance events and associated documents). A number of key themes were present following both the observations, document analysis and interviews (see Appendix Table 6), which in many cases were connected in causal relationships. Thus we discuss the four core governance issues in turn below, mindful that they tended to inform each other.

Theme 1: Balancing Social and Commercial Benefits

One of the most common tensions was finding the appropriate balance between the organizations' social mission and pressing commercial needs. The data shows that all three FTSEs experienced this tension. However, under closer examination, this tension is articulated in slightly different ways. Twelve interviewees focused on the inability of the FTSE board's to move beyond the 'logics' associated with non-profit organizations, indicating their frustration that collectively they are unable to transform the culture of doing business: *"Liberation in the first few years was being run with semi-donor logic without enough financial control, and the board was not bringing the management team to account" (source: interviews).* This imbalance was compounded by the external global financial crisis in 2007/2008 and the company ran into commercial difficulty consequently the first chair and MD were replaced *(source: board meeting minutes 2009).* Five of our interview informants proposed that during Liberation's first 12 months of trading, this FTSE focused too much on the social rather than commercial objectives. One board representative commented that several board members felt: *"There is a risk that those with a development NGO background are "anti-capitalist" and hence may be*

Table 2 Synthesis of themes, governance issues, paradox and management in FTSEs

First-order theme (Articulation)	Dominant governance issue (Classification)	Paradox (Conceptualization)	Management (Mitigation)	Link to social enterprise governance theory
Lack of focus on important commercial aspects as social enterprises are to make money	Social/commercial balance	Performance	Caring about core mission	Agency theory
			Delivering impact	
			Flexible budgeting	
Avoidance of philanthropic model			Skill balance at both board and staff executive levels	
Need to focus on mission vs. efficiency			Socialization of commercial board members into social impact	
Balance of social and commercial skills				
Directors need to maintain their fiduciary duties	Conflict of interest		Multiple ownership adds value through expertise and networks	Stewardship theory
Disagreement over fiduciary responsibility				
			Avoid unanimous voting procedures	
Need for role clarity			Clear agreement on both short term and long term objectives	
Need to understand nature of board-level involvement	Producer participation	Belonging	Producers hold a stake in the business	Stakeholder theory
Need to maintain identity			Focus on developing positive relationships	
Need to recruit external expertise			Pre-board meeting meetings for beneficiaries	
Difficulties in managing large multi-stakeholder boards				
Commercial environment is more difficult	Resource pressures	Organizing	Shareholdings used to access funding for scaling-up	Resource dependency theory
Over-reliance on a few key funders			Shareholders provide knowledge and resources	
Significant financial and capacity building benefits for producer's			Using social mission to gain legitimacy	

dismissive of business methods and processes. This was a strong group on the Liberation board" (source: interview).

The findings show that FTSE boards are challenged by the need to resolve these tensions against the benefits of the fair trade business model. On both Divine and Cafédirect's boards, there are examples of tensions between board members from a development NGO background and those from a commercial background, particularly with regard to levels of commercial activity versus the need to bolster financial benefits to farmers (*source: observations and board meeting minutes 2009–2012 and interviews*). These tensions have been intensified by increased competition in the respective market sectors from new Fairtrade Marked products particularly supermarket own-label and associated price discounting. For example in the case of Cafédirect this has resulted in disagreement over maintaining the absolute levels of producer support when the companies turnover is decreasing (*source: Cafédirect board meeting minutes and observations at AGMs 2009–2012*). To manage these type of tensions all three social enterprise boards have brought in both new chairs and non-executive board members with mainstream brand experience to strengthen the commercial expertise on these boards (*source: board meeting minutes 2009–2013 and interviews*). One board informant commented: "*We decided to streamline our board and appoint new board members with proven commercial skills" (source: interview).* To integrate these new board members into the social mission of these companies, visits to country of origin to meet producer organizations are organized as part of their induction to ensure new board members understand the social impact created by these FTSEs *(source: Cafedirect AGM 2011 observation and Divine Board meeting observation 2011)*. One of the board chairs explains; "members particularly those from a commercial background need to have realistic expectations. SEs are not going to generate a stack of profits and cash is always going to be a tension. Mechanisms that are useful include flexible budgeting with sensitivity analysis which you can build into the planning. You also need to have clear KPIs around both commercial and social performance*" (source: interview).* However this process is not always straight forward, one CEO commented "*we recruited to our board someone who had built a brand successfully in the mainstream supermarket sector. However it did not work out as he became very aggressive in board meetings and kept referring to his fiduciary responsibility. If you look at the fiduciary responsibility of board members it's to act in the best interest of the shareholders. In our case we have a social mission so I am not sure he understood how to operate for our best interest" (source: interview).*

