

PROMOTING FEAST OR SURVIVING FAMINE: THE FINANCIAL IMPLICATIONS OF SOCIAL ENTERPRISE FOR
NONPROFIT HUMAN SERVICE ORGANIZATIONS

By

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This manuscript has been read and accepted for the Graduate Faculty in Social Welfare in satisfaction of the dissertation requirement for the degree of Doctor of Philosophy.

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Abstract

PROMOTING FEAST OR SURVIVING FAMINE: THE FINANCIAL IMPLICATIONS OF SOCIAL ENTERPRISE FOR NONPROFIT HUMAN SERVICE ORGANIZATIONS

By

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Increasingly, social workers and line staff of nonprofit organizations are engaged in the management of financial resources (Lohmann & Lohmann, 2008). Although the literature suggests that nonprofit organizations engage in market-based social enterprise activities to generate revenue, the financial consequences of social enterprise on nonprofit organizations is unexplored in the literature. This dissertation “data mines” (Epstein, 2010) the IRS 990 forms of 166 nonprofit organizations that are self identified operators of social enterprises to explore revenue, expenses, net assets and excess/deficits of nonprofits that engage in one or more industry affiliated social enterprises. Transaction cost and resource dependence theories are used to explore how intensity and diversity of social enterprise activity are reflected in the financial disposition of these organizations. The study’s findings are mixed: there is evidence that intensity of social enterprise activities and the industries affiliated with this sample of largely human service based organizations both erode and contribute to increased organizational efficiency. Throughout the study, the ability to measure financial performance of nonprofits is a continuous challenge. However, Chang & Tuckman’s (1991) financial vulnerability indices prove to be a useful tool to assess the financial condition of these organizations. Both the methodology and findings offer social workers and other students of nonprofit management tools to appreciate the financial levers with nonprofit organizations and insights into the financial structure of nonprofits that engage in social enterprise.

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I: Problem Formulation

May you live in interesting times.

Ancient Chinese Curse

INTRODUCTION

Throughout modern history, there have been episodes of radical change in the economy. Every fifty years or so, institutional economic structures – credit markets and the banking system among them – succumb to internal and inherent contradictions (Weisskopf, 1981). These contradictions create a fissure in the fabric of the economy into which the prevailing ideological perspectives tumble. This is true today. Past and present actors in the political economy react by devising policies and strategies that restore the integrity of the economy and in the process adjusting the values upon which the economic is based. The decision point upon which change happens reveals the ideological struggle that lies at the heart of our capitalist system: whether to give greater, or lesser, deference to the market. Embedded in this decision is whether and how to reallocate resources to meet social needs.

History suggests that embedded in volatility of the economy is an opportunity for transformative social policy. The most significant and memorable economic crisis of the 20th century was the Great Depression, an outcome of which was greater regulation of the banking industry and a program that eventually became known as Social Security, our nation's first universal social program. The campaign to undo the Keynesian economic policies implemented in response to the Great Depression began almost as the state-sponsored public programs were being instituted. And though the period following World War II marked the beginning of a period of economic prosperity, those who believe in the dominion of the market rallied and lobbied against social spending. They waged their campaign to make the case to reduce public spending even during the period of prosperity, eventually garnering enough support to usher in a President – some 50 years later – who would roll back social programs in a way that has been characterized as an attack on the welfare state.

At the end of the first decade of the 21st century, we again find ourselves in the grip of an economic crisis that has had significant implications for social policy. History may record the bailout of

the banking system and reforms to financial regulation among the changes implemented, but as well will note the passage of the Patient Protection and Affordability Care Act, an attempt to assure greater access and equity of healthcare. As I write this, the battle lines about the constitutionality of aspects of this legislation are being drawn. And in the search for feasible interventions for the myriad of intractable social challenges that beset this country, government has deepened its embrace of national service and incorporated social innovation spawned from public-private partnerships as spokes on the wheels of change.

These are interesting times. They are full of promise and opportunity and gridlock and recalcitrance.

For better or worse, the US welfare state is market driven. The private sector assumes a fair amount of responsibility for social welfare in this country, including being the vehicle through which taxes are collected for unemployment insurance, health care and pension savings (Hacker, 2002), providing *just enough* care to their workers to maintain competitiveness and to be profitable. For those who are either unemployed or whose station within the corporation is woefully below the poverty level and do not or cannot conform to the middle class standard, **government** intervenes, setting and implementing policy. Government creates broad, sweeping solutions to collectively address unmet needs. It has tremendous power and influence over social welfare because government can tax, in effect reallocating wealth in this country so that resources are more evenly-distributed. Unfortunately, government policies do not satisfy every member of society and are subject to legislative mandate. These mandates emerge from the ideological tensions described earlier. Further yet, there remain some members of society who are beyond the parameters of policies implemented by government or for whom the collectivist approach does not work. In these instances, **nonprofit organizations** offer personal, customized options or supports. Theirs is not an entirely comprehensive solution either, as

nonprofit have meager independent resources and limited capacity. Nonprofit organizations reside between the government and the market economy. These three organizational auspices – corporations, government and nonprofits – are interrelated and co-dependent upon each other.

While they together provide social welfare, it is the nonprofit organization, more so than government and corporations, which has historically provided the customized and costly care and attention needed by the most vulnerable members of society regardless of the state of the economy.

Nonprofit organizations are an important setting of social work services and social welfare in general. The well being of nonprofit organizations is of particular interest to social work.

This study examines how the volatility of the economy impacts nonprofit behavior. This problem formulation explores the interrelationship between the economy and nonprofits and the structures and purposes of nonprofit organizations in the US and suggests that economic volatility threatens the sustainability of nonprofit organizations. In response nonprofits identify more stable ways to maintain their operations and deliver services. Included among their innovations is their engagement in market based transactions as a means to deliver programs, also known as nonprofit social enterprise. Nonprofit social enterprise is an amelioration strategy, with its primary objective being to generate revenue for the organization, increasing its stability in economic volatility. However, little is known about how enterprise activities impact the functioning of nonprofit organizations. So, this problem formulation ends with a question and proposes a study that will help to advance the understanding about the consequences of nonprofit social enterprise. The literature review (Chapter 2) takes the reader through the brief but diffuse literature on nonprofit social enterprise, explores how financial performance of nonprofits is measured and how social workers are prepared for and serve in social enterprises. Ultimately, the literature review suggests that there is a void in knowledge of the finances of nonprofits and the impact that social enterprise strategies have on the organization's financial

condition. As the current economic crisis provides a perfect moment to examine the financial health of nonprofits that engage in this practice, the conceptual framework (Chapter 3) and methodology (Chapter 4) section presents a research design to investigate the implications of social enterprise, specifically type of social enterprise, has on the financial well being of nonprofits. The findings (Chapter 5) and subsequent interpretation and implications (Chapter 6) section provides new insights into social enterprise and a justification and application of the knowledge for social work education.

The Significance of Nonprofit Organizations

In theory, nonprofit, charitable and voluntary organizations represent the most altruistic intentions of society. These labels reveal their merits: *nonprofit* (the term most commonly used in the literature and that will be used throughout this paper), accenting that these firms are constrained from distributing profits to investors; *charitable*, referring to their reliance on donations and the generosity of others; and, *voluntary*, highlighting the significance of volunteers as a primary resource (Wade, 2000, citing Salamon, 1992). These organizations comprise what is commonly referred to as the third or independent sector that it is theoretically autonomous from the public (or, the state) and the private (or, the market) sectors. Among its interests is the improvement of the welfare of the most vulnerable in our society. The sector is comprised of a network of voluntary associations, individuals, volunteers, institutional relationships, and social contacts that, according to Pablo Eisenberg, senior fellow at Georgetown University's Public Policy Institute, "make our democracy viable, vibrant, and accountable" (Eisenberg, 2004, p. 6). Although the diversity of organizations that are included in this sector is broad, they share the common traits of having an institutional presence and structure, being distinct from the state, not distributing their profits to owners, being self governing, and having among its members those who support it by volunteering time or money (Salamon, L., Anheier, List, Toepler, & Sokolowski, 1999).

Nonprofits are driven by the will of people – who through their own ingenuity and shared resources live out the ideals associated with democracy.

Contributions to the Economy

While important and central to civil society, the nonprofit sector also contributes significantly to the economy. An examination of the global significance of the social sector (excluding religious congregations) in 22 countries revealed that cumulatively, the sector is sizable: generating \$1.1 trillion in expenditures, the sector employs 19 million workers full time, representing an average Gross Domestic Product (GDP) of 4.6% (which is larger than the individual economies of Brazil, Russia, Spain and Canada), employing nearly 5% of these countries' nonagricultural workers, 10% of service and 27% of public sector employment – representing six times more than the combined employment of the largest private corporations in each country (Salamon, L., Anheier, List, Toepler, & Sokolowski, 1999). In the US during 2005 there were 1.4 million nonprofits which reported \$1.6 trillion in revenue, 3.4% in assets and employed 12.9 million people (Blackwood, Wing, & Pollak, 2008). In 2006, nonprofit organizations contributed \$666.1 billion to the US economy, accounting for 5% of GDP, 8.1% of the economy's wages and 9.7% of jobs (Blackwood, Wing, & Pollak, 2008). Despite being smaller than government and corporations, nonprofits are an important economic force in the national and global economies.

So important are nonprofits in the United States that these organizations are granted tax exempt status by the Internal Revenue Service. Consequently, they are not subject to taxation. Likewise, contributions made to nonprofits are tax deductible. The services of the organizations that are classified under 501 section of the US Tax Code – of foundations, labor organizations, credit unions and farmer cooperatives (to name a few) -- are critical to the well being of our nation's economy as well as the quality of life for its people. Of the classes of organizations included in section 501 of the tax code,

nearly 63% are 501c3, which include religious and charitable organizations (Boris & Steuerle, 2006). Religious organizations are also included as public charities and though not required to register with the IRS, many do. These organizations include the public charities in the arts, education, healthcare and human service and private foundations. While their services are available in the private sector, nonprofits do this work without returning profits to shareholders or investors.

Functions

Nonprofits serve a unique purpose in our society. Lester Salamon (2002) identified five distinct roles assumed by nonprofits (that are not limited only to organizations in the US). As *service providers*, these organizations provide the most basic and essential services, including healthcare, social services and education. Nonprofits nurture *advocates*, being the organizational auspices of choice for activists and other engaged community members to organize and develop strategies that instigate social change. These organizations are also on the leading edge of *artistic and religious expression*, being vehicles through which creative impulses are transformed into music, art and entertainment, as well as fortifying faith. Additionally, nonprofits are also powerful *incubators of social capital*, the networks of trust and reciprocity that are essential to civic engagement. Finally, nonprofits represent society's moral compass, or *guardians of the values* that are most cherished in civil society. While any of the aforementioned functions can be provided by government or the state, they are best filled by nonprofit organizations which, unlike in the private and public sectors, prioritize mission over self interest.

Nonprofit Demand and Supply Roles

Nonprofit organizations have been characterized as being situated between the public and private sectors (Gronbjerg, 2001a; Kennedy & Bielefeld, 2004; Nicholls, 2006). Where the **market fails** to provide goods or services needed by the population and where **government fails** to fulfill the needs

not met by the market, nonprofits satisfy unmet demand. Further, because there are some services for which the quality and quantity cannot be easily determined and both government and market are inclined toward self interest, the **nonprofit organization is more easily trusted**. These three failures – market, government and contract, respectively – create demand for nonprofit organizations (Steinberg, 2006). Although autonomous to government and the market, nonprofits are dependent upon donations and contributions to fund their activities and without that support they cannot deliver needed services.

Yet, nonprofit existence need not be predicated on Victorian ideas of benevolence, need or charity (Lohmann & Lohmann, 2008). Simply stated, they supply a service that has value. Nonprofits are businesses with unique competencies that are distinct from government and the market and that create social value. Admittedly, the word ‘business’ suggests self interest and a motive by private sector firms to create economic value. Nonprofits assemble and leverage resources and commitment to a cause to serve social purposes (Frumkin, 2002a; Nicholls, 2006). Frumkin (2002) describes nonprofit organizations as generators of extraordinary social innovation, with inputs that include the ingenuity of its leaders and the goodwill and fortitude of staff and its board directed to improving social conditions or having some social impact. Motivated by their ambition, faith, personal and social challenges, some individuals are inclined to establish and work for nonprofits. Entrepreneurship theory (Schmid, 2004, citing James, 1987, and Young, 1983) posits that nonprofits are the organizational auspices of choice for individuals who are eager to serve the public.

Mobilizing Private Interest for the Public Good

As suppliers in the marketplace, nonprofits – more so than government or corporations -- mobilize private initiative for the public good (Gidron, Kramer, & Salamon, 1992; Weisbrod, B. A., 1998b). Nonprofits produce multiple and very distinct products. Their output can be classified into three types (Weisbrod, B. A., 1998a): *preferred collective activities*, such as research or medical care,

that are “socially valuable but privately unprofitable” (Weisbrod, B. A., 1998a, p. 52), *preferred private activities* that benefit select consumers and are not directly related to mission (i.e., university tuition; membership fees) and *nonpreferred private*, which are unrelated to mission, but generate revenue sufficient to support mission-related activities (i.e., paid advertising on public television). Not being motivated by efficiency, nonprofits can and do provide services and products that have been historically of little interest to corporations or beyond the capacities of government. Technically, each fulfills needs – having its own unique talents and structure that allow them to provide services or develop products. In this supply-oriented perspective of nonprofits, much less emphasis is placed on charity and need and more on the uniqueness and talents of these organizations.

In sum, nonprofits are conceptualized as being central to the well being of society. They embody contribute to the economy, fill unmet social needs and are promoters of social improvement. These organizations also have particular competencies and motivations that make them providers of services that have real social value. Fundamentally, the existence of nonprofits is linked to the will and interests of people who manage the resources and implement the programs of the organization. Because of their contributions to our society, it is important that the autonomy of nonprofits be preserved and that they be sustained in good times as well as bad.

Their Challenges, Their Threat

Still, nonprofits struggle with sustainability. The ideological tensions raised earlier effect nonprofits: the choice (or not) to allocate funding for social programs effects the amount of resources available to fund the program activities of social mission driven nonprofits. Admittedly, public funds are not the only sources of finance for nonprofits. Whatever the source, if a nonprofit does not have sufficient revenue to cover its expenses, it cannot deliver its programming effectively and its existence

become tenuous. Revenue is, therefore, an important metric of organizational health and, in relation to an organization's expenses, an indicator of sustainability.

Consequently, while they are not established to seek profits, nonprofits are consumed with the need to position themselves to acquire and maximize their revenue, assuring their sustainability and longevity. A closer examination of sources of revenue follows, providing deeper perspective about the levers about the nonprofit operations that are developed in response to the task of not only delivering services, but obtaining and managing funding.

Financing

Nonprofit revenue comes primarily from two sources: earned income or contributions/grants. According to data provided by the Urban Institute, 49% of their revenue was derived from fees, 19% from private contributions, 23% from government grants, 3% of investment income and 6% from other sources (Boris & Steuerle, 2006, citing The Urban Institute, NCCS/Guidestar National Nonprofit Database, 2000). Since investment income represents a negligible share of nonprofit income, the following discussion focuses on fees and contributions.

Earned Income

In the twenty year period between 1977 and 1997 fees and other charges accounted for half of the growth in nonprofit revenue – higher than government and philanthropy (Salamon, L., M., 2002b). Most of the financing for human services (49%), education (47%) and health (85%) comes from fees for goods and services (Boris & Steuerle, 2006). In 2005, fees from the sale of services and goods accounted for 70% of nonprofit revenue, of which 50% came from private sources and 20% from government (Blackwood, Wing, & Pollak, 2008). Fees include tuition payments, patient revenue (which includes Medicare and Medicaid), ticket sales and government contracts.

For many years, nonprofit organizations depended upon government contracts as a major source of funding, particularly during in the period when Keynesian economic policies were in force. In effect, government purchased the services of nonprofit organizations and the funds are largely restricted to the purposes detailed in these contracts. More recently, since the Reagan administration, government withdrew its support of social programs and nonprofit organizations have struggled to sustain their operations and provided needed programs. Government funding is difficult to measure because of the many channels through which funding flows. These revenue streams include transfers, vouchers, tax credits and tax exempt bonds. The growth in fees revenue is significantly attributable to changes in Medicaid and welfare programs, and benefit human service organizations. Since 1980, revenue from government contracts rose 39% to \$32.7 billion in FY 2000 (Abramson & Salamon, 2005). Government grants reflect direct public support and mostly benefits human service, international and public benefit organizations.