In addition, both Divine and Cafédirect have brought in new investment from social investment organizations such as Oikocredit (*source: board meeting minutes*). This also appears to have strengthened the commercial focus on the boards while maintaining the focus on the social mission, and opened up discussions on how to balance commercial and social objectives in the future. For example, Divine's policy of Kuapa's shares not being diluted (apart from the inclusion of other producer groups) is now being discussed more in board meetings (*source: Divine's board meeting observations and minutes 2010–2011 and interviews*). One board informant argues that a number of members on the board, particularly recent investors, felt that a*" 20 % share in a larger more successful company is surely better than a 45 % stake in a company that is struggling to attract investment" (source: interview).* Despite these challenges, some informants tempered their views by weighing the difficulties against the benefits brought by the governance model. For instance, despite the social and commercial challenges, the power of the shared mission drives the organization forwards, one board chair explains *"FTSEs care about farmers and are trying to push the commodity producer further up the value chain, hence we are different. This is a huge point of difference with customers and activists" (source: interview).* This is also supported by the board meeting minutes of Liberation (2009–2012), who despite a number of serious challenges from both internal and external tensions have managed to overcome these difficulties due to a joint belief in the social mission.

Theme 2: Conflicts of Interest

Conflicting interests between board members has also been a challenge across the three FTSEs. Divine has experienced a conflict of interest when discussing diversifying cocoa supply to reduce the reliance on producer shareholder Kuapa (*source: board meeting minutes 2010 and interviews*). One key informant from the board explains; "*To manage our risk we should diversify supply and buy from other producer groups but this is difficult when your main beneficiary who sits on the board and is a shareholder is the main supplier of cocoa to Divine" (source: interview).* Three interview informants at Divine also felt that Kuapa is too central to the Divine brand and suggest this is too high a risk to rely on just one producer organization. As a result Divine amended its mission in 2011 to be less specific about West African cocoa farmers (see Appendix Table 3). Also, Kuapa's decision to sell fair trade cocoa to Cadburys created conflict between some board members during 2009 and 2010 as it was felt they were supporting a competitor (*source: board meeting observation 2009 and interviews*). The stewardship governance approach appears at this point—the need to recruit external expertise to 'streamline' is indicative of it, as is the language used in the following excerpt: "*The commercial environment is a lot more difficult now. To help the board we have brought in as a new non-executive board member a successful CEO of a new fast growing brand to help us with our marketing strategy" (source: Cafédirect 2009 AGM meeting).*

Conflicts of interest also result from conflicting roles. Both Cafédirect and Liberation have some board members who have also suppliers, customers and competitors *(source: board meeting observations at Liberation and Cafedirect 2009–2011*). For example, Equal Exchange who have a seat on the Liberation board and previously sat on the Cafédirect board have their own Fairtrade coffee and nut ranges. A number of board members suggest this makes discussions regarding new products, new marketing campaigns and changes in procurement very difficult (*source: board meeting observations 2010–2012 and interviews, 2009–2013*). Therefore, being clear at the outset about potential role conflicts is important for transparency. As a Liberation interviewee explains; *"We could have been clearer about the roles, conflicts of interest and what the inevitable tensions were going to be. There should have been a conflict of interest agreement. Directors have a fiduciary duty to the company and not to their own organization; therefore, managing these interests and expectations is difficult. It can be challenging to put one's immediate interest to one side just to focus on the interests of Liberation" (source: interview).*

TWIN is a major shareholder in all three FTSEs, while at the same time a supplier of producer support and development services for both Divine and Liberation *(source: annual reports)*. From 1991 until 2009, TWIN also carried out the procurement of coffee for Cafédirect. During this time, TWIN also supplied a number of Cafédirect's competitors with Fairtrade Marked coffee, and as a result of this, Cafédirect decided in 2009 to procure its coffee in-house and terminated its contract with TWIN (*source: Cafédirect AGM observation 2009)*. A senior board member at Cafédirect when interviewed commented that *"As the company grew we experienced increasing conflicts between original investors with some board members acting as both suppliers and customers" (source: interview).*

The founding members of Cafédirect at the outset were mobilized by the social mission but as the company grew conflict began to absorb valuable management time. Some informants during the interviews explained this conflict at Cafédirect was exasperated by the fact that they needed full agreement from all parties to agree key decisions, this stifled their ability to react to the changing market conditions *(source: interviews)*. In 2010 three of the founders (Equal Exchange, Traidcraft and TWIN) decided to sell their shares giving Cafédirect the chance to stream line the board composition (*source: Cafédirect AGM observation 2010)*. Oxfam maintained the guardian shareholding with a 10.8 % stake.

Theme 3: Producer Participation

Producer participation is a goal of these FTSEs, yet in reality this creates additional challenges. For instance a low level of understanding of running a business in a developed market can make board meetings difficult, as this can lead to limited debate on some key issues, with a danger of some important decisions being taken outside the board without producer participation *(source: board meeting observations 2009–2013 and interviews*). Two producer representatives suggested that they were not used to receiving large board papers with heavy text (some 50 pages long), and would prefer more verbal communication *(source: board meeting observations from both Liberation 2009 and Divine 2010 and interviews)*.

To improve producer engagement at board level, all three FTSEs have introduced a number of mechanisms, including pre-board meetings with producers to discuss the key issues in the board papers (*source: board meeting minutes and observations 2009–2010 at all 3 FTSEs and interviews*). These pre-board discussions sometimes require translators due to language differences, which is resource intensive (*source: board meeting observations and interviews*). All three boards now have an induction program for newly elected board representatives from producer organizations. This is to ensure producer representatives are trained in board governance responsibilities. These induction programs have to be repeated every 2 years because producer representatives are democratically elected by their farmer members on a biannual basis to join these three boards (*source: board meeting observations 2009–2010 and interviews*). Thus in an effort to embrace board-level plurality and participation, FTSEs encourage stakeholder governance to encourage belonging. One of the producer representatives interviewed comments; *"Farmer ownership has raised the bar in terms of producer participation in Northern markets. This experience has given the producers a sense of pride, also seeing our own product in supermarkets gives producers a sense of achievement. Now we have turnover and in the future we will have dividend for the producers. Farmers now have a say in a product in the market, which they did not have that before" (source: interview).*

Theme 4: Resource Pressures

Finally, the fourth key theme emerging from the narrative accounts was the board's role in resolving resource pressures on the organization. Each of the three organizations in the study reported this to be a key tension. As one informant put it: "*The initial financial resources supplied by the investors encouraged the management team to ignore the commercial reality" (source: interview)*. This indicates that resources-related decisions have become entrenched for some of the organizations, informing a culture of reliance on particular resource streams. Evidently, some informants saw this as a key point of tension, underscoring the need for the FTSEs to differentiate their resource streams, and avoid falling into a *de facto* philanthropic model. As one informant puts it: *"…we need to focus on efficiency and commercial considerations, but we do not want to lose our identity as an alternative business model" (source: interview)*. Thus a key part of the tensions in this theme are acquiring and maintaining sustainable resource streams without losing the legitimacy that accompanies the FTSE model.