Although the most recent studies reveal that government spending on social programs is on the rise, nonprofit organizations harbor anxiety about what they perceive as an imminent drop or reduction in government funding (Salamon, L., M. & Geller, 2007). The amounts of grants and contracts are often insufficient and inadequate and do not cover overhead and a small amount of operating costs, leaving nonprofits to scramble to find additional funds to support their programs. Further, government money is greatly restricted in its application: nonprofit organizations are often discouraged from freely and easily moving money within budget categories as might be necessary as new developments or ideas emerge.

Fees are also attributable to venture activity by nonprofits, a less restrictive financing option for nonprofits. Through activities that are either related or unrelated to mission, nonprofits are marketing and selling services in the market. Examples include the organization that rents out space in the evening

for events or the gift shops and parking garages in hospitals and museums. The proceeds from these activities are less restricted than government contracts and nonprofit organizations can apply it as needed. The commercial activity can either be related or unrelated to the organization's mission.

Nonprofits engage in commercial activities to cross subsidize their charitable activity (Weisbrod, B. A., 1998a). However, this income is subject to tax. Between 1990 and 1997, unrelated business income, as reported to the IRS increased 35% (Salamon, L., M., 2002b). It is difficult to track the emergence of fees generated from the sales of services and goods that are related to the charitable purpose of the organization.

Contributions/Grants

Individual contributions increased by 10% (in constant dollars) in the six year period between 2000 and 2006 and did not keep pace with the 15% growth of the US economy (Blackwood, Wing, & Pollak, 2008). Arts and environmental organizations are among those that rely heavily on private donations. On balance, individual giving is larger than corporate giving and bequests (Boris & Steuerle, 2006). Foundations are supported through endowments that are built through individual giving and are a primary vehicle used by nonprofits to seek grants. All told, individual contributions are unpredictable and unstable, with amounts received fluctuating by more than 50% annually (Froelich, 1999, citing Gronbjerg, 1992, 1993). If an organization has a benefactor, then the effort to solicit funding is lessened. However, foundations are inclined to make annual contributions and nonprofits are therefore required to submit to annual requests for proposals in order to maintain funding from this source.

Threats to Nonprofit Organizations

A goal for any organization, including nonprofit organizations, is to acquire sufficient resources to cover its expenses. This is known as being sustainable. Achieve sustainability is an ongoing challenge

for nonprofit organizations that rely upon donations and public support. The availability of funds is contingent upon the conditions of the market and the choices made by policy makers about the income redistribution. While it appears that nonprofit organizations operate with autonomy as they negotiate for contracts or grants from foundations or government, they are in effect dependent upon the economy.

The unresolved question about the responsibility of the state for social programs has direct implication for nonprofit financing. The US political economy has a “deeply ingrained suspicion of virtually all public programs and authorities” (Gronbjerg, 2001a, p. 218). As well, classical economists consider publicly-supported social programs as inefficient and the redistribution of wealth toward social programs as a deterrent to private initiative. The resulting suspicion undermines the ability of nonprofits to achieve sustainability because there is no consistent, dependable source of financing to be found within the public sector and the private sector is subject to self interest and the whims of marketers who see nonprofits as vehicles to advance their self interest. This negative environment makes it more difficult for nonprofit organizations to acquire the funds that they need to implement social care and other needed programs.

With the constant threat of reductions in financing, erratic political support and attack and increasing demand for services, the integrity of the independent sector is at risk. During difficult economic times, public spending on human service can be curtailed, as budgets for fundamental and essential services such as housing, homeless shelters and food pantries are reduced (Abramovitz, 2006; Fabricant & Fisher, 2002c). The faltering economy also affects private markets, leading to the constriction of private giving. Among the responses taken by nonprofits is to retrench (Bielefeld, 1992). Without consistent and reliable support, these organizations cannot hire staff to meet demand, obtain necessary equipment, keep supplies on hand, and enter into lease arrangements for space that suitable

to service provision. Less resources means that staff are under paid, overburdened and demoralized as they do not have the resources to deliver services adequate to the level of need (Fabricant & Fisher, 2002b). Being under resourced in this way has long-term repercussions as well: staff turnover is high and few staff is interested in ascending through the management ranks. Nonprofit organizations are in the midst of a leadership vacuum, as executive directors are retiring with no plan for their succession (Birdsell & Muzzio, 2003). Fewer professionals from the helping professions are leading nonprofit organizations; instead individuals from fields like law and business are recruited into the void. These are the professions that are defining the future of human service organizations.

This negative economic environment is also altering the traditional roles and responsibilities among public, private and civil sector firms and is introducing very different conceptualizations of value. Economic value (which is measured by increases in financial gain) has historically been the domain of the private sector corporation. Social value (measured to improvements in social condition) has been the domain of nonprofit. However, government devolution led to increased privatization of human services and therefore increased competition for public contracts from the private sector. Offering greater efficiency, assurances of outcomes attained through market-based strategies and the ability to leverage their resources, private-sector corporations compete and win lucrative government contracts that generate social value in fields of education, corrections and mental health services to name a few. Furthermore, policy changes encouraged profit/nonprofit hybridization in the healthcare system, creating conglomerates that provide services in an increasingly complex health care delivery system. Though not officially breached, sector boundaries are becoming increasingly blurry and nonprofit and for profit organizations recognize that there is diverse value creation taking place in the market (Emerson, 2003). The most damning result is that the nonprofit sector is evolving from being a community, or a group of organizations with a shared identity with different roles but having the

potential to work in an integrated way to achieve a larger vision of society, into being an industry (Farruggia, 2007). In the nonprofit industry, social organizations have a shared identity and potential to act jointly to achieve self interest. In response to the pressing demands, funders and increasingly nonprofit organizations turn their sights away from programs that build connections and perpetuate their services.

Nonprofit Social Enterprise: Strategy & Solution?

To maintain their integrity and autonomy, nonprofits are changing their relationship to and management of finances. In the past three decades nonprofits have included revenues diversification as an objective of their activities and that is revolutionizing how these organizations are managed (Froelich, 1999; Lohmann & Lohmann, 2008). It has become an expectation that program staff in nonprofit organizations, in addition to administrators, consider the management of finances among their responsibilities (Fabricant & Fisher, 2002b; Lohmann & Lohmann, 2008). Managed care and changes in Medicare policy make it part and parcel of the line workers responsibility to look for cost reductions and be aware of budgetary limits as they provide services. While government represents a significant share of nonprofit revenue, it has been eclipsed by income generated by fees. Data suggest that there has been an expansion in nonprofit venture activity by which nonprofits earn income (Salamon, L., M., 2002c).

Recent studies provide evidence of the movement of nonprofits toward exploring strategies to ensure their sustainability in response to a volatile economy. As a result of the uncertainty that resulted from the reluctance of government to support social programs during the 1980s, nonprofits engaged in three strategies: new revenue generation (which includes creating a profit making venture and rethinking the services that the organization provides); legitimation that would increase awareness of these organizations and the services that they provide (an activity would include greater lobbying or

marketing); and retrenchment (Bielefeld, 1992, citing Galaskiewicz, J. and Bielefeld, W., 1991). In their study of over 100 human service organizations in California, Michigan and North Carolina, researchers found that while staying true to their social mission, nonprofit are employing new and multiple strategies (Golensky & Mulder, 2006) in response to the constrained economy: 70% initiate new services; 74% sought new funders; 63% sought to improve their marketing approaches and overwhelmingly directors chose to make improvements internally instead of retrenching. Organizational survival is contingent upon the ability of the nonprofits to “shift their dependency from traditional sources to other resources” (Wade, 2000, p. 215). Organizations are collaborating, integrating services and adopting and adapting business techniques to deliver services and maintain their operations. None of these strategies are new, but it is the integration of private-sector strategies and venture activity that has the potential to alter what it means to be a charitable organization engaged in nonprofit entrepreneurship. Before commenting further on the efficacy of this strategy, the following section details and explicates the concept of entrepreneurship.

Nonprofit Entrepreneurship

Entrepreneurship is difficult to define despite the development of entrepreneurship theory over the past three centuries. The word is derived from the French *entreprendre* and German *unternehmen*, words that mean to undertake (Dees & Economy, 2001; Peredo & McLean, 2006). In the 1800s, Jean Baptiste Say identified it as the effort to strive for and achieve greater efficiency by manipulating resources so that they are more productive and generate higher yield and later, in the 20th century, the German economist Joseph Schumpeter expanded Say’s explanation to emphasize the notions of innovation and value creation (Dees & Economy, 2001). Today, we struggle to distinguish entrepreneurship from traditional business practice, because efficiency, innovation and value creation are deeply embedded and assumed practices in the private sector. However, more contemporary

interpretations of entrepreneurship by organizational theorists Peter Drucker and psychologist Ellen Langer recognize that entrepreneurs are particularly oriented toward opportunity, with limited regard to the immediate availability of resources (Dees & Economy, 2001). In summary, entrepreneurship refers to those activities undertaken generally by private sector firms that seek to improve the efficiency of their operations, to be innovative while demonstrating a higher-than-average risk tolerance so as to opportunistically increase their economic value.

Reflecting the activities of a person or a group, *social entrepreneurship* is an organizational strategy to create social value, be opportunistic, resourceful, innovative and more accepting of higher degrees of risk (Dees & Economy, 2001; Peredo & McLean, 2006). Social value, as opposed to economic value, is a subjective measure of impact or change in a social condition. Teach for America, for example, encouraged college graduates to teach for two years in public schools as a way to give back to their communities and respond to the teacher shortage. Social entrepreneurs strive for social change that is ideally sustainable and enduring. Entrepreneurial strategies need not generate income; instead they might redistribute resources to produce increased social value. For example, Share Our Strength, a New York City-based organization redistributes food from local restaurants to homeless shelters.

In a further refinement of the terminology, an organization that is established with a social purpose and employs strategies that generate income is called a *social enterprise or social venture* (Peredo & McLean, 2006, citing the Northland Institute, 2001). Within the practice of being entrepreneurial, social enterprises are committed to the double bottom line measures of success: increased social value as well as economic value. Some stretch the definition to include environmental sustainability as a third bottom line measure. Nonprofits and for-profits operate or engage in social enterprise, and within each of these organizational forms are variations in how they function as a social enterprise (Young, D. R., 2006). Nonprofit social enterprises are in effect “innovative and effective

activities that focus strategically on resolving social market failures and creating new opportunities to add social value systematically by using a range of resources and organizational formats to maximize social impact and bring about change” (Nichols, 2006, p. 23).

Technically, social enterprise is not an organizational attribute. Instead, it is a strategy. In the United States, there is no formal legal status designated to nonprofits that operates social ventures. Nonprofits operate social ventures within the organization, as a program, while others establish a profit-producing subsidiary, called a Limited Liability Corporation (LLC), to the nonprofit. Proceeds from the LLC would be subject to tax. Private sector organizations also establish and engage in social venturing. Grameen Bank, the organization that made banking services more accessible to the poor in Bangladesh, and that was founded by Nobel Prize winner Muhammad Yunus, is operating as a private sector, for profit concern.

Social Enterprise Models

Reflecting variations in the relation to their mission, scholars have identified three types of social enterprise (Alter, 2006). The venture or enterprise activities may directly align with mission, be related to mission or be unrelated to mission. The activities of the first type, the *embedded social enterprise*, are entirely focused on mission. An example would be the work integration social enterprises, or WISEs that provide employment opportunities for vulnerable populations. Internationally, WISEs providing critical active labor market programs or employment and training services to populations – like those with mentally or physically challenges, or in some countries, women – who are typically excluded from the workforce. The second type, the *integrated social enterprise*, includes commercial activities that may expand the mission. For example, a nonprofit childcare center may rent its under utilized space for birthday parties or family celebrations, which may be interpreted as extending its promotion of family and an additional youth development activity. Finally, *external social*

enterprise bears no relationship to the mission of the nonprofit organization at all. This type of enterprise is established solely to generate revenue for the nonprofit. An example would be the thrift stores operated solely to raise money for settlement houses that do not employ program constituents. Although nonprofits are motivated by the need for additional sources of financing to engage in social enterprise, an overwhelming 78% were mission centric, 16% mission related and 3% were unrelated to mission (Alter, 2006, citing WB&A Market Research, 2002). Although it is most reflected in the latter model, a fundamental reason for engaging in this strategy is to generate revenue.

Some organizations lend their name to a social marketing campaign of a private sector firm. Ultimately, both the nonprofit and corporation benefit on the venture's success (Alter, 2006): corporations are associated with a social issue and nonprofit have a platform through which to promote their cause. These kinds of strategic partnerships are rich sources of revenue. Examples are plentiful – the Susan G. Komen Foundation for the Cure partners with numerous firms and a portion of the sales and/or sponsorship supports the effort to raise awareness of and fund research about breast cancer. Relative to creation of an enterprise, there is far less work for much greater financial reward, if a match can be made with a nonprofit and private sector corporation. Admittedly, strategic partnerships benefit larger organizations, and those with missions that either resonate with the public, else there would be little interest in collaboration. However, it is a viable option for organizations that align with the definition of social enterprise. Clearly, nonprofit social enterprise is a strategic response to a volatile and non supportive environment.

Theoretical Spine

Early organizational theories characterized the organization as a closed system that was impervious to the influences of the outside world. As a consequence, classic and neoclassical organizational theory focused on the inner workings of the organization: its structure and hierarchies,

efforts to staff and motivate said staff, and the organizational culture as a defining and influential way to understand organizations. Much of early theory on organizations was influenced by the positivist's paradigm of cause and effect, scientific reasoning and logic. Little consideration was given to context and events in the larger world and their potential to redirect actions of the organization (Katz & Kahn, 2005).

The link between the organization and its environment has been since well established in the literature. Perhaps reflective of the volatile social movements of the 1960s, theoreticians of that era considered the environment to be an important factor in the organization. Issues such as power, privilege and policy, among others, certainly contributed to how organizations behaved and performed. The organization was perceived to be a "flagrantly open system" whose energies consisted of the interchange between internal and external forces (Katz & Kahn, 2005, p. 480). Morgan (2006) used metaphor to examine the organization, drawing references from the living world to describe how organizations adapt to its environment, much like creatures in the wild (Morgan, 2006). Reflecting the critical theory paradigm and its views on social construction of knowledge, theories about the organization and its exchange with the environment recognizes the importance of context.

Throughout the history of organizational theory development, there has been a blending of disciplines and paradigms. The earliest theories of organizations, specifically the classics which include Taylor's Scientific Management and Weber's Bureaucracy, reflected the thinking of engineers, sociologists and economists. It is the polyglot of perspectives that lies at the foundation of our understanding of organizations. Therefore while the theory on organizations is coalescent and seemingly organized, interdisciplinary examinations are the foundation of our knowledge on the organization to date.

In the section that follows, two theories that emerge from the current conception of the ecological view that organizations are influenced by the environments are discussed. Organizations are influenced by their environments, and in response to that influence, the organization behaves in certain and distinct ways. The argument has been made throughout this discussion that in response to the volatile economy nonprofit organizations are engaging in commercial ventures. Resource dependency theory, emerging from sociologists, explores the negotiation between the organization and its environment. However, to appreciate whether the ventures are enabling (or disabling) a nonprofit organization to achieve its social mission requires that the response be deconstructed. Transaction cost theory, devised by economists, examines the efforts of nonprofits to economize on transactions and can be used to frame how the venture is strengthening or weakening the organization.