Despite these tensions the governance in these FTSEs has also been used to offset some of these resource pressures. The closer relationships with producers resulted in the increased ability to work together to solve quality and logistical problems in the supply chain, and jointly develop new products (*source: observations at both producer conferences and board meetings and interviews*). Also with the development of capital markets in some emerging economies some producer groups have been able to use their equity in these brands to borrow money at preferential rates for their own organizational development (*source: board meeting minutes, Divine 2009*). The board structures have also provided marketing expertise and knowledge combined with legitimacy and credibility in what are highly competitive markets. This has enabled all 3 FTSEs to achieve breakthroughs in retail supermarket distribution and significant positive press coverage (*source: observations at board meetings of all 3 FTSEs 2009–2013*). These benefits of governance are illustrated by one of the board members at Divine who explains; "*The board has provided key knowledge and expertise to help the brand establish in the market.*

The Body Shop provided retail knowledge and expertise, Christian Aid and Comic Relief mobilized consumers to go and buy the product and our producers met the retail supermarket buyers to persuade them of the impact of our business model" (source: interview).

Discussion

Having reviewed the social enterprise governance literature and presented three case studies, we now revisit our research question. The purpose of this exploratory study was to understand how governance actors in social enterprises articulated and managed paradoxes. Although the current research indicates the tensions inherent in hybrid organizations and organizing (Battilana and Lee 2014), we lack detailed empirical accounts that explain these hybrid processes in social enterprises. Having collected and presented a significant body of data and narratives from key governance stakeholders in three FTSEs, we found several core tensions and processes related to our research question. Although four dominant governance issues arose from our analysis, it became clear that each theme was generally linked to another of the four. Thus, when viewed as four linked narrative themes, the findings allow us to synthesize governance tensions into the existing paradoxes, presented in Table 2.

A synthesis of themes, governance issues, paradoxes and management in FTSEs.

The table summarizes the articulations of tensions, applies them to particular examples, illustrates how these organizations struggle toward achieving their missions, and in so doing, experience performance, organizing and belonging paradoxes. Similar to existing research, we note that in each case study these reports of difficulties in the face of tensions indicate a dynamic paradox process (Smith and Lewis 2011). However, to build on this research we used the case studies to develop a recursive model of paradoxes in social enterprises, as Fig. 2 illustrates. By 'recursive' we conceptualize governance paradoxes as part of a cycle of social action, mutually constituted by social context and structure (Giddens 1979).

A Recursive Model of Governance Tensions and Paradoxes

Based on the evidence of governance practice in our findings, we observe that managing governance paradoxes entails a continuous cycle of (re)articulation of tensions, leading to (re)action. Importantly, since paradoxes cannot be resolved, governance agents and structures are part of this ongoing, temporal process of sense making (i.e., of context, organizational capabilities, and tensions) leading to mitigation of the paradox. Thus 'recursive' describes the cyclic process of

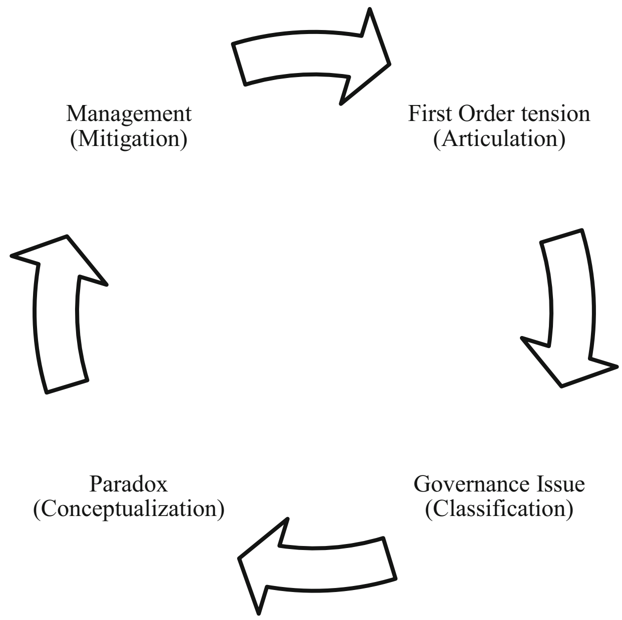

Fig. 2 A recursive model of social enterprise governance tensions, paradox and mitigation

understanding and managing governance paradoxes that, over time, gradually increases a board's competence at understanding and managing those paradoxes. Naturally, the content of these paradoxes is not considered as either stable or fixed, since contextual and organizational factors are variable, and board composition (thus *who* makes sense of paradoxes) can also change between cycles. Yet, given this caveat, a broader implication of the model is how effectively governance paradoxes can be managed *despite* the variable factors of context, structure and board composition.

The first-order themes arising from the narratives represent the individual component of the narrative, which we classified as *articulation*. Informants spoke of the difficulties of a dual-focus, the maintenance of identity, role clarity, managing boards and the balance between mission against efficiency. The findings illustrate the connectedness between social enterprise governance research and other areas of current interest, such as identity/identification, conceptual ambiguity and legitimacy (Huybrechts 2010; Huybrechts and Nicholls 2013; Spear et al. 2007, Spear et al. 2009). The imperative to manage interests forms a link between conceptual and practical tensions, and social enterprises report similar issues to other organizations, such as resource pressures, conflicts of interest and board-level composition and performance. Thus we next *classified* four interrelated governance issues as: *social/commercial balance*; *conflict of interest*; *participation* and *resource pressures*. These four themes largely align with existing governance and social enterprise knowledge, but extend it by locating the source of those tensions. Since FTSEs reflect unique and complex ownership arrangements and board structures with the beneficiaries i.e., smallholder farmers with direct representation on the governing boards and giving them a say in the organizations activities, they offer a different model to typical corporate and nonprofit boards (Ruebottom 2013).

We further abstract these classifications by locating them within paradoxes. Following Lüscher and Lewis (2008), we applied the four themes to address the type of paradoxes in social enterprise governance, and by implication part of the overarching social/enterprise paradox. We found that the three paradoxes—performance, belonging and organizing—loosely fitted our first-order themes and dominant governance issues. However, it also became clear that although the paradoxes appeared to be "mutually constitutive" (Smith et al. 2013), they could provide an explanation for the ongoing process through which governance actors identify and manage the paradoxes.

For example, although the performance paradox captured both the social/commercial balance and conflicts of interest governance issues, the extent to which informants felt unable to meet the performance requirements was marked throughout the narratives. FTSEs strive to achieve social and commercial goals even though striking the balance between these goals creates significant tensions, as recent research supports (Davies et al. 2010; Tallontire 2009). There appears to be disagreement over what actually the fiduciary responsibility of a social enterprise board member means, leading to mission drift in terms of both revenue and social performance. The narratives suggest that this tension is a central feature of dialogue at board meetings, thus we find that embedding social action into a dynamic paradox model is necessary. The observations of board meetings also showed unarticulated factors, such as power imbalances and political alliances, not only shaped the tensions but also meant that particular tensions may shift between paradox groups.

Social enterprises ability to manage the performance paradox is, interchangeably, influenced by both the belonging and organizing paradoxes. The narratives showed a number of clear themes that aligned with the notion of belonging, the most powerful centered on the erosion of the social mission and the implications on organizational identity. An emergent stream of social enterprise research has tried to tackle this issue, and an uneasy consensus is that social enterprise identity is socially-derived and dynamically-shaped (Ridley-Duff 2008). The contestation of this identity is therefore a discursive process between key stakeholders with a hold on legitimacy conferment. Governance activities are important in this process, since they facilitate a nexus of stakeholder views, expectations, and dialogue. The issue is whether governance mechanisms are neutral in this process, with our findings suggesting otherwise. The *belonging paradox* explains a conflict between opposing positions; a conflict over where actors belong and how they identify. This is marked in our study—governance serves to bring identity issues to the fore by addressing tensions such as board-level participation, recruiting 'external' experts, and difficulties in managing large boards.