Resource Dependence Theory

Organizations are not self sufficient: their survival is dependent upon their successful engagement with and negotiation with the environment (Pfeffer & Salancik, 1978). The environment provides opportunities for organizations to generate the resources that they need to survive. The scarcer the resources, the more creative the organization needs to be in how it negotiates with the environment. Resource Dependence Theory is a theory of organizations that it useful to increase our understanding of nonprofit social entrepreneurship

Developed with private sector firms in mind, resource dependence theory holds that organizational survival depends on the ability by the organization to demonstrate its effectiveness and efficiency. Pfeffer and Salancik (1978) cast effectiveness as an organizational goal that is measured by stakeholders outside of the organization and efficiency as a goal that is measured by examining internal operations. They define effectiveness as the measure of how well the organization meets the demands of its stakeholders (Pfeffer & Salancik, 1978). Nonprofit organization have multiple stakeholders who

operate in a number of spheres that potentially influence the organization's ability to attain its goals, or task environments (Weinbach, 2003a). For example, government is an important stakeholder and nonprofit organization's ability to achieve outcomes is evidence that public resources are well spent and effective. Efficiency is an internally measured function of resources used to output produced. The chances are greater that if an organization optimizes its output that it can make the case for additional resources, especially in when resources are scarce. Effectiveness and efficiency need to be measured and explicated if an organization intends to successfully engage with the environment. This theory has direct applicability to a discussion about the dependence of nonprofits on available resources.

When nonprofit organizations engage in social enterprise, it is as a strategic response to unreliable funding associated with volatility in the economy. The cornerstone of resource dependence theory is just that: organizations are dependent upon external resources to maintain their internal operations. Organizations are in dynamic exchange with their environments, acting and reacting to environmental changes. The resulting changes are evolutionary, leading to new policies and rationales for financing nonprofits by government, corporate and individuals and changing the way in which nonprofits organize their resources in order to achieve their missions. As the economy continues on its cyclical ebb and flow pattern, nonprofits are in the mode of seeking ways to stabilize itself, girding for the inevitable downturn. It is critical that human service nonprofits be stable in the down cycles in the economy, because demand for services invariably increases while the inflow of capital is constricted. In their effort to successfully ride the economic wave, nonprofits adopt entrepreneurial strategies to mitigate the volatility. Their ultimate objective is to pursue mission while maintaining autonomy. In concept, proceeds from enterprise activities enable the organization to develop programs in response to need and based on the skill set of the leadership, instead of solely relying upon the demands of government and foundations. Without adequate funding, nonprofits cannot effectively implement their

programs. So, it is important that nonprofits are able to deliver social value, but also generate economic value to keep their programs and operations afloat and enterprise is a key strategy to achieving that end.

While resource dependency is a sociological theory that offers a framework for thinking about nonprofits and considering the environment as a factor in achieving its goals, transaction cost is an approach developed by economists to understand how nonprofits minimize the costs of transactions – the processes taken to deliver services. While nonprofits are not commonly viewed as organizations that are motivated by profit and therefore efficiency is considered to be a moot discussion, the fact is that in order to justify financial support of their activities to its funders, nonprofits must demonstrate that they are efficiently deploying resources. Resource dependency theory takes this analysis of organizations toward efficiency, but it does not examine that closely the activities of the organization. The transaction cost approach offers an alternative framework with which to examine organizations.

Transaction Cost Theory

Transaction Cost Economics emerges from the seminal writing of Ronald Coase. An economist, Coase examined the purpose, or as it is titled, “The Nature of the Firm” (Coase, 1937). Fundamental to this analysis is the idea that price does not mediate everything in the market. Price does play a role, but actions of the firm are in part dictated by the entrepreneur. Coase provocatively explains that firms exist because, among other reasons, they can more efficiently harness the knowledge necessary to engage in market exchanges. These market exchanges are costly propositions. The costs include not only the hard cost of producing the commodity, but the cost to having the information necessary to engage in the market.

Ultimately, the unit of analysis in transaction costs economics is the transaction. Whereas economic theories generally explore the commodity as the centerpiece upon which the discussion of resource allocation, in transaction cost theory the unit is the transaction. As has occurred in organizational theory, theories in the field of economics also examine the influence of the environment in decision making. In this case, the transaction is the exchange that occurs between the market and the firm and the goal of the theory is to increase the efficiency of transactions. To understand a transaction, it is necessary to know something of the governance structure that mediates the exchange. The structure that is of concern in this dissertation is the nonprofit organization, as distinct from corporations or government, though in Williamson's (1996) formulation he includes markets, hybrids and bureaus. Each type of structure has its capacities and is limited by its inherently bounded rationality, a behavioral assumption made by Herbert Simon (1961), that in this case are oriented toward being self interested and opportunistic (Williamson, 1996). This latter assumption raises a provocative starting point for thinking about nonprofit organizations, which are presumably predisposed to operating to fulfill a social mission and arise in response to contract failure (Steinberg, 2006) of other governance structures that are driven by self interest. Relevant to this inquiry, transaction cost theory provides a framework for thinking operationally about nonprofit social enterprise, considering its capacities and limitations and how social enterprise may be a strategy to increase its operational efficiency.

Williamson characterizes transactions using three dimensions, each of which are relevant for an exploration of social enterprise: uncertainty, or the notion that the transactions take place within a dynamic and unpredictable environment; frequency, the idea that transactions recur; and durability, the thought that to engage in the transaction requires investment on the part of the governance structure to employ. Throughout this discussion of social enterprise, uncertainty is both a contextual factor that

precipitates involvement in entrepreneurial strategies including enterprise, but more relevant to Williamson's dimensions of uncertainty is that while nonprofits engage in enterprise, the success of these transactions are entirely unpredictable. Nonprofit organizations that engage in market activities presumably have some advantage to private sector purveyors, as wares and services of nonprofits may be more attractive to consumers who are supportive of social causes. However, nonprofits cannot assume that its social orientation alone will assure success in the venture and must strive to produce a worthwhile good or service in order to achieve the loyalty of the consumer. The successful transaction is therefore uncertain.

Nonprofits that engage in social enterprise do so with the purpose, at least in part, of finding a pathway to sustained financing of their programs, typifying Williamson's frequency dimension. While there are instances when an organization engages in episodic enterprise which means engaging in one-time fundraising events such as bake sales, the literature's focus on enterprise and the definition of social enterprise tends to be on those organizations that adopt an endeavor with the goal of it being an ongoing feature of their program that potentially will shift the emphasis for charitable support and the mutual engagement of the client in improving their life circumstance (Dees & Economy, 2001). This is achieved not by a one-off activity, but through the development of an ongoing set of activities that together are described as entrepreneurial by virtue of their integration into the ongoing programs or services provided by the nonprofit.

Finally, Williamson asserts that organizations make investments to implement their transactions. In the case of nonprofit organizations that engage in enterprise strategy, these investments either leverage existing resources (specifically expertise, reputation or physical capacities) or require an investment in new resources. A nonprofit that engages in social enterprise may do so because it recognizes an opportunity to provide services to its clients that also create more authentic

opportunities for vulnerable populations to engage in the market (as is the case with work integration social enterprises) and/or as a strategy to raise awareness of a social issue among other market players. In either case, the organization has some resource that it recognizes may have a value in the market. As well, some organizations recognize that they lack technology resources or capacity to successfully implement their desired enterprise, and will staff up to bring on talent to fill the gap. This creates a bifurcated organization, sometimes referred to in the literature as a hybrid, which is a means to implementing social enterprise. An examination of asset specificity in terms of staff, location and social mission could be used to assess the efficiency of organizational resources to deliver on social mission using the enterprise as its strategy.

Efficiency is a concept that has not been deeply embraced by the nonprofit sector and few scholars have explored the applicability of transaction costs economics, a theory that is chiefly concerned with efficiency, to nonprofit organizations, much less those organizations that adopt enterprise as a strategy. Valentinov (2008) published several articles that examined the applicability of transaction cost to the nonprofit firm, articulating that nonprofits have the tendency to economize on their transactions even though they are not motivated by profitability. Ultimately, the driver for nonprofit organizations is utility maximization, that being enabling the organization to delivery on its programs efficiently and effectively.

Why Should Social Work Care?

Social work researchers have been relatively silent in the emerging discourse about nonprofit social entrepreneurship. Scholars representing the fields of economics, business, public administration, sociology, policy studies, including health policy, have contributed thought and perspectives to the nascent base of knowledge on social entrepreneurship. Our profession is delivered with the auspices of the nonprofit social agencies, including settlement houses, grassroots organizations and coalitions,

which are incorporating entrepreneurial strategies into their service mixes. Our social agencies have been forced to rely less on public funding, to adopt business practices, to be more accountable (Fabricant & Fisher, 2002a) and to diversify their funding. Admittedly, business and finance are not routinely part of the training of social workers (Bent-Goodley, 2002). Yet, social work is an integral and defining part of the identity and culture of these agencies. We have a unique and distinctive lens through which to interpret the impact of entrepreneurial activities on the intersection of policy, service provision and agency administration. To maintain our relevance and vitality, social work must be an active and engaged participant in the conceptualization and development of theory about nonprofit social entrepreneurship.

The resulting programs and services created and implemented by creative, entrepreneurial nonprofits fit with the ethos of social work practice. Social entrepreneurship fits with the goals of social work practice as, “social entrepreneurs emphasise [sic] the importance of individuals and communities participating in determining local and relevant solutions” (Gray, Healy, & Crofts, 2003, p. 144). An organization might start a business that provides protected employment opportunities to vulnerable populations that might not otherwise be participating in the market. A nonprofit might partner with a private sector corporation, trading on its reputation in an effort to raise awareness for an issue or constituency. Organizations have also established consulting practices, where they exchange their knowledge about an issue both to raise general awareness and to advise others on how to interact with or better engage specific constituencies. Given the complexities of social work’s effort to transform lives and society, social entrepreneurship is another path for social agencies to better reflect the needs of the client and to earn income.

Changes in policy and management strategies have added financial management to the responsibilities of social workers, both administrators and line staff. Most visible to social workers in the

managed health, mental health and income maintenance, staff representing this field make decisions about how much time to spend with a client, whether and how the organization can support the individual or whether that individual needs to be sent out, and how much resources are given to the clients. Certainly, it seems that these decisions come as a result of mandates and policies, but social workers are in the position of deciding how much of the organization's resources are being spent. As well as looking for cost savings, social workers are part of the process of seeking and keeping funds. Proposals are written by and within the direct involvement of clinical staff, which are expected to articulate their outcomes and successes in a compelling way so as to attract financing and report on their activities so that funders are satisfied with the investments made in the organization. The management of finances is central to the delivery of social services and social workers are critical players in that process. Recent studies reveal that in a national sample of licensed social workers, 69% devote at least some of their time to administration/management activities; 27% spent 20 hours or more in management related functions (Patti, 2008, citing Whitaker, Weismiller, & Clark, 2006). While not noted, it could be the case that financial management factors significantly in these administration/management activities in this study. As the management of social services explores the applicability of social enterprise as a strategy to make money and to deliver programs, it is incumbent on the social work profession to contribute to the thinking and implementation of these strategies.

Because social work administration and clinical practice increasingly requires financial management, the education of social workers needs to include greater attention to administration and management functions. Scholars note the need for "more and better trained social workers in management" (Patti, 2008, p. 155, citing Austin, 2000; Patti, 2003; Perlmutter, 2006). However, studies reveal that across schools of social work, only 3% of students are enrolled in administration or management as a major area of study (Patti, 2008, citing Ezell, Chernesky, & Healy, 2004). The very

structure of social work programs does not allow sufficient depth of coverage for areas that are essential to successful negotiation of the agency environment, as the administration sequence is limited to only a single year of dedicated study.

Although they are driven by social purpose, social agencies cannot be successful if they do not have enough money to implement programs – even the most entrepreneurial. In order for nonprofits to build and strengthen their enterprises, they need to be engaged with the needs of stakeholders. Resource dependence and transaction cost theories provide a framework through which to ask questions about the efficacy of social enterprise as a strategy by nonprofit organizations. Social workers are essential to the process of enabling nonprofit organizations to achieve their autonomy, so that this sector remains a setting where social workers can continue to provide vital services. Entrepreneurship is not a fad, but is an ongoing feature of nonprofit organizations. There is an urgent need, particularly given the prevalence of economic volatility, to determine whether enterprise as a strategy works.

Problem Summary and Research Question

Entrepreneurship by nonprofit organizations is a phenomenon that needs greater understanding. Of the nonprofits organizations that are currently engaged in social entrepreneurship, little is known about how their entrepreneurial programs effect the financial well being of the organization. Nonprofit organizations are important vehicles of change that serve a distinct and unique purpose in our society. However, it is implausible to believe that in the face of the continuing pressure by the political economy, an environment that nonprofits are so dependent upon, that the organizations would not or could not also respond and ultimately adopt new practices and strategies to survive. Toward survival, more nonprofits are paying closer attention to their finances, and more broadly spreading the responsibilities for managing finances throughout the organization. More are engaging in fee for service and earned income projects that sometimes are mission related, but sometime are not at

all related to mission, but generate profits that can be used as unrestricted funds. However, it is clear that given the volatility of the economy and the seeming inevitability that public resources, though reliable, are inconsistent, nonprofit entrepreneurship and enterprise is a pragmatic survival strategy. For all its practicality however, little is known about the financial consequences of entrepreneurship. Are nonprofits successful in their ventures? What are the costs? In times of economic distress, like those that confront our world presently, are these organizations more resilient or is the act of engaging in entrepreneurship weakening their infrastructure, making them less likely to rebound and withstand the volatile economy? In order for nonprofits to survive it seems clear that they begin to explore more deeply entrepreneurship as a strategy. Little is known about the consequences of entrepreneurship on the structure and performance of nonprofits organizations, however.

It is therefore the purpose of this study to explore the financial consequences of nonprofit social enterprise. It is important to understand these consequences because it will help to shape how programs and operations are managed. Ultimately, this study seeks to inform the education of social workers, increasing their facility with financial aspects of agency administration, and to provide empirical evidence that restores autonomy of the management of organizations to the leadership of the organization, as opposed to the funders and financing agents.

Some broad questions emerge from the problem outlined thus far. These questions include:

- Are organizations strengthened or weakened as a result of engaging in social ventures?
- Does the type of social enterprise employed offer any financial benefit to a nonprofit organization?
- Are organizations that engage in social enterprise more or less prone to recovery following downturns in the economy?

- What kinds of cost saving measures do organizations that engage in social enterprise take in response to anticipated budgetary shortfalls?

The answers to these questions require a deeper appreciation for the existing knowledge about nonprofit behavior and specifically of social entrepreneurship and social enterprise as strategies used by nonprofits. The following chapter explores the relevant literature.

II: Literature Review

The colonized man who writes for his people ought to use the past with the intention of opening the future, as an invitation to action and a basis for hope.

Frantz Fanon

Introduction

Toward understanding the implications of social enterprise on nonprofit organizations, this literature review surveys general knowledge about the influence of the environment on nonprofit organizational behavior. Social enterprise has a rich and vast history that is deeply influenced by the economic condition, although academic researchers have only recently begun to explore it. Much of what is known about social enterprise revolves around its emergence and the environment is a persistent instigator of the response, even as the rationale for social enterprise is to generate revenue to alleviate concerns about financial support of social programs. In the end, a gap in the knowledge base is identified and the scaffolding of existing literature upon which the examination of this topic could be built is clarified. This review, therefore, examines how the environment may be shaping organizational structures, serving as a prelude to a study about consequences of social enterprise strategy on nonprofit organizations.

Past is prologue. It is particularly important to mine history to identify potential. It is with this chapter's quote in mind that I proceed with this literature review. There is a much to be learned, leveraging the literatures of nonprofits and what is known about organizations in general.

A Context for Nonprofit Social Enterprise

The notion that nonprofit organizations engage in market based activities as a means to generate revenue is not a new phenomenon. From the earliest periods in US history, there have been accounts of religious and community groups holding bazaars and selling homemade products to raise money to augment donations (Kerlin, 2006). Two visible and longstanding examples of social enterprise are Goodwill Industries and the American Red Cross (Kleiman & Rosenbaum, 2007). In 1902, a Methodist minister and social innovator, Reverend Edgar Helms founded Goodwill Industries which

collected used clothes and household goods from wealthier communities in Boston and trained and hire the poor to repair and sell the goods or give them to the needy; Goodwill Industries International evolved into a \$3.2 billion employment and training social service nonprofit

(<http://www.goodwill.org/page/guest/about/whatwedo/ourhistory>). In 1881, Clara Barton started the American Red Cross, which collects and sells donations of blood to provide humanitarian relief and serve as a source of contact between family members and military service workers: American Red Cross is presently an almost \$4 billion enterprise

(<http://www.redcross.org/portal/site/en/menuitem.86f46a12f382290517a8f210b80f78a0/?vgnextoid=271a2aebdaadb110VgnVCM10000089f0870aRCRD&vgnnextfmt=default>; http://www.redcross.org/www-files/Documents/pdf/corppubs/ARC_990_2008.pdf). As well there are other organizations which have a long history of work in social services that function as social enterprises.