Finally, the organizing paradox captured the key issues of structuring an effective social enterprise, especially maintaining resource flows into and out of the organization. This indicates that although governance actors are chiefly responsible for the strategy for obtaining resource inflows, the instability of the social enterprise model creates frictions in supply chains. Thus a flow-on effect of performance (what social enterprises do) and belonging (who social enterprises are) paradoxes, is to create functional instabilities (how social enterprises do it). The narratives indicate that governance actors are trapped between poles: they recognize that commercial pressures create difficulties partly because their business is 'social'. However, their social focus makes social enterprises more aware of the need for sound management and strong value propositions. Current social enterprise research indicates that this tension remains at the core of debates over the meaning and viability of the social enterprise business model—particularly with reference to scaling operations (Down and Warren 2008; Jones et al. 2008; Mason 2013). There are also implications here for how the process of organizing impacts upon organizational identity. Organizing social enterprises to adopt effective corporate-style structures would be one example of how action/structure directly impacts upon core governance tensions (such as social/commercial benefits, and the need to access resources).

The narratives emerging from the three FTSEs indicate that, in light of the different strengths and benefits of the various approaches, a hybrid governance process is adopted. The FTSE boards perceive tensions, and experience paradoxes, but utilize a range of recursive methods to try to resolve the paradox over time. Different tensions link to different priorities and perspectives that governance actors accommodate in their decision-making and management. Importantly the resultant struggle with paradoxes assumes they are mutually constitutive but also iterative. Through the recursive model, the inter-related paradoxes are continually discussed and debated, worked upon, planned for and acted upon.

This adds further complexity to an already difficult environment; it contributes an understanding of how governance paradoxes are dynamically operationalized in social enterprises. The narratives show that governance actors identify and articulate key tensions that block or stymie what they perceive as effective progress within their social business model, where the individual narratives play out an internal paradox of benefits/challenges to inform social action. The articulation of internal tensions helps to, iteratively, manage or mitigate the challenges. This appears to build on the conceptual work by Lüscher and Lewis (2008) by proposing that social enterprises who adopt paradoxical thinking and face up to their tensions are better able to adapt and integrate the competing logics. The social context requirement of our data analysis strategy is, in this case, satisfied by the application to social enterprise. The model is recursive because individuals seemingly work-through paradox conceptualizations to resolution and management. Although governance actors may continue to experience the organizational tensions, their shared experiences allow them to mitigate the tensions alongside a complementary narrative of benefits.

At the conceptual level, prior research has argued that legitimacy has a key role in how organizations maintain their existence, by ensuring that social activities align with the interests of the group with the strongest legitimacy claims (Dart 2004). Governance is central to that process, and our study indicates that governance actors are aware of where these claims reside and also find these relationships caught up in paradoxes. The interchangeable nature of performing, belonging and organizing paradoxes shows governance caught in between stakeholders with differing legitimacy claims. Thus we argue that the process of capturing and maintaining legitimacy can be traced as part of the recursive process in Fig. 2. Legitimacy claims are identified and managed throughout the process, influencing how trade-offs are made in tensions arising. Many of the issues arising from the narratives indicate legitimacy issues directly or indirectly, yet the moral aspects of social enterprise benefits were often used in mitigation. The mitigation stage explains how governance actors re-iterate a commitment to their defined social mission (i.e., benefits to primary producers).

We propose that governance occurs in an ambiguous, complex environment with constantly shifting environmental conditions. Through studying governance we can show the temporal and contextual nature of mutually constitutive paradoxes. However, in a departure from the sense of mutually constitutive paradoxes, governance actors do not appear to seek a reconceptualization of the broader action/structure paradox to engineer solutions. Instead, they create new factors (i.e., the benefits) of a paradoxical situation. In so doing, this accords with the general principle advanced by paradox research, that they are interoperable. This view advances our understanding of social enterprise governance by showing how actors narrate governance paradoxes but also set (perhaps inadvertent) tactics to help work through them. We have identified a number of mechanisms to manage the paradoxes including; new investment from social investors, clearly articulated short-term and long-term objectives, open discussion regarding tensions and trade-offs, flexible budgeting approaches, the training of beneficiaries who have direct representation on the board, careful selection of board members to balance the boards with hybrid, social and commercial skills, socialization of board members, avoid unanimous voting procedures, and performance measurement that includes both financial and social performance measures (i.e., KPIs).

Although we have explored just one facet of social enterprise, this study contributes to the broader conceptual issue of the social/enterprise paradox. This paradox plays out in the micro-level experiences in social enterprises, illustrating how social/enterprise is caught up in-between types of paradox. Moral legitimacy offers mitigation showing how practitioners grapple with conceptual ambiguities, and seek out pathways to resolve them. The process of doing so is directed by the way that organizational actors make sense of legitimacy claims, identify with those needs and link them back into the management of paradoxes. This offers value to scholarship on hybridity and hybrid organizing by illustrating how existing paradox approaches might over-simplify the process of managing them. This study suggests that the issues, as well as the paradoxes and management approaches, are changeable and interoperable, depending on the assessment of moral legitimacy, creating a situation of manageable complexity. The strength of social mission appears to have, at a rhetorical level at least, powerful sway over how key actors work through issues.

This study can be extended by utilizing further qualitative approaches and taking alternative analytical positions as well as longitudinal timeframes to conduct the research. Although narrative inquiry represents one approach to open up the stories and lived experiences of participants, future research could complement this by adopting, for example, a critical discourse approach to critique the broader power relationships at play at the macro and meso-levels of analysis. Furthermore, FTSEs are one example of many types of social enterprises, and these findings would be enhanced, augmented and/or extended by exploring other hybrid organizational forms. Of particular interest would be research that uncovers how governance actors use their level of dis/identification with core social mission to create valuable governance structures, processes and social outcomes. Recent work has identified hybridity and issues such as legal forms and mission drift as key determinants of governance performance in hybrid organizations (Battilana and Lee 2014; Ebrahim et al. 2014).

Our study demonstrates that despite the FTSEs being integrated hybrids and using both new legal forms (i.e., CICs in the example of Liberation) and innovative beneficiary ownership structures they still struggle to resolve the tensions internally created by their dual mission. This shows that social enterprises are unlikely to resolve these paradoxical tensions by a reliance on new legal forms alone and therefore also require explicit organizational processes and mechanisms that ensure overall direction, control and accountability for the dual mission. To this end we recommend further research is required on social performance standards, a comprehensive piece on good governance standards in social enterprise similar to that which is written for public service (see cipfa: http://www.cipfa.org/-/media/Files/Publications/Reports/

governance_standard.pdf) would prove vital and more reflection on what does a duty of care and fiduciary responsibility look like in hybrid organizations such as social enterprises. We also propose there is potential to research other legal forms such as employee ownership structures e.g., the John Lewis Partnership in the UK. Blending this type of employee partnership mechanism could also prove complimentary to work already done on new legal forms for social enterprise.

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Appendix

See Tables 3, 4, 5, and 6.

Table 3 Missions, legal forms, ownership and board structures of case companies (Sources: Annual reports)