Historically, the financing of nonprofit organizations had been largely assumed by the private individual. Much of that support was provided through religious institutions (which in turn were supported through tithes) and later foundations established by the wealthy, which proved to be an means through which voluntarism was organized. The first of the modern foundations, the Russell Sage Foundation, was founded in 1907 with a gift of \$10 million from the widow of Russell Sage for the “improvement of social and living conditions in the USA”(Hall, 2006, p. 44). However, there are limits to private philanthropy, as the wealthy are not interested in being the sole support for social needs in our society. There is no guarantee that the interests of the wealthy will not change. The job to maintain the basic essentials needed for all citizens to live a fulfilling life is not the sole purpose or intent of private charitable contributions.

The literature on nonprofit social enterprise is scant, yet growing. With the submission of this dissertation’s proposal in 2008, I performed a rough calculation of articles and peer reviewed journal

coverage of Academic Search Premiere, Business Search Premiere, EconoLit, SocINDEX with Full Text and CINAHL Plus with Full Text of social enterprise and social entrepreneurship was included to make the point that there was substantial coverage of these subjects in the literature. In preparing the final draft of this dissertation, now three years later, I realize that the coverage of this subject has increased over the years. The following chart reveals the extent of growth in coverage of social enterprise/entrepreneurship in the literature.

Table II.1: Bibliographic Coverage of Social Enterprise/Entrepreneurship – 2008, 2011

Search Term	2008		2011		% Change	
	Articles	Peer Reviewed Journal Articles	Articles	Peer Reviewed Journal Articles	Articles	Peer Reviewed Journal Articles
Social Enterprise* and nonprofit*	148	72	300	97	102%	35%
Social entrepreneur* and nonprofit*	143	52	254	68	77%	31%

While social enterprise/entrepreneurship that has been the subject of discussion in the literature, interest in the subject has increased significantly in this narrow timeframe. Overall literature on the subject is expanding, evidenced by the more than doubling of coverage on social enterprise and nonprofits within the short time frame between online bibliographic searches. It is gratifying to see that there is more coverage in the peer review journals of nonprofits with social enterprise as compared to

that ascribed to social entrepreneurship. This may suggest an alignment of the terminology that is I am using throughout this dissertation with that which is being used by other scholars. *Social entrepreneurship* is a general term and *social enterprise*, while it can be used to describe that activity by private sector firms, is more likely to be associated with the activities of nonprofit organizations.

As well the breadth of coverage on social enterprise is remarkable. The perspectives that inform the scholarship on social enterprise are diverse. Scholars representing economics, business and accounting, marketing, sociology, and public administration have contributed to the empirical knowledge base. As entrepreneurship among social organizations is a global phenomenon, scholars that have studied how the phenomenon is taking shape in countries that include Europe, Asia, Australia, Africa and South America. Though the preceding problem formulation situated its emergence in the US's market-dominated capitalist economy, nonprofit social enterprise has also surfaced in state- and institution-controlled economies as well (Kerlin, 2009). Nonetheless, the literature on nonprofit social enterprise is small and diffused, relative to the literature on other organizational auspices. Of most concern is that as a consequence, relevant theory building is negligible (Weerawardena & Mort, 2005).

Enterprise as a Response to the Political Economy

Government financing of nonprofit organizations particularly in social welfare is a relative recent phenomenon. It took the Great Depression and the will of President Roosevelt to highlight the value of nonprofits (as well as state and municipal government) as vehicles through which social welfare services could be delivered. Roosevelt encouraged business support of private charities and government at all levels found themselves turning to charitable institutions for policy expertise and needed services at the community level (Hall, 2006). As a byproduct of these shifts, the nonprofit charitable sector grew substantially. Awareness of nonprofits as a resource to government and policy implementation increased.

During the past fifty years, in the United States and much of the developed world, scholars have generated theories about the relationship between the government and nonprofit organizations concluding that there is a diversified series of transactions between the two (Smith & Gronbjerg, 2006, citing DeHoog, 1984; Smith and Lipsky, 1993; Gronbjerg, 1993; Hartogs and Weber, 1978; Saidel, 1991; Perri and Kendall, 1997; Ferris and Garddy, 1998; and DeHoog and Salamon, 2002). It is generally understood that nonprofit organizations, particularly those operating in social welfare and human services, are dependent upon government for their funding (Gronbjerg, 2001a; Salamon, L., M., 2002a). As the economy or other matters of the state eclipse social welfare in importance or urgency, government reduces their domestic spending and nonprofit organizations struggle to obtain financial support.

That government financing is not entirely reliable has been ideologically analyzed. Esping-Anderson (1990) articulated a typology of welfare state regimes to explain the state's preferred mechanisms for delivering welfare benefits and illuminated how its governance drives policy. In his conception, there are three types of welfare state regimes: *liberal*, where the state is heavily influenced by the market and where society prioritizes work over welfare benefits, stratifying and stigmatizing benefits; *corporatist*, where the state or sometimes the Church is the central driver of redistribution policies where society prioritizes and preserves class distinctions; and *social democratic*, where the interests of the people and the promotion of equality result in a pre-emptive socialized welfare state that strives to prevent needs from emerging (Esping-Anderson, 2007). The United States has a liberal regime and though Esping-Anderson's typology was designed to address income maintenance programs specifically, it offers a lens to understanding the underlying tensions that exist in the financing of social welfare programs of nonprofit organizations. As with the experience of the individual recipients of welfare funding, support for human service programs are laden with rules and demands for evidence of

need which in and of themselves are stigmatizing. Subliminally, the message associated with government contracts is that they are time limited and that the contracted agency should not expect that they will continue indefinitely. For all the work involved in obtaining a government grant, there is no guarantee of future funding (Smith & Gronbjerg, 2006).

Government and policy influence on nonprofits has been identified as a threat to the autonomy of nonprofit organizations. Scholars explored the interdependencies between nonprofit, business and government (Gronbjerg, 2001a), the scope of nonprofit-government relations (Smith & Gronbjerg, 2006), the implications of government contracting with nonprofits (Kennedy & Bielefeld, 2004), the purposes of nonprofits as perceived by government (Gidron, Kramer, & Salamon, 1992). (Note: this is not meant to be a comprehensive list – there are many more studies representing many other topics.) These studies imply a significant influence exacted by government. As a consequence, the autonomy of the civil sector is eroding, the boundaries separating nonprofits are blurring, and the integrity and autonomy of nonprofits is compromised (Gronbjerg, 2001a; Kennedy & Bielefeld, 2004; Salamon, L., Anheier, List, Toepler, & Sokolowski, 1999). Nonprofits are at times partners with and foil of government.

The Rise of Earned Income by Nonprofits

An increase in fee for service or earned income began in the late 1970s, with social service organizations realizing an almost 600% percent increase in fee income between 1977 and 1997 (Salamon, L., M., 2002b). Nonprofits that engaged in work for clients with the wherewithal to pay for services “did best” and those without did not do as well (Liebschutz, 1992, citing Salamon, 1986, p. 16). Nonprofits sold goods, accepted government contracts and vouchers (which are interpreted as fee as opposed to grant income), even financed their physical expansion through the sale of government-guaranteed, tax-exempt bonds (Hall, 2006). The correlation between the withdrawal of the state from

social welfare during the Reagan years and the effort to increase revenue and engage in earned income activities has been established (Bielefeld, 1992; Liebschutz, 1992).

However, the question about the fit between earned income and commercial activity was raised during this period as well. This process of reconciling activities is referred to as strategic planning and more recently as strategic management (Eadie, 2006). Strategic management theory aligns “missions, mandates, strategies, and operations, along with the major strategic initiatives such as new policies, programs or projects, while also paying careful attention to stakeholders...” (Bryson, Berry, & Yang, 2010, p. 496). Ultimately, the activities or overarching programs and approaches should contribute to the mission of the organization. Given the centrality of mission to nonprofit organizations (by which their tax exempt status is accorded), the alignment to fit their strategies (and subsidiary activities) with the mission of the organization is paramount. When museums, art galleries and hospitals manage gift shops, questions about the resonance of these activities with mission are raised. That nonprofit organizations possess competencies have value on the market (Frumkin, 2002b) is without question. They consult and/or lend their name to corporations that are interested in advancing a social good as well as selling their products.

It is apparent the interrelationship between strategic and financial management, especially in the context of nonprofit social enterprise. Taken alone, the identification of a strategy as being in alignment with mission is not nor should be enough to justify its use. Equally important is whether the strategy can be sustained, which is characterized by its attractiveness to revenue sources and controllable expenses. Certainly an emphasis on purely financial metrics is not the best way to assess the effectiveness of financial controls of a nonprofit organization (a rich thread of discussion in the context of measurement of social enterprise is addressed in a subsequent section of this paper). Yet, to discuss social enterprise, or any organizational strategy for that matter, without acknowledging the

financial structure and the contributions of that strategy to the wherewithal of the organization is to do a disservice to that organization. The literature on nonprofit social enterprise does not yet have a theoretical base and other than the discussion of revenue generation, a base for appreciating its financial foundation (Dacin, Dacin, & Matear, 2010). While the evidence suggests that nonprofits are weathering crisis by engaging in new revenue generation strategies, what is not clear is the associated expenses and to what degree these organizations are stretching beyond their administrative and operational capacities to engage in these activities. Assessment of these organizations is a multilayered and complex. Although the assessment of inputs and outputs is not purely an accounting exercise, even for those organizations that are largely organized to achieve a social mission (Ciancanelli, 2010).

Who cares?

All the while, scholars expended their intellectual capital on naming this activity. Scholars explored the meanings of 'social' and 'entrepreneurship' and 'enterprise' determining how each term served to capture the essence of the concept (Cho, 2006; Dees & Economy, 2001; Peredo & McLean, 2006). Other treatments attempt to distinguish 'social entrepreneur' from 'entrepreneur', emphasizing the social value creation as a distinguishing factor (Mair & Noboa, 2003). Implied in entrepreneurship is innovation and a rich thread in the literature explores whether and how nonprofits, which are socially constructed as being risk averse, could possibly be innovative and engage in entrepreneurial behavior (Hull & Lio, 2006). In the final analysis, there are many, subtly different terms used to apprehend nonprofit social enterprise, with many citing the Dees and Economy definition (2001) that has been used in this paper.

As fee for service, earned income, commercialism, entrepreneurship and enterprise become associated with nonprofit organizations, support organizations emerged. Research centers have been identified in nine business schools with seven being located in US universities (Columbia, Duke, Harvard,

Seattle University, Stanford and New York University) (Nicholls, 2006). An additional 32 universities offer research and/or teaching in social entrepreneurship (Nicholls, 2006). The brain trust on social entrepreneurship is not limited to this side of the Atlantic. The EMES European Research Network is a consortium of research organizations organized to examine the emergence of social enterprise in 15 countries that comprise the European Union. The network has published two books and many articles about social cooperatives or associations in Europe that are involved in the producing and selling goods and/or services as a continuous act, exercising a high degree of autonomy with a significant level of risk with a minimum amount of paid work (Defourny & Nyssens, 2006). A similar, less prolific research network also exists in Australia (Cook, Dodds, & Mitchell, 2003).

Practitioners have also contributed to the emerging knowledge about social entrepreneurs. Bill Drayton, a public servant, lawyer and former management consultant with McKinsey & Company founded Ashoka¹, which provided seed capital to budding social entrepreneurs in the late 1970s (Bornstein, 1998). Ashoka is a worldwide enterprise that provides initial investments to those with innovative social solutions at a critical point in the life cycle of the idea. While the initial grants were made with funding provided by Drayton's friends, donations and his personal funds, it was a MacArthur fellowship that engendered greater support to this ambitious enterprise that is credited with supporting social entrepreneurship globally. Ashoka is the first – founded officially in 1982 – of support organizations for social entrepreneurs (Nicholls, 2006). Its focus is on scalable solutions that have the potential to be replicable. Its resources are not provided only to nonprofit organizations, however. Muhammad Yunus, founder of the for profit Grameen Bank in Bangladesh, is an Ashoka fellow who was recently awarded the Nobel Peace prize for this for profit social enterprise that provides greater access

¹ Ashoka is named after an Emperor of India who, in remorse following a conquest, dedicated the remainder of his life to serving the public good.

to capital for many budding entrepreneurs. Through Drayton we learn of the importance of capital and support to launch and sustain a social venture. Billy Shore, founder of Share Our Strength, a nonprofit organization involved in the effort to reduce hunger in the US, also founded Community Wealth Ventures as a for profit subsidiary to increase the effort by nonprofit to build its own internal assets instead of relying upon external support is a private sector consulting firm that provides support to nonprofits (<http://www.communitywealth.com/about.htm>). The organization provides group and individual consulting, strategic partnership building and research that enable nonprofits to pursue entrepreneurship.

Other support organizations followed and eventually associations of nonprofit social enterprise were formed. The National Gathering for Social Entrepreneurs started in 1998 by six social entrepreneurs² and advocates of social entrepreneurship organized a meeting for those who are interested in the subject. Three grant making organizations (Kellogg, Kauffman and Echoing Green) organized Seachange, an annual conference for practitioners and researchers with an interest in social entrepreneurship. In 2002, Seachange and the National Gathering for Social Entrepreneurs merged to create The Social Enterprise Alliance, one of the largest, US-based nonprofit organization dedicated to advocacy, research and support of social entrepreneurship (http://www.se-alliance.org/about_us.cfm). The Association for Research on Nonprofit Organizations and Voluntary Action organized sessions and tracks of discussions on social entrepreneurship.

In sum, though counterintuitive, the notion that nonprofits act entrepreneurially and engage in ventures is not new. There are accounts of nonprofits participating in market based activities from the earliest periods in US history. Financing has always been an issue and even more so as government

² Jerr Boschee, Jed Emerson, Gary Mulhair, John Riggan, Billy Shore, and Richard Steckel are social entrepreneurs or scholars who have contributed through action or writing to the development of knowledge on social entrepreneurship.

emerged as a significant funder. Nonprofits have and continue to be resilient and as history shows there have been organizations that have developed market based ventures. Although the concept and ideas are not new, it is only in the past 20 years or so that the academic community has begun to develop a knowledge base. Fortunately, in this time, organizations have emerged to support nonprofit leaders and staff that engage in social enterprise.

As the number of support organizations emerged and grew, so too did the study of social enterprise. The following section details the nature of in the knowledge about social enterprise.

Places & People, Promise & Fears

The study of the emergence of entrepreneurship started earnestly in Europe by social organizations that were concerned about unemployment. “Ground Zero” (quotes are mine) for knowledge building about social enterprise centers on Italy, whose government in 1991 legally designated social enterprise as a separate and distinct type of organization, in recognition of their success in filling the gap unfilled by the market and government. It requires a closer examination of social enterprise and ideology that underpins government. The preceding history charts the emergence of social entrepreneurship largely here in the US. In fact, social entrepreneurship is a global phenomenon with the most significant and substantive research emerging from the aforementioned EMES network.

Ground Zero: Europe

In an analysis of the circumstances and conditions that have led to social enterprise around the world, Kerlin (2009) notes that in six regions of the world social enterprise emerges in the absence of state-sponsored social programs or funds as a result of the withdrawal or inadequate functioning of the state:

- In Western Europe, social enterprise emerged in response to unemployment and the limited labor market programs that were made available through government, providing human services and employment programs and being cultivated by the individual government and the European Union;
- Borrowing from the West, Central Europe also developed a robust enterprise from within social cooperatives and associations (as nonprofits are characterized in Europe). The fall of communism and a weak civil society were the triggers for the rise of social enterprise. The services provided by these organizations include human service and employment, sponsored by International donors and the European Union;
- In South America, social enterprise emerged as policy adjustments led to substantial unemployment – reaching as high as 80%. Social enterprises are focused on human services and employment and are support by the civil society;
- Southern Africa’s economy has been wracked with efforts to also adjust the economy with the result being unemployment. Social enterprise in this country is focused almost exclusively on employment, with support for these activities coming from international donors that are attempting to build capacities of the institutions in these countries;
- South East Asia has had significant rates of poverty and unemployment. Social enterprise emerged also to address unemployment, but given international influences, they also incorporate efforts to provide needed services and to protect the environment.