Company	Legal form	Social mission	2012/2013 turnover £m	Shareholding	Board structures
Divine	Company limited by shares	"To improve the livelihoods of small-scale cocoa farmers in West Africa by developing a dynamic chocolate brand" *Mission changed in 2011* "To grow a successful global farmer-owned chocolate company using the amazing power of chocolate to delight and engage, and bring people together to create dignified trading relations, thereby empowering producers and consumers"	£7,531,000	Kuapa Kokoo Farmers Union 45 % TWIN trading 42 % Oikocredit 12 %[a]	*Total number of board seats = 13* Chair nominated by TWIN and is from the commercial sector Kuapa Kokoo = 2 seats TWIN—1 seat Oikocredit—1 seat Comic relief—1 seat Christian aid—1 seat (Plus 5 independent non-executive board members with a range of expertise, including both the Managing Director and Finance Director of Divine Chocolate plus 3 members recruited from the commercial sector)
Liberation	Community Interest Company	"Community Interest Company , which ensures that it must be run 100 % for the benefit of the community of interest which is small-holder nut gatherers in developing countries"	£3,669,615	International Nut Producers Cooperative (INPC) 42 %, TWIN 25 % Cordaid 17 %[b] Equal Exchange 7 % Mustard Seed Finance Trust 6 % Equal Exchange US 1.5 % The Clarkes 1.5 %	*Total number of board seats=12* INPC—3 directors, TWIN, Equal Exchange and Mustard Seed one director each One chair nominated by Equal Exchange and TWIN Plus 5 non-executive directors (3 from the commercial sector)
Cafédirect plc	Public limited company	"We are passionate about working with small-holder growers and we believe in business being a force for good. Growers are not just suppliers but they are partners at the heart of our business"	£12,800,000	Oxfam 10.8 % (guardian shareholder from original pioneers) Oikocredit 19.9 % (recently jumped from 11 %) Cafédirect Producers Ltd 5.5 % Rathbone Nominees 4.2 % Consumers (public) 58.6 %	*Total number of board seats=8* Non-executive chair (from commercial sector) Chief executive Financial director Independent non-executive directors—2 (from commercial sector) Producer directors—3 (two from Africa and one from Latin America) Guardian nominee director—1

[a] Oikocredit based in the Netherlands is a cooperative financial institution that offers loans or investment capital to microfinance institutions, cooperatives, fair trade organizations and small to medium sized enterprises in the developing world. Oikocredit promotes socially responsible investment targeted at business models focused on fighting poverty, promoting fair trade and respecting the planet's environment. Oikocredit has 480 m euros invested in over 800 project partners in more than 70 countries (http://www.oikocredit.org)

[b] Cordaid is a Catholic Organization for Development Cooperation based in the Netherlands. It is one of the biggest international development organizations, with a network of around 1,000 partner organizations in 36 countries in Africa, Asia and Latin America, and has a disposable annual budget of around 170 m euros

Table 4 Direct and participant observation events (June 2009–June 2014)

Organization	Direct observation	Participant observation	Total number of days of observation
Divine chocolate	4 days including 4 board meetings (2009, 2010, 2011)	1 day at strategic planning workshop Producers Annual General Meeting 3 days 2010 (Ghana)	8 days
Cafédirect	1 day board meeting (2010) Producers conference in Uganda (2013) for 3 days	5 annual general meetings as a shareholder (2009–2013)	9 days
Liberation	Attended 3 board meetings (2010, 2011, 2012)	Producers board meeting—2 days	5 days
Total	11 days of direct observation	11 days of participant observation	22 days

Table 5 Key informants summary, listed by role and organization

Informant category[a]	Divine Chocolate	Cafédirect	Liberation
Board member—executive and investors	4	3	3
Board member—producer representative	1	2	3
Board member—manager	1	2	1
Ex-board member—original founder	2	2	3
Legal expert	1	1	1
Industry expert	2	2	2

[a] Note that 5 of above were interviewed for a second time to clarify data

Table 6 Frequencies of themes emerging from interviews and observed governance events

Emergent tensions	Divine Chocolate		Cafédirect		Liberation	
	Interviews[a]	Observations[b]	Interviews[c]	Observations[d]	Interviews[e]	Observations[f]
Balancing social and commercial benefits	7	6	10	7	11	4
Conflicts of interest	4	4	9	5	9	3
Producer participation	5	4	9	5	8	4
Resource pressures	11	4	10	4	9	4

[a] Frequency from 11 interviews

[b] One AGM, four board meetings and one workshop

[c] Frequency from 13 interviews

[d] Five AGMs, one board meeting, one producers conference

[e] Frequency from 12 interviews

[f] Three board meetings, one producers board meeting

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