This analysis reveals that economic decline is a substantial catalyst for the global emergence of social enterprise but that it manifests in different ways. Moreover, this is not a phenomenon that is occurring exclusively in capitalist economies. Social enterprise emerged within a diversity of political

systems, in response to failures or crises in the economy (Kerlin, 2009). Hence, the emergence of social enterprise is not wedded to any one political ideology or system. In fact, the rise of social enterprise has been characterized in the literature as being associated with a broader conception of failures in the social market.

It is in Italy where government sponsorship has resulted in the greatest acceptance of social enterprise. Traditionally, social cooperatives provided social, health and educational services. Social cooperatives in Italy targeted work integration programs to the disadvantaged populations in the 1980s. The Italian public policies were dominated by passive labor market programs that provided income maintenance and wage control. There was stagnation in employment rates, slow productivity, long term unemployment and a mismatch between the skills of workers and the available jobs. Concerned particularly for the deinstitutionalization of mentally challenged, youth with domestic problems and orphans, social cooperatives developed ventures that were needed in local economic contexts: services such as laundry, restaurants and food service and manufacturing and handicrafts in glass and woodworking (Borgaza & Loss, 2006). In 1991, the Italian government recognized the successful work integration efforts, by according WISEs with the designation of Type B organization (distinguished from those organizations that provided social, health and education, classifying these as Type A organizations). In their qualitative study of 15 social cooperatives, Borgaza and Loss (2006) explored the landscape of public policies to identify the reasons why B-type social cooperatives, the legally-designated organizational structure emerged in Italy in the early 1990s and to begin to explain what success they have realized. It is unclear in the study, but it seems that their activities were self financed, though there was a policy requiring that firms and public bodies with more than 35 employees hire a quota of disabled people. This provided the demand for disabled individuals. This study revealed that work integration is the primary business of these organizations and many have expanded beyond

their public sector job placement roles into working in the private sector. It has also happened that workers are able to get and maintain jobs under the protection of the law, but develop the skills and confidence needed to seek out private sector jobs. In the final analysis, the firms included in the survey showed that they are achieving their mission to find employment for individuals who would otherwise be excluded from the market. In fact, the Type B firm has emerged as more than a mechanism for social inclusion, but has made a vital and significant mark for social cooperatives as a labor policy resource. This organizational form became important to government once its value and contribution was made clear. Institutional theorists would characterize this as pragmatic legitimacy, a basic form of legitimacy where an organization is recognized and accepted if it provides a service of value to its stakeholder group (Dart, 2004). In Italy, the social cooperatives delivered a service to their constituency, and that service that was not otherwise available.

Since the 1980s, governments of European have followed Italy's lead, having taken steps to support social enterprise. There has been extraordinary growth in Europe in social cooperatives, extending to include efforts in the United Kingdom to as well, which is actively promoting the development of social cooperatives to engage in active labor market programs.

The Domestic Story: The Nature of Nonprofit Enterprise in the US

In the United States, the discourse about the emergence of social enterprise has been associated with the reduction of government funding. Several studies illuminate how, in the absence of government support, nonprofit organizations adopt entrepreneurship as a survival strategy (Golensky & Mulder, 2006; Leroux, 2005; Wade, 2000). In a study to examine the organizational and economic factors that lead a nonprofit organization to adopt entrepreneurial strategies, a small (N=91) mail survey of Detroit-area nonprofits revealed that nonprofits adopt entrepreneurship as a means to cope with "financial circumstances [that] threaten to limit the scope of their service provision (Leroux, 2005p.

360). In fact, theorists conclude that for a nonprofit to engage in market based activity when there are no other alternatives to finance their services.

Nonprofit organizations engage in enterprise as a supplemental strategy to further mission. Economist Burton Weisbrod concluded that engagement in market-based activities are fundamentally driven toward fulfillment of their social mission and engage in commercial activities as a nonpreferred activity (Weisbrod, B. A., 1998a). Entrepreneurial activity – more to the point: commercial activity that is devoid of mission -- is antithetical to the functioning and purposes of nonprofit organizations. In an oft-cited analysis, Weisbrod (1998) explains that nonprofits prefer mission related activities and are reluctant to engage in commercial activities solely for its own sake. Building on Weisbrod's analysis, Dennis Young examined how nonprofits that are engaged in community and economic development integrated social enterprise into their work (Young, D. R., 2006). Using Albert and Whetten's theory of organizational identity (to understand the motivation for the launching a social venture), Weisbrod's multiple product theory of nonprofits (which suggests that nonprofits have many diverse outputs) and Ben-Ner's theory of outsourcing and collaboration, Young (2006) concluded the following:

- nonprofit hosts (or nonprofit parent of the ventures) tend to choose to incorporate ventures separately because of concerns about mission displacement and anticipated incompatibility between the venture and the nonprofit host;
- social purpose businesses tend to focus on promoting employment and training, supporting small businesses and building community infrastructure; and
- nonprofit organizations frequently engage external nonprofit partners, as opposed to for profit and government entities to support the process and implementation of the venture.

This small study, which drew its sample of 20 nonprofits from the database of Community Wealth Venture helped to address questions about goal displacement and the prioritization of social mission. However, it is not clear that it resolved the issue for researchers.

While community and economic development has been designated as a field of practice that lends itself to social enterprise (Young, D. R., 2006), it is not the only practice area for where social enterprise has been employed as a strategy. Using institutional theory³ and resource dependence theory, Warm (2004) attempted to isolate the organizational characteristics that could predict the use of entrepreneurship as a strategy by nonprofits (Warm, 2004). The study was limited to the Kansas City areas and focused on those nonprofit organizations with incomes between \$200,000 and \$9 million representing a range of industries, including the arts, health, education and human services. In her hypothesis-testing, quantitative survey supplemented by analysis of the IRS 990 forms of 159 organizations, only the human service organizations showed a predictive relationship between these factors of relationship to environment, knowledge of exemplars and leadership credentials. In her conclusions, Warm relied upon an analysis by Gronbjerg (2001) to explain that “the human service field is also distinct by its relatively low levels of institutionalization, especially when compared to health and higher education...Except for the growing importance of the Medicaid program, there are no dominant national funding sources”(Warm, 2004, citing Gronbjerg, 2001, p 289). In the absence of funding sources there is an inclination for human service nonprofits to engage in entrepreneurial activities. As is, this study suggests that the higher propensity of predicted entrepreneurship by human service firms is attributable to the lack of funding and may hold promise for understanding the financial benefits if focus is expressly on human service firms. Given this finding, it would be interesting to learn the types

³ Institutional theory suggests that organizations are obligated to conform to the rules and requirements in society in order to receive support and be deemed legitimate.

of enterprise that nonprofit human service firms adopt, whether the enterprise generates revenue and what, if any, profits are being generated.

Leadership

The literature has also evolved over time in its thinking about the social entrepreneur, who drives the entrepreneurial initiative. Dennis Young, professor of public policy and prolific scholar on the subject of nonprofit social enterprise, is credited with being among the first to characterize the traits of nonprofit social entrepreneur in 1986. The emphasis of his early writing revolved around the innovative aspects of the social entrepreneur which drives them to found new organizations, programs and methods, expand services and supporting struggling organizations (Light, 2006a, p. 15, citing Young, 1986). Ultimately, Young (1986) concluded, these entrepreneurs take their experience with government in nonprofit with them to the private sector, where they are able to start profitable ventures. Later Dees summed up the base traits of the entrepreneur, concluding that they are “innovative, opportunity-oriented, resourceful and value-creating change agents” (Dees & Economy, 2001, p.4). They are risk takers who, presumably, include those with a vision and the power to implement that vision. The entrepreneur is lauded and exalted, conceptualized as a rarified commodity that is beyond what we may consider to be realistic and attainable. In his recent attempt to define the social entrepreneur and make them more human, Light (2006) argues that social entrepreneurship is not only located within the individual, but is a fluid concept that is resident in groups of people, emerging in varying intensity as the circumstances warrant it. Entrepreneurship places demands on the leadership of these organizations that are distinct from organizations that are funded through contributions, based on early analysis (Van Brackle, 2010). The leadership of an organization that implements social enterprises must negotiate with internal and external stakeholders to assure them that the venture is not compromising the charitable purpose of the organization.

As social enterprise grows as an approach to managing organization resources, there is a need to understand and appreciate the role and the work of the nonprofit entrepreneur to be able to attract and recruit talented individuals. Sharir and Lerner (2005) attempted to isolate the variables that contribute to a successful social venture. The researcher studied a sample of 33 newly constituted nonprofit social enterprises in Israel to assess the contributions to the success of the venture along dimensions: the entrepreneur's experience, dedication and means of support, support from the environment, the organization's size, staff and board and processes to build the venture. Success was measured along three dimensions: achievement of stated goals; assurances of continuity and sustainability of programs/services and possession of resources for further growth. This study found statistically that in successful ventures, two variables – total dedication to the venture and the venture's social support – were necessary. As a result the entrepreneur plays as significant a role in the success of the enterprise as does a good idea. The study revealed that an entrepreneur with a strong social network and a track record of total dedication to the venture's success are as important as having a strong capital base and an idea that has been accepted by key stakeholders and staff (Sharir & Lerner, 2006). This supports Light's argument that entrepreneurship can be viral.

Skepticism of Nonprofit Social Enterprise

There is a strong, very articulate contingent of scholars that have been skeptical of nonprofit social enterprise. Their concerns revolve around the well being and integrity of nonprofit organizations, with a number being concerned that goal displacement is a possibility once fundamentally altruistic nonprofits engage in market activity (Eikenberry & Kluver, 2004; Fabricant & Fisher, 2002c; Kennedy & Bielefeld, 2004; Weisbrod, B. A., 1998a). In response to goal displacement concerns, research reveals that nonprofit enterprises are chiefly driven by mission (Massarsky & Beinhacker, 2002; Warm, 2004) and will establish subsidiaries that in effect protect the nonprofit social service business from the

possibility of sustaining losses associated with the business venture (Young, D. R., 2006). These concerns are addressed less in the recent literature as awareness increases.

A second major concern is for what some refer to as the inevitable convergence between the sectors (Austin, Gutierrez, Ogliastri, & Reficco, 2007; Kramer, R., M., 2000). An analysis by Mair & Noboa (2003) establishes that technically, the boundaries distinguishing the sectors continue to hold, though the developments in Italy suggest that a byproduct of the successful enterprise could be a closer relationship with the state.

Ultimately, government has responsibility for tending to the social welfare of society. There are scholars who express concern that the generation of revenue by nonprofits will negate the need for public funds. Actually, commercial activity by nonprofits has been found to “crowd out” public funding: sales income replaces the income lost as a result of exogenous factors (Young, 1998). Further, some scholars express doubt that social enterprise is anything more than another form of neoliberalism and a gross misinterpretation of macroeconomy, contending that nonprofit organization could never have the wherewithal to create the number of jobs needed to arrest the chronicity of unemployment (Cook, Dodds, & Mitchell, 2003). In this analysis, researchers contend that government has the resources but chooses not to deploy them to address unemployment. Ultimately, it is the lack of or insufficient government action that is driving nonprofits to adopt social enterprise as a strategy.

In Europe, government plays a significant role in the success and sustainability of social enterprise. Although in the US the government’s only role in social enterprise is limited to being the reason why this approach to organizing services in the first place, an argument could be made that a closer examination of the sources of revenue might reveal a hidden role of government in US nonprofit social enterprise.

The Importance of Fiscal Issues

Our examination so far suggests that the economy and people within the organization contribute to the emergence of social enterprise. This is where the bulk of the literature is focused. However, there is also a subset of the literature that examines or draws conclusions that allude to financial impact, but stops short of an examination of it. Before examining this, we need to understand financial management and more specifically financial structures of organizations.

Financial management is a broad area of knowledge that is not limited to any organizational auspices. Organizations, regardless of their purpose in the economy, engage in processes to acquire, transform and manage their income. How each step of the financial management process is achieved reflects differences in motivations and purposes of the organizations. As well, the metrics to determine how well and organization is performing is also quite different.

Chief among the tensions that are resident in nonprofit social enterprise is the coexistence of social and economic goals. Gregory Dees of Stanford and Jed Emerson, formerly of the Roberts Enterprise Fund (which provided financial and technical support to nonprofits), wrote a seminal work with Peter Economy in 2001 that became a part of the canon of “how-to” (quotes are mine) or instructional books on social enterprise. In Enterprising Nonprofits: A Toolkit for Social Entrepreneurs (2001), the authors provide a social enterprise spectrum that explains the behaviors of organizations that engage in this practice as being motivated by purely philanthropic to purely commercial options (Dees & Economy, 2001). While there are organizations that are involved with the venture solely to make money and others who are involved with the venture because it is a more innovative and perhaps effective way to attain mission, there are a constellation of points between these two extremes, along which nonprofit organizations operate venture. At minimum all nonprofit social enterprises have a goal to create and measure their success by its ability to generate economic value. Questions about the

success of social enterprises, as measured by their ability to generate funds to sustain the nonprofit are therefore worth asking.

Further empirical investigation helped to crystallize the significance of understanding the financial impact of social enterprise on nonprofits. In a grounded theory study involving nine Australian-based nonprofit organizations, researchers found that social entrepreneurship behavior is shaped by “the concurrent needs of the environment, the need to build a sustainable organization and the need to achieve social mission” (Weerawardena & Mort, 2005p. 32). The researchers recognize social entrepreneurship as a pragmatic approach to the environment, the drive to attain social mission and to maintain their operations and programs. They characterize the need to sustain the organization as a static constraint, which is distinctive from the dynamic constraint of the environment. Though the authors acknowledge organizational sustainability as a driver of entrepreneurship, they emphasize the need for management and policy to focus on strategies that help them to manage the environment, giving little attention to the element of financial management needed to ensure organizational survival. However, to fully appreciate social enterprise by nonprofits, it is important to explore and explain the financial impact so that managers can more effectively manage the organization.

Fundamentally, nonprofit social enterprise is a type of organizational program that, like entrepreneurial ventures, is created and go through a process of development and implementation. In a small (n=5) comparative case study, Haugh (2007) examined the process of launching a nonprofit venture. Her focus was on new ventures being created through grassroots organizations that involved community members. While the venture creation process closely mimics the process of private sector venture creation, nonprofit ventures creation process is distinct because (1) it lacks the initial capitalization that is often associated with private sector start ups; (2) the process has a longer start up timetable and involves many more stakeholders; (3) there is no financial loss incurred by the

stakeholders in the event of failure and (4) there is a significant and substantive process associated with transitioning from being a volunteer led to professional staff (Haugh, 2007). This study points to financial elements that are important in the start up of nonprofit social enterprise.

Resource Mix

Economists including Burton Weisbrod have grappled with the tension that exists within an organization that is simultaneously pursuing mission and money which are central to social enterprise in the late 1990s. Weisbrod expressed concern that organizations that choose to engage in commercial activities, including social enterprise, are using the nonprofit organizational form to disguise their private sector intentions (Weisbrod, B. A., 1998a). He later distinguishes the “pure nonprofit” that accepts only donations and those organizations that are financed exclusively with fees which are “emulating the private sector” (Segal & Weisbrod, 1998, p. 111). Beyond conceptualizing nonprofits as multiproduct firms, Weisbrod and Segal (1998) concluded that declines in donations result in significant increases in commercial activities and that the levels of commercial activity vary by industry sector (i.e., human service, healthcare, etc.).

The blending of market and non-market resources has been examined in the literature emerging from Europe. Building on the work of economist Karl Polanyi (1957), Gardin (2006) develops a typology of European social enterprise that recognizes a finer characterization of the resources could derived through combinations of the market (in the form of sales to households and the private sector), redistributed funds (i.e., government contracts) or through reciprocity (i.e., volunteers and donations). Focused on Work Integration Social Enterprises (WISEs), the study identifies five models of resource hybridization within social enterprise: *redistribution social enterprise*, which are almost entirely dependent upon government contracts and were mainly created by government; *social enterprise combining market and redistributed-based resources*, have as their main activity social service programs;

market and socio-politically embedded market sales support social enterprise, is an almost entirely market based enterprise with the majority of sales being made in the public sector with significant recognition to their social and socio-political goals; *reciprocity and predominantly redistribution-funded social enterprise*, which are comprised of startup ventures with a significant mobilization of volunteers from the community and may include some market resources; and *reciprocity and predominantly market-funded social enterprise*, which are embedded in the community, reliant upon volunteers to generate sales revenue through the market. While it is easy to record the amount earned by an organization, it is equally important and particularly relevant to understand the sources of the financing, the significance of non-monetary resources and the degree to which the organization is embedded in the socio-political market.

The literature on nonprofit social enterprise has evolved to the point that an extensive history of practice exists, particularly within larger, well established nonprofit organizations like Goodwill and the American Red Cross. As a result of economic crisis, scholars representing diverse fields have explored the idea of social enterprise, emphasizing both the social and economic value creation as its goals. The economic literature, in particular, has revealed that as a result of the loss of donative revenue, nonprofits will, in some cases reluctantly and in others enthusiastically, engage in commercial activities. The human services field is noted as a sector where commercial and donative revenues have been combined. However, little is known about how the type of social enterprise activities, which has been defined here as those social mission related activities, are successful, in effect achieving the goal of offsetting the loss of income, generating a new revenue stream and ultimately contributing to the operations or sustainability of the organization.

The emergence of social enterprise presents a rare opportunity for practitioners and scholars to recognize and more effectively integrate comprehensive value creation into assessments of organizational performance. Driven by innovation, social entrepreneurs derive tactics and strategies from the blending of the efficiency-driven private sector, with the social-mission focus of the civil sector encased in the effectiveness demanded by society but most vocally through public and private sector benefactors. By definition, entrepreneurs are innovative, opportunity-oriented, resourceful, value-creating agents (Dees & Economy, 2001). Social entrepreneurs participate in the larger movement that strives to create greater economic and social value and are not constrained or limited to a particular organizational form, therefore exist mostly in the civil sector and increasingly in the private sector. Social enterprise engages in “innovative and effective activities that focus strategically on resolving social market failures and creating new opportunities to add social value systematically by using a range of resources and organizational formats to maximize social impact and bring about change” (Nichols, 2006, p. 23). Social entrepreneurship is less about the organizational form and more about the movement toward finding innovative strategies and solutions to social problem. It is about innovation and impact, not earning potential and commercialization (Dees & Economy, 2001).

A hallmark of social enterprise is its focus on the double or triple (the latter now includes environmental impact) bottom line. These organizations work to create blended value (Emerson, 2003), striving for profitability as well as social mission. While it is possible to measure profitability, through investors and the drive of the entrepreneur, social enterprises are forging new ground to create metrics to substantiate their efforts to create value. These metrics emerge from the experiences in service delivery and in relation to the environment. Following the feedback loop articulated in Senge’s The Fifth Discipline, the interplay between information and the organization is dynamic and evolving, with the

feedback coming from the environment influencing the operations (Senge, 2006) of the social enterprise.

The Importance of Measurement to Social Enterprise

Change and innovation is the *raison d'être* of social enterprise. From the outset of its ventures or entrepreneurial activities, the social entrepreneur is singularly focused on improving upon an existing system or conditions surrounding a marginalized group. As nonprofits, social enterprises operate as a multiproduct firm which is focused on a social objective and engages in commercial activity to contribute directly to the social goods and to generate financial surpluses that can finance their continued activity (Weisbrod, B., 1998). As such, it is important for nonprofits to track their financial performance.

Financial success is not the only lens through which an organization is assessed, however. An organization that is financially successful can be deemed a failure as a social enterprise if it is not addressing its social objectives (Dees & Economy, 2001). To illustrate: social enterprises operating in the community economic development realm create “affirmative businesses” that hire from among the hardest to employ, and in so doing build human and create social capital (Wallace, 1999). There is an opportunity cost of not hiring an individual who has a history of substance abuse or was formerly incarcerated: by not working and paying taxes, these individuals are blamed for the economic downturn of communities. The social enterprise may claim that as a result of its work, an individual is able to contribute to society and that contribution is measured both financially (through taxes that they will pay and their ability to pay for goods and services) and socially, as the individual is a role model that might spur others to act similarly. Numbers cannot fully encapsulate systemic change; only complementary qualitative stories can illustrate such complex shifts (Levinger, Crutchfield, & Wells, 2006, p. 97). To realize the central purpose of the venture, social entrepreneurs are committed to measuring, tracking

and reporting impact that includes how the venture performs financially and programmatically. In effect: recapitulating the narrative that serves to explain the purpose and meaning of organizations.

The Impetus for Measurement: Entrepreneur and Investor

A telltale sign of a social entrepreneur is his/her commitment to ongoing improvement and adaptation of an idea. Social entrepreneurs are almost always defined as using high-performance management practices such as continuous improvement, quality management, strong financial controls and a general focus on high accountability (Light, 2006b, p. 19). In order to improve and adapt, the entrepreneur needs a thorough understanding and relationship with data. The social entrepreneur is committed to, almost above other organizational objectives, the creation of social value (Dees & Economy, 2001). Systems thinking, the ability to navigate through the extensive amount of information, to see the parts as components of the whole (Senge, 2006), is an essential skill of the composition of the social entrepreneur.

Fabio Rosa, an agronomist and engineer committed to bringing electricity to poor people in Brazil understood not only electrical engineering, but also irrigation, rice farming, land grazing, solar power and banking and politics (Bornstein, 1998). With that breadth of knowledge and an investment by Ashoka, a venture philanthropy investor, Rosa promised villagers that he could provide electric power to individual households for about the price of a cow. Two years later he had delivered an electric grid to some 400 rural families at a cost of \$400 to \$600, less than 10% of the government's rate of \$7,000 (which is three times annual per capita income). In the five years that followed, data supported Rosa's cause. Informed by data, Rosa could make the case for a larger scale application of his business model in first 42 municipalities and eventually to Sao Paulo, Brazil's most populous state. Once achieving impact in Sao Paulo, Rosa knew that in time, the rest of Brazil would follow suit. Data not only informs

the business, it earns investment of money and political will needed to ensure that the venture will gain the traction needed to go to scale. Measuring impact is a core activity of social entrepreneurs.

In addition to the entrepreneur, investors are also interested in the successful outcomes of the social enterprise. In the private sector, entrepreneurs may rely on capital from various sources, including professional venture capitalists (VCs), business angels and corporate venture capitalists (De Clercq, Fried, Lehtonen, & Sapienza, 2006). Funders of social enterprise are focused on three key elements: a driven and entrepreneurial leader with a system-changing idea and a solid organization that is capable of rapid growth and financial sustainability (Kramer, M. R., 2005). In general, nonprofits have limited access to equity markets as they cannot distribute profits nor issue stock (Salamon, L. M. & Geller, 2006). Venture philanthropists, like traditional VCs make investments in enterprise and provide organizational development support to foster the growth and sustainability of the enterprise. However, unlike private sector VCs, venture philanthropists expect social outcomes.

Ashoka provides fellowships to social entrepreneurs and is one example of a venture philanthropy that is redefining grant making in response to the emergence of social enterprise (Bornstein, 1998). Modeled on VCs, venture philanthropists provide capital to businesses in their portfolio and are characterized by their “engaged” grant making. These philanthropic organizations work very closely with the social entrepreneur, providing advice and holding the business accountable for social impact. Venture investment of this sort is an important resource to the entrepreneur and represents another important reason why social entrepreneurs are eager to claim outcomes and value creation.

Measurement Objectives

Reflective of the profound change that has surrounded social enterprise, there are numerous lenses through which the ventures can be evaluated. At least three inter-related categories of metrics have been dedicated to social enterprise: econometrics (financial), environmental metrics and social metrics (Emerson, 2003). Evaluation can be situated within the organization, among its stakeholders and within society. As social enterprises span a breadth and depth of fields of practice and cross and marry fields in unorthodox ways to meet their mission, it is not surprising that the measurement objectives are varied and complex.

A methods catalog detailed in the “Double Bottom Line Project” reveals 10 different outcome assessment and evaluation models developed for social enterprise (Rosenzweig, 2004). While each method has its unique focus, the organization’s theory of change is a primary contributor of the efficacy of the organization. The different models evaluate a combination of process, impact and monetization. An impact value chain, which includes an examination of inputs, activities, outputs, outcomes and goal alignment, is used to explicate how the organization’s resources are deployed to generate outcomes and create value. Many of the models rate as “high feasibility, low cost” if the organization is already collecting requisite data. However, many also are considered to pose significant risks to credibility, by having a weak correlation between outcomes chosen and true impact.

An exemplar contributor to social enterprise evaluation is Roberts Enterprise Fund, later renamed REDF, a pioneer in the field of impact measurement. REDF’s assessment examines four domains of the social enterprise: individual (related to the enterprise employee; looking at demographic variables, social outcomes and anecdotes or stories with the goal of reporting on an improvement in the lives of the individual); enterprise (or program; looking at demographics, social outcomes and financial results toward the end of a “group” of improved lives and a healthy,

growing/profitable business); organization (using its in-house proprietary data collection system called OASIS to collect systems data that will detail the health and effectiveness of the organization) and finally society/community (using “social return on investment” and cost/benefit analysis to understand how society is improved, the dollar impact on community and the costs effectiveness of the organization’s strategies (Fund).

Measurement Challenges

Evaluation and assessment represents a significant challenge to nonprofit organizations. The field finds itself beholden to funders and (for social enterprises) investors. Funders have different ways of thinking that change, goals, metrics and reporting requirements, which are sometimes tangential to and sometimes at odds with other funders (Carlson, 2003, p. 4). Misalignment of strategy, goals and tactics is often the result. In a report following a meeting of funders about assessing social impact, a group of grant makers concluded that the solutions can be found by focusing on addressing challenges that reside within the following four areas: *conceptual* (adopt a standards to help shape best practices and align theories of change among organizational stakeholders); *operational* (recognize that social enterprise implementation requires a longer period as compared to traditionally funded nonprofit to attain outcomes; acknowledging that value cannot be measured and for measurement to be successful it must be practical, technically sound and useful and third parties might be more effective in helping to gather information about the impact); *structural* (it is difficult to development common metrics given the diversity of the fields of social enterprise activities and range of funders and their priorities); and *practical* (goals are unclear, funding priorities are inconsistent and trust and mutuality are limited) (Carlson, 2003).

Jed Emerson, founder of REDF and a prominent social enterprise scholar, contends that issues that arise as we contemplate measures of performance include the “lack of consistently effective

approaches and tools for measure and reporting social value, the issue of focus and the issue of disbelief and lack of confidence or trust in what is measured” (Emerson, 2003, p. 78). Emerson most notably and effectively suggests that new language and capabilities need to be created to explicate the value being created by social enterprise. Toward that end, phrases and concepts like “social return on investment” and “blended value mapping” and “triple bottom line” are seeping into the lexicon with concomitant definitions that are informing the way in which we characterize social enterprise. In this way, the measures serve as a feedback loop that reconnects the organization with its environment and does not hold it to general and disconnected standards that do not reflect the full meaning of the work (Wheatley, 2007).

Financial Consequences of Nonprofit Social Enterprise: What We Know & What We Ought to Know

The subject of this literature review is the consequence of nonprofit social enterprise. As has been discussed earlier, social enterprise pursues social and economic value. While there is value in each, in the case of nonprofits it is necessary to examine both. This section is a review of the analyses and studies that examine the finances and operations of nonprofits that operate social enterprise.

The Partnership on Nonprofit Ventures, a now defunct collaboration between the Yale School of Management and the Goldman Sachs Foundation, conducted an informal survey of over 500 nonprofits. This study explored the emergence of social ventures and identified specific supports that nonprofits need to initiate or engage in social ventures. The survey was posted online, and the responses were unqualified self-reports from nonprofit administrators. Relevant to this literature review, 42% of the respondents currently operate a venture, 30% of the respondents represent human service organizations and 87% of those that are currently operating a venture profess that the venture supports the mission of the organization (Massarsky & Beinhacker, 2002). For 66% of the respondents of this study, financial return is the primary reason for launching profit making ventures. Of those operating a

venture note that the venture contributes significantly to the bottom line of the organization, generating a 12% increase in net revenue. Five percent of the organizations in this study who have ceased their venture operations note that there was only a 5% increase in their net revenue. Finally, and most relevant to this study, is the following table:

Table II.2: Profitability of Venture by Type of Earned Income Venture

By Type of Earned Income Venture Operating

(n=519)

Percent Saying	Service Related (%)	Product Related (%)	Cause Related (%)	Renting or Leasing (%)
<i>Venture Requires Subsidy</i>	33	31	34	25
<i>Venture is at Break Even</i>	20	20	14	21
<i>Venture Generates Financial Surplus</i>	35	37	36	50
<i>Other</i>	5	5	7	3
<i>Don't Know/No Answer</i>	7	6	9	2

Source: Massarsky & Beinhacker (2002)

How organizations operate their social enterprises can be intuited from this data. Between a quarter and a third of the organizations, regardless of the type of venture, finds that they require subsidy to operate, which fits with the notion that nonprofits would be employing business models that are not entirely sustainable in the market. While in the context of private sector business this could be perceived as a negative circumstance, for nonprofit organizations this may indicate that the employment of the social enterprise strategy is helping them to diversify their resources. Of all but the cause related ventures, one in five of the each type is operating at break even, suggesting perhaps that the structure of cause marketing relationships do not generate sufficient revenue to cover its costs.

Finally, more than a third of the organizations in three of the four venture categories reported that their ventures generated a financial surplus, with 50% of those engaged in renting or leasing businesses operating profitably. As with the break even finding, the category of those that realize surpluses suggests that their leveraging of already existing assets for exploitation in the market may be an efficient and productive means to generating revenue.

This study, though exciting for its presentation of details about social enterprise and being the largest study on the subject to date (n=519), opens the door to a further, more in-depth empirical examination of the financial implications of nonprofit social enterprise. In answer to the question about revenue generation of social enterprise, this study and particularly this table reveals that ventures generate revenue. Though subsidy is required and planning is essential, this study illuminates that business ventures are achieving the goal of generating revenue and in some cases profit. However, the associated costs – financial and otherwise – are not part of this discussion. In general, this study offers valuable descriptive data but lacks theoretical grounding. Its purpose was to survey the landscape of social enterprise, to explore the meaning of success and failure in the context of social enterprise toward helping the partners determine how to improve their support of nonprofit ventures. It concludes that business planning is important, however, setting the stage for further examinations of the consequences on social enterprise.

Community Wealth Venture, a consulting firm providing support to nonprofit social enterprise, conducted a study with the goal of understanding whether the enterprises delivering revenue through ventures that are consistent with organization mission (Unzueta, 2004). A telephone survey was administered to 105 executive directors of nonprofit with for profit ventures. Forty three percent of the respondents admitted to having had no business experience at the launch of their enterprise and 78% profess that their business is aligned with their organization's mission. Of the survey respondents 42%

reported that their enterprise as being profitable, 27% broke even and 13% lost money. For those organizations that were generating profits, ventures operated by smaller organizations (operating budget less than \$1 million annually) generated \$167,000; mid-sized organizations (operating budget between \$1 million and \$5 million) generated \$600,000 and for the larger organizations (operating larger than \$5 million) generated \$5 million. Here again, the CWV study reveals that nonprofit social enterprises are profitable, but uses no theory to inform the study nor any means of verifying quantitative data.

The two previously-mentioned studies examine the financial impact of social enterprise on nonprofit organizations and concluded that earning revenue and achieving profitability is possible. The goal of achieving financial stability is not explicated through these studies, nor is the implications for earned income on the functioning and management of the organizations. Financial data and implications for nonprofit organizations have been alluded to or part of the description of the sample, but has not yet been the subject of a scholarly, empirical study.

Cooney (2006) has explored the structuring of nonprofit ventures that allude to financial performance and its impact on the nonprofit organization. The three-year qualitative exploratory case study examines an organization that has operated as a private nonprofit organization whose social service work (includes workforce development and vocational rehabilitation) are supported by the profits generated by a several business ventures, including retail and distribution fulfillment service center. There is a conscious effort to separate the business and social service divisions, with distinct hierarchies and policies created for each. The business units generated 72% of the organization's revenue, performing in the way that many nonprofit entrepreneurs aspire that their business units will. The social service side of the organization, which generates 16% of the organization's revenue, is very much reliant upon government funding. Based on the description of the organization, the case is a

model of an embedded social enterprise, where clients of the social service programs are employed in the business venture. The study reveals tensions between the business and social service units, particularly as both sides attempt to respond to external forces (i.e., the changing economy) and to reconcile their output so that for the clients, there is an integrated service being generated. The first of those tensions centers around timing: the pace of operations is slower in the social services units, which compromises the abilities of the business units to respond to market needs and wants. The influence of government grants, though it represents a small percent of organizational earnings, substantially dictates the type and flow of staffing for the business units. The second tension is that although the organization is driven by a social purpose, it is constantly managing market risk. With substantial revenues being generated by the business units, the entire organization is vulnerable in case of market downturns. The social service mission remains under threat even though the business venture is successful. The third tension relates to the loosely structure service technologies that ultimately are organized around the need of the business as opposed to the government grant. This tension suggests that an elimination of government funding may well relieve this tension and smacks of goal displacement. While rich with data and insights into the issues of having businesses coexist within social service settings, there are limitations to this research. The study is of a single case, and therefore prohibits generalization. It, like many of the studies discussed, does not provide the cost information to balance the revenues presented in the case. Without cost data, it is difficult to discern the efficiency of the operation.

Implications for Social Work Education and Practice

An examination of the organizational consequences of nonprofit social enterprise has implications for social work practice, program, policy, theory and of particular note – education. This

section details the potential significance of an examination of the financial implications of nonprofit enterprise to the social work field.

While social work services are available in a variety of settings, it is particularly resonant and central to community-based nonprofit organizations. In government, the private sector and nonprofit institutions, social work is available to but is not central to the implementation of their program/business models: patients obtain health care in hospitals; students are educated in schools and workers produce goods and services in corporations. In each of these cases, social work services are available and extended to the target population. However, it is in voluntary and other charitable agencies that social work is central to if not defined as the core service. Within these organizations, the two arms of our practice: that which serves the psycho-social needs of individuals and families, as well as the countervailing but complementary work with the community to identify issues and advocate for change – are central to the mission of the organization. As a profession we embrace these organizations in particular, evidenced by the statement in the preamble of the National Association of Social Work code of ethics that it is the job of social workers to promote the responsiveness of community, organizations and other social institutions to individual needs and social problems ("Code of Ethics of the National Association of Social Workers", 1999). Nonprofit organizations are an important setting of the social work profession. In community-based, as opposed to institutional, settings, social work services define the organization.

Social work has been notably impacted by the rise of entrepreneurship in social welfare. The agencies with the longest track records in social entrepreneurship include the organizations where social workers provide core services. Traditional voluntary organizations like Goodwill Industries and the YMCAs began integrating commercial activities and establishing social enterprise (Lohmann & Lohmann, 2008). Many settlement houses have as well explored "profit-making activity" (Fabricant & Fisher,

2002c). Finally changes in Medicare and Medicaid reimbursement have led to substantial changes in the financing of healthcare that spread the responsibility for financial management broadly throughout the organization (Lohmann & Lohmann, 2008). As a consequence, social workers find themselves making decisions about client care that has implications for the availability of resources within the organization. With greater knowledge about the financial ramifications of social enterprise, social work managers and direct service practitioners will have the intellectual resources to participate in the structuring and implementation of social enterprise programs or have the data that supports their arguing against this strategy.

By and large, the sentiment among most social workers about entrepreneurship is skepticism. Fabricant & Fisher (2002) decried the commodification of services, where the effort to reduce costs to achieve greater efficiency is out of step with the way that social workers traditionally conduct themselves and prioritize services. Others expressed concern about the potential that increased commercialism and entrepreneurship threatens the universal rights that are inherently part of the welfare state and undermine the argument for government responsibility for social problems (Cook, Dodds, & Mitchell, 2003). These are certainly valid concerns that can be surfaced and addressed if social workers become more actively engaged in the emerging discourse about social enterprise.

In this era, for the vitality of social work as a profession, there needs to be a greater focus on management and specifically financial management in the education of our professionals. An NASW survey revealed that 69% of respondent devote some time to administration/management; 27% spending 20 or more hours per week in management related functions (Patti, 2008). Business and finance are not part of the training of social workers (Bent-Goodley, 2002). Yet, social work is an integral and defining part of the identity and culture of these agencies.

Social enterprise is a worthwhile line of inquiry for social workers and there is a gap in the knowledge that explores its value as a strategy for nonprofit organizations. The following section details the key concepts involved with a proposed study of this interesting, provocative and critical topic.

III: Conceptual Framework

“The inertia of our experience pulls us into conventional directions. We must engage in group entrepreneurship to collaborate and become far more than the sum of the parts.”

Bill Drayton, Ashoka

This chapter sets the foundation for an examination of social enterprise among nonprofit organizations. The preceding chapter knit together relevant knowledge and theories from multiple disciplines to identify gaps in what is known about and to reinforce the need for a study of nonprofit social enterprise. In this chapter, I rationalize the nonprofit as the unit of study, state my assumptions about nonprofits that operate social enterprise and unpack the language that I will use to characterize financial condition of nonprofit organizations. *In so doing, this chapter steps beyond the conventional to open the possibilities of exploring the unknown, as is intimated by the opening quote by Bill Drayton.* The final section of this chapter makes the research question operational, setting the stage for a discussion of the research design in the chapter that follows.

Unit of Study: Nonprofit Organizations

Above other organizational settings, nonprofits share a common bond with the social work profession. While social workers are employed by government agencies and corporations, the identity and origins of social work is associated with settlement houses (Fabricant & Fisher, 2002d) and other community-based nonprofit organizations whose primary purpose is to provide social services to and to empower vulnerable populations. Thus, among the primary functions of nonprofit organization is the provision of services that serve a public good (Salamon, L., M., 2002c). This focus, which is similar to that espoused by the social work profession, distinguishes nonprofits from private sector firms and social work majors from business majors. It is without question that social workers can thrive in government and the private sector, but there is a unique affinity for the profession within the nonprofit organization.

Therefore, it is relevant for researchers representing the social work profession to examine and understand social enterprise within the context of nonprofit organizations. In the earlier literature review, I put forth the argument that nonprofits engage in social enterprise as a strategy as a response

to a difficult funding environment (Golensky & Mulder, 2006) that supports their social objectives (Alter, 2006; Weisbrod, B. A., 1998a) and generates needed and autonomous financing (Massarsky & Beinhacker, 2002). Human service organizations are also particularly effected by the erratic funding and general recalcitrance by the political economy (Gronbjerg, 2001a). While it has been suggested that among the reasons why nonprofits engage in social enterprise is to develop additional and at times independent sources of revenue (Dees & Economy, 2001; Massarsky & Beinhacker, 2002), there has been few empirical examinations of the impact of the strategy on the financial well being of the organizations. It is relevant to the study's purpose and in light of the research question that this study raises, to situate this study most particularly within the nonprofit sector, and to understand all that the sector entails.

IRS Designation

The Internal Revenue Service (IRS) is a useful resource for understanding US nonprofit organizations. This powerful arm of the federal government is charged with designating organizations as nonprofit and monitoring their compliance as such. Owing to their charitable purpose and contribution to the social condition in our society, nonprofit organizations are granted tax exempt status (Simon, Dale, & Chisolm, 2006). While there are institutes and researchers at a variety of universities that are engaged in research to understand nonprofit organizations, the ultimate and unadulterated source of financial information about nonprofit organizations rests with the IRS which acts to enforce the tax code.

According to Section 501 of the Internal Revenue Code of 1986, there are two "sets" of nonprofit organizations: charitable organizations and noncharitable nonprofits (Simon, Dale, & Chisolm, 2006). Charitable organizations, which are described in Section 501c3 of the code, are focused on "charitable works" (Simon, Dale, & Chisolm, 2006, p. 294). Noncharitable nonprofits, designated as

501c4-25 are engaged in work that benefits their private members. Toward narrowing the focus on nonprofits to disciplines that resonate with social welfare, the IRS is useful. In section 501 of the Internal Revenue Service's tax code, there are 31 types of tax exempt or nonprofit organizations (Boris & Steuerle, 2006). While all are tax exempt, these organizations operate with different purposes. For example, social and recreational funds (those are classified as 501c7) and labor unions (those are 501c5), both of which focus on the specific needs of their members. Ironically, social welfare organizations are designated as 501c4, acknowledging their purpose to promote social welfare. Among the organizations in this category are civic leagues and community associations that work toward improving public services, including volunteer fire companies, retirement benefit programs and homeowner associations that are organized to maintain common areas (*Tax-Exempt Status for Your Organization*, 2008).

While social workers may work on behalf of these organizations and its leaders elect to employ social enterprise as a strategy toward accomplishing their goals, not all of the tax exempt organizations so designated by the IRS are relevant to this study. (A further explication of strategy will be discussed in a subsequent section.) These organizations do not confront the funding challenges of the charitable organization that is heavily dependent upon public resources, as opposed to membership dues, to implement their programs. So the unit of study can be refined from being nonprofits, to those designated as 501c3 charitable organizations according to the tax code. This section of the code includes organizations that benefit to the public interest by providing, among other services and in service to diverse populations, relief to the poor, distressed or underprivileged; lessening the burdens of government and neighborhood tensions; eliminating of prejudice and discrimination and combating community deterioration and juvenile delinquency (*Tax-Exempt Status for Your Organization*, 2008). Grant-making organizations, as well as the religious, insurance providers and educational organizations

experience different funding constraints yet are also included within the 501c3 category and are of less interest in this study. Wherever possible, this study will isolate the charitable organizations within the 501c3 category because their purpose aligns with social work practice.

Within the 501c3 category are more specific types of charitable and religious organizations. As part of the application process, aspiring nonprofits indicate their mission and are assigned to a category under the broad organizational designation of being charitable or religious. These designations have been expanded upon in a collaboration of the US Internal Revenue Service and the Urban Institute (a social policy think tank). The resulting National Taxonomy of Exempt Entities is a classification system that organizes nonprofit organizations into ten major groups which are listed below.

Table III.1: National Taxonomy of Exempt Entities – Core Codes Classification System: Major Groups

- Arts, Culture & Humanity
- Education
- Environment & Animals
- Health
- Human Services
- International, Foreign Affairs & National Security
- Public & Societal Benefit
- Mutual & Membership Benefit
- Unknown/Unclassified

Social workers practice in many types of organizations, though they likely to predominate in human services. Human services encompass a swath of activities that range from the improvement of the well being (Schmid, 2004) to the “prevention or management of welfare deterioration (“social maintenance”) (Kendall, Knapp, & Forder, 2006, p. 416). While social workers count themselves among the staffs of human service organizations, social care is significantly associated with the social work profession. Social care involves more than the contractual delivery of services by a practitioner to a client, as is the case by a medical doctor or mental health profession, but is centered on the personal and intimate (yet thoroughly professional) relationship between the caregiver with the client that is driven by the earnest altruism, obligation and a belief that caring, more so than money or even accolades is its own reward (Kendall, Knapp, & Forder, 2006). There is no legal designation or funding that isolates social care. To the extent that it is possible, the nonprofit that is engaged in human services and more particularly social care will be the unit to be examined in this study.

In their self-described “crude” typology, Kendall, Knapp and Forder (2006) delineate nonprofit social care organizations and their funding as follows:

Figure III.1: Social Care Nonprofit Sector Typology

Type	Target Population	Purpose	Affiliation	Funding Source(s)
Traditional Generalist Social Service Agency	General people in financial or social need	Historically to address poverty, more recently supporting state income maintenance	Religious denominations, occupational, trade or professional groups, social movements (including the labor movement)	Public funding Endowments and other property-related monies (with income generated from inherited assets or accumulated financial reserves)
Specialist Social Care and Support Groups	Specific people in financial or social need	Personal care services, information, advocacy	Individuals within the community or who are committed to the needs of the specific population being served	Older organizations have endowments and property related income; newer organizations rely on private giving
Advocacy Groups	Users or participants in social movements	Lobbying	Individuals within the community or who are concerned about the circumstances of either specific or general population	Membership dues and fees
“New” nonprofit social entrepreneurship and hybrid organizations	No specialized clients group – organized for local, regional or national audiences	Government funded social services	Political groups, labor, religious movements	Public funding and user contributions
Self-help and community groups	Specific people in financial or social need	Limited scope of social service activities	Geographic or ethnic communities	Mixed funding

(Excerpted from Kendall, Knapp and Forder (2006), *Social Care and the Nonprofit Sector in the Western Developed World*)

While nonprofits in general are challenged to maintain consistent funding for their projects, nonprofits that provide social care services are particularly vulnerable, as is illustrated in Figure 2: Social Care Nonprofit Typology. There are no dominant funding streams to support social care organizations. This absence of funding has been used to explain the inclination to engage in entrepreneurial activity by human services organizations (Warm, 2004, citing Gronbjerg, 2001), a category which includes social care organizations. The opportunity for ongoing support is questionable, as the provision of social care is labor intensive and the path to achieving outcomes of improved social well being of clients is neither short nor straight.

In response to their reliance upon a volatile economy and reluctant political system, nonprofit social care organizations, and I would argue, human service organizations, develop social enterprises as a strategic response to a negative environment. The economic condition and the entrepreneurial response is enacted by organizations that are most familiar to social work practice, including community action agencies, community mental health centers, housing organizations, hospices and Head Start programs. All experience losses in their public funding and adopted entrepreneurship as a strategy to continue to provide services (Lohmann & Lohmann, 2008). Their enterprises create jobs and opportunities for their clients (Cooney, 2006) or leverage their expertise to provide goods in the market place (Wade, 2006). Other organizations elect to leverage their knowledge of a critical issue area to create high profile corporate partnerships, such as is the case with Share Our Strength and the Susan G. Komen Foundation for the Cure. In both of these responses, the nonprofit's core program strategy is to provide counseling and/or otherwise supportive services that enables vulnerable populations to achieve greater self sufficiency and the business or enterprise provides an opportunity for the client or organization to realize that goal. Yet little is known about what the financial contribution these activities make to the financial condition of the nonprofit.

Given their resonance of their mission to social work practice and their inclination toward entrepreneurship, it is warranted to investigate the financial viability of social enterprise as a management strategy of nonprofits, with a particular focus on human service organizations. In sum, this study is particularly interested in charitable nonprofit organizations that are dependent upon government funding to support their program activities, which are designated as 501c3 and having more specific designations within the category that could prove useful as an independent or predictor variable.

Dimensions of Social Enterprise

While the nonprofit organization is the unit of study, its object is the use of social enterprise as a sustainable program strategy. While the preceding literature review reported on the state of the knowledge about social entrepreneurship and social enterprise most specifically, it behooves me to revisit the literature and make operational the social enterprise concept for this study. As there are many types of nonprofits, so too are the number of ways in which these organizations implement their social enterprise strategies. It is essential to gain knowledge about this object by deconstructing **what it is** in a way that aligns with this study's purpose and research question and in so doing establish a perspective or lens through which this study will look at social enterprise strategies.

Assumptions

Prior to delving further into the details of this concept, I outline the assumptions that guide my thinking about human service nonprofits that operate social enterprise. These assumptions may be applicable to nonprofits that operate in other sectors (i.e., arts and culture, healthcare, etc.); however the focus of this inquiry and the ensuing discussion is human service organizations because of the fit between these organizations and social work practice. This is particularly important given the

implication of financial management on social work practice and the reluctance and skepticism of the field about financial matters (Lohmann & Lohmann, 2008). These assumptions speak to the concerns of the social work profession and make the case that this study has direct value to not only advancing the knowledge about nonprofit entrepreneurship.

I assume that **nonprofit social enterprise is an organizational strategy**. Nonprofit organizations operate with a singular purpose: attainment of a social mission. A mission is a statement of why an organization exists and, to some degree, a means to understand what it does (Weinbach, 2003b). Underlying a mission are the organization's goals, which are operationalized by objectives. A strategy is a specific plan of action designed to achieve an organization's goals (Weinbach, 2003b). So, an organization may have a fundraising strategy, a marketing strategy or a program strategy. The list can be endless. Strategies are actions that are not easily definable and isolated. That said, I assume social enterprise is a strategy as it is an action taken by an organization. It may be considered a program or revenue strategy. An organization may elect to institutionalize the strategy, and in so doing establish a subsidiary legal entity to house the program, but fundamentally the decision to engage in market activities to generate income is an approach to a program. Toward pursuit of mission, an organization's leaders and staff might operate multiple strategies and therefore might use the social enterprise strategy alongside more traditional strategies. For example, a community organization dedicated to economic revitalization might operate a job training program and landscaping service that hires participants from the job training program. The strategies in this example are training and employment. Through its employment strategy the organization offers a service which can be exchanged in the market. It also fulfills the organization's mission to revitalize the community, providing jobs and a needed service that will increase market value and the aesthetic of the community.

It is assumed that **the social enterprise is aligned, albeit tenuously in some cases, with the social mission of the organization.** Nonprofits are social mission-driven. Their primal imperative to pursue a social mission aligns with the ethos of social work practice (Gray, Healy, & Crofts, 2003) and explains the attraction of social workers to employment with nonprofit. Social ventures are a development that, while not new to nonprofit organizations and the social workers that are in their employ, are a going element of nonprofit life. The essential purpose for social enterprise, particularly in an organization that engages in this strategy as a means to manage a difficult funding or economic environment, is to enable the pursuit of social mission. Alter's (2006) typology of social enterprise bears out the desire of social entrepreneurs to keep mission in mind: their enterprises may be *embedded*, or entirely focused on achieving the organization's mission, *integrated*, in which its commercial activities expand the mission of the organization, or *external*, like gift shops in museums or hospitals, bears no relationship to the mission of the organization. While ample consideration in the literature has been given to whether the commercial aspects of enterprise impinge upon the mission-related purpose of the organization (Cook, Dodds, & Mitchell, 2003; Dart, 2004; Eikenberry & Kluver, 2004; Farruggia, 2007), social organizations adopt social enterprise because it contributes in some way to achieving mission. Social enterprises, regardless of their focus on the social purpose of the organization, contribute to the financial performance of nonprofit organizations. If the enterprise is embedded or integrated, as defined in Alter's typology (2006), they may be generating income and possibly profits (defined as the money that remains after expenses) and serving the organization's social purpose. In contrast, if the enterprise is external, then its proceeds are generally contributed to the nonprofit and the organization may be subjected to being taxed and could potential lose its tax exempt status. In either case, the nonprofit is rewarded with income that is free from the demands made by funders and ultimately supports the mission related work of the organization.

This inquiry assumes that **nonprofit social enterprises generate value**. Value can be measured in a number of different ways. From the literature it is known that among the reasons that nonprofits launch social enterprises is to create an additional and autonomous funding stream and to diversify its funding sources (Dees & Economy, 2001; Golensky & Mulder, 2006; Leroux, 2005). The literature is also replete with arguments that the social enterprise strategy supports or impedes the creation of social value, which is particularly (but not limited to) nonprofit organizations (Bornstein, 1998; Cook, Dodds, & Mitchell, 2003; Dart, 2004; Eikenberry & Kluver, 2004; Farruggia, 2007; Gray, Healy, & Crofts, 2003; Haugh, 2007; Young, R., 2006). As an extension of this assumption, this study assumes that it is possible, in fact likely that nonprofits (including the human service/social care organizations that are of interest in this study) may elect to operate one or more enterprises. Social enterprise is a strategy and therefore it is possible for the organization to apply this strategy to one or more of its programs. If the venture (or ventures) is not generating revenue but is valuable to the social mission, the organization may still elect to operate the venture, ultimately to the detriment of the well being of the organization. However, to disregard the financial outcomes in lieu of programmatic outcomes of organizations is to disregard organizational sustainability (Dacin, Dacin, & Matear, 2010). So while the enterprise(s) may be generating financial and/or social value, it is important to also understand at what cost. It is, therefore, assumed that all ventures, entrepreneurial or otherwise, are generating value. The effort to understand whether the costs of the venture exceed its revenues could significantly inform by examining the financials of nonprofits that are engaged in social enterprise.

It is further assumed that **the effects of the strategy to engage in entrepreneurship can be recognized on the organization's bottom line**. I accordingly assign revenue and expenses to the nonprofit social enterprise. Although some organizations elect to establish a subsidiary for its venture to protect the assets of the nonprofit from risk (Young, D. R., 2006), in general it is difficult to isolate the

earnings and expenses of the enterprise in the standard financial statements that nonprofits are obliged to file with the government (more on this in a subsequent section). However, for organizations that operate multiple enterprises, it should also be possible to note differing levels of expenses and presumably revenue. For example, nonprofits that operate a social enterprise may have higher administrative costs, as individuals with the skills to manage a business may demand higher salaries, or investment income from asset holdings that are essential to the business. Though this study will investigate these and other issues, it is presumed that detailed analysis of financial documents could reveal that the income and expenses will vary in response to the type or number of enterprises that a nonprofit operates.

The preceding assumption about striking the balance between the pursuit of mission and market-based earned income requires further amplification. Admittedly, Weisbrod's (1998) conclusion that some nonprofits are really for profits in disguise could hold true too for human service organizations that operate social enterprises. However, Weisbrod (1998) also contends that commercial activity of nonprofits that is devoid of mission is antithetical to the function and purpose of the nonprofits. From this I infer that nonprofit organizations are resolute in their commitment to social mission. The findings from Alter's typology also reveals that the majority of organizations, almost 80% of those included in another study, operated ventures that are centered on mission (Alter, 2006, citing WB&A Market Research 2002). Further, there is synergy between the entrepreneurial strategy and the freedom that it potentially can provide for social workers who are interested in having resources that are free of financial and programmatic constraint (Gray, Healy, & Crofts, 2003). Social workers are not inclined to engage in activities that are strictly commercial and detract from client service.

Finally, I assume that **social enterprise is one among many revenue generation and program strategies being used by the organization**. Given the circumstances that is driving social enterprise and

the desire by this researcher to understand the financial elements of organizations that engage in this activity, this study in no way supports the idea that nonprofit human service organization can or should forego public funding and depend solely on market-based earned income to support its mission. While revenue generation is one of the reasons why nonprofits engage in this activity, if it does so and achieves a profit in addition, it is not presumed that the role of government should be diminished. I conjecture that particularly among social welfare organizations, the impulse to engage in social enterprise emerges from the tensions and reluctance of public support. To understand the financial circumstance enables an argument for support of charitable activity and earned income is potentially a means for nonprofits to maintain their autonomy. This point will be discussed in greater detail in the implications for future work.

Characterizing Social Enterprise

With an appreciation for the literature and my assumptions, there are two ways in which I will characterize the presence of the social enterprise strategy within the organization. The social enterprise is affiliated with a particular industry with which it may or may not be compatible with the purpose of the nonprofit organization, evidenced by poor financial performance. Secondly, nonprofit organizations may have strong entrepreneurial natures, evidenced by the greater use of social enterprise as a means to implement their social mission. The following discussion explains these characterizations more fully.

Type

There are few typologies of social enterprise strategies. They examine social enterprise through a number of lenses: along a continuum of philanthropic through commercial intent (Dees & Economy, 2001), the integration of business model, target population and market (Alter, 2006), need/opportunity (Brouard, Hebb, & Madill, 2008, citing Laville, Levesque & Mednell, 2006) and blending of market and

nonmarket resources (Gardin, 2006). With the exception of Alter (2006), each of the aforementioned typologies only considers social enterprise and its relationship with the environment or through its association with resources (i.e., the market) that are external to the organization. Since my investigation is seeking to understand the implications of this strategy on the internal operations, with a focus on its financial structures of a nonprofit organization (a significant share of which are engaged with human services), I propose to isolate the industry affiliation of the social enterprise as a means that will allow for assessing efficiency.

The North American Industry Classification System is a standard used to track and report on business establishments in the United States. It documents and facilitates an understanding of economic activity in this country ("Conceptual Issues"). This system replaced the Standard Industrial Classification system (SIC) that predominated as the standard with which to organize and understand the myriad of businesses that participate in trade that is vital to our economy. The NAICS system is a useful tool to understand the industry affiliations of social enterprises.

Table III.2: North American Industry Classification System

- Agriculture, Forestry, Fishing and Hunting
- Mining, Quarrying, and Oil and Gas Extraction
- Utilities
- Construction
- Manufacturing
- Wholesale Trade
- Retail Trade
- Transportation and Warehousing
- Information
- Finance and Insurance
- Real Estate and Rental and Leasing
- Professional, Scientific, and Technical Services
- Management of Companies and Enterprises
- Administrative and Support and Waste Management and Remediation Services
- Educational Services
- Health Care and Social Assistance
- Arts, Entertainment, and Recreation
- Accommodation and Food Services
- Other Services (except Public Administration)
- Public Administration

With this proxy for type of social enterprise, I can differentiate financial performance, leading to an understanding of the synergies between human services organizations and particular types of social enterprise. I presume that social enterprises that are affiliated with agriculture will perform differently than an organization that is providing an educational service. Each operates with a different set of expectations in terms of the revenue that is generated. So too, the associated expenses impact the organization differently. The NAICS system provides a singular lens through which to examine the organizations.

Intensity of Enterprise Activity

Nonprofit organizations that operate social enterprise can be parsed not only by the type of social enterprise that they operate, but also by the intensity of their enterprise activity. Social enterprise is a strategy and an organization may have multiple strategies in place to attain their social objectives. For example, an organization might operate a drug treatment program that provides counseling as its strategy to enable former substance abuse patients to address their issues, and/or it might provide opportunities for patients of treatment to earn privileges or money for working within the nonprofit organization. Within an organization, and further, within a program, an organization could have several strategies at work toward achieving the program and ultimately organization's goals.

The operation of social enterprise is not always the sole activity within an organization. While size and possibly maturity might have some bearing on the organization, it is entirely likely, and, based on a review of the membership of the Social Enterprise Alliance, that organizations may operate more than one social enterprise. It seems intuitive, but yet unproven, that social enterprise has any bearing on the financial condition of nonprofit organization and more explicitly the operation of multiple enterprises could also have more of an effect on the organization revenue and expense structures.

Financial Considerations

The financial condition of nonprofits that operates social enterprises has been virtually unexplored in the literature. Surveys reveal that nonprofit social ventures generate revenue (Massarsky & Beinhacker, 2002) and that community development organizations that operate social enterprises noted a decrease in charitable contributions and public support (Young, 1998). However, it is unclear whether organizations that operate social enterprise are more or less financially stable than their less entrepreneurial peers. Despite evidence that there is an increase in tensions within organizations that operate both traditionally funding social programs and market-based enterprises (Cooney, 2006) which suggests a cost to the organization, tensions are not quantifiable. Finally, a study has yet to be implemented that pulls together a broad enough sample so as to generalize findings about financial management of and decision making within nonprofits that operate social enterprises. The knowledge base on nonprofit enterprise is woefully underdeveloped and limited, even after a history of more than two decades (Short, Moss, & Lumpkin, 2009).

There is a small but ardent literature in the social work field that recognizes the profession's role in financial management. It recognizes the influence that managed care has had on the growing role of various staff, including therapists, counselors and other direct service workers in financial matters and "resource-directing decisions" of the organization (Lohmann & Lohmann, 2008, p. 163, citing Franklin, 2001; Lohmann & Lohmann, 2002; and Sowers & Ellis, 2001). Lohmann & Lohmann (2008) also note the prevalence of chronically under funded organization, citing in their analysis the inadequate amount of funding coming from public resources and private donations, which further motivates these organizations to adopt entrepreneurial strategies to mitigate losses. At the same time, there is a growing body of analyses that suggests that social enterprise activity within the human services realm needs to be understood because of its influence on social work practice (Germak & Singh, 2010). A study

of financial management is important not only to the discovery of further information about social enterprise, but to our profession as a whole.

Financial Metrics and Relevant Theory

The discussion thus far has included very general references to financial characterizations of the nonprofit social care organization. While driven by a social mission, nonprofits, like organizations of the private and public sectors, have to be financially sustainable (Dacin, Dacin, & Matear, 2010). Simply put, nonprofits need to have sufficient revenue to support its expenses. These organizations also need to have the wherewithal to manage the unexpected. While nonprofits are focused on achieving their social mission, to do so without securing and managing their resources adequately draws management and staff energies away from their principle interest. In the final analysis, the objective of nonprofits are to certainly achieve their social missions, but to do so requires a strong financial position, which seems to be an oxymoron in the political economy that is reluctant about its support of social programs.

To understand the strategies for achieving financial necessitates an understanding of financial metrics. Concepts such as revenue, expenses, assets and liabilities will be explained. It is the difference between these corollary concepts: excess/deficit as the difference between revenue and expenses and net assets as the difference between assets and liabilities, which provide a basis for understanding the financial performance of these organizations. It is the stronger performing organization is less encumbered by issues of finance and can focus on the achievement of social mission. While for human service organizations in particular and nonprofit organizations in general energy must be dedicated to securing and managing finances, for the organizations that are stable are more likely to have the wherewithal to achieve social mission. The stronger organization is one not simply with high revenues or expenses, but the one that has the ability to optimize revenue and expenses and manage the unexpected.

Upon closer examination of financial metrics, it is possible to draw conclusions about an organization's financial performance.

Revenue Concepts: Revenue Diversification and Resource Dependence

Total revenue represents all of the money taken in by the organization. The Internal Revenue Service expects nonprofits to report on their sources of revenue. These revenue sources include the following, as excerpted from the IRS 990 form:

- Contributions, gifts, grants and other similar amounts received, includes contributions to donor advised funds; direct and indirect public support; and government contributions (specifically grants);
- Program service revenue, including government fees and contracts and Medicare/Medicaid payments that may be unrelated or related to the tax exempt purpose;
- Membership dues and assessments;
- Interest on savings and temporary cash investments;
- Dividends and interest from securities
- Gross rents
- Other investment income
- Gross amount from the sales of assets other than inventory
- Special events and activities

- Gross sales of inventory, less returns and allowances
- Other revenue, which might include revenue from earned income.

One of the challenges of leaders and increasingly the staff of nonprofits is the acquisition and management of funding (Lohmann & Lohmann, 2008). Social workers might be involved in the process of acquiring these resources and are certainly involved with managing resources of the organization. The diversity of revenue sources is both a management challenge and opportunity for the organization.

Both nonprofit and for profit organizations understand revenue diversification: it is appropriate and necessary for organizations to have multiple sources of revenue if for no other reason than to mitigate the potential for losses. As applied to nonprofits, multiple streams of revenue provide a means to limit revenue volatility (Carroll & Stater, 2008). Simply put, the more diverse the revenue sources, the more likely the impact of a funder's decision to withdraw funds will result in financial shock. Financial shock is disruptive in that it compromises the stability of the organization and ultimately the capacity of the organization to provide continuity in its programs and services. This is problematic for the human service organization and more especially those concerned with social care, as their progress with clients is predicated on sustained interventions. It is important to understand the how resources are diversified, as greater diversity suggests greater potential for goals to be displaced (as organizations attempt to quickly restore funding or alter their programs so that they function with less funds) and the organization to lose coherence (the fracturing of organization into disparate and incompatible units as suggested by the work of Cooney (2006)) and threats to the leadership of the organization if they fail to adapt and respond to the changing environment. **In this study I will explore the relationship between the type of and intensity of social enterprise strategy and the type of revenue sources and the level of diversity among the organization's resources.**

Resource dependency theory explains the tension within the organization to find and secure resources and maintain operations. That the organization obtains an amount of revenue that exceeds its expenses are fundamental to survival and is the essence of the notion of resource dependence: the pursuit of financing necessitates the organization to align itself with the expectations of the environment and specifically the funder (Froelich, 1999) The management of each revenue source effects goals, processes and structures of the organization and are themselves volatile (Froelich, 1999, citing Pfeffer and Salancik (1978)), as the following table reveals:

Table III.3: Revenue Strategy Profiles

	Private Contributions	Government Funding	Commercial Activity
Revenue Volatility	High	Low	Moderate
Goal Displacement Effects	Strong	Moderately Strong	Weak
Process Effects	Formalization	Formalization, Standardization	Rationalization
Structure Effects	Professionalized administration	Professionalized bureaucracy	Professionalized business forms

Excerpted from Froelich, Karen (1999). Diversification of Revenue Strategies: Evolving Resource Dependence in Nonprofit Organizations. *Nonprofit and Voluntary Sector Quarterly*, 1999; 28(246)

Revenue may be a powerful indicator of the effects of strategy on an organization's financial condition. An examination of revenue as well as the diversity of revenue sources will enable a greater understanding of the implication of the social enterprise strategy on nonprofit organizations and are pertinent to social workers in particular. Social workers are tasked to acquire resources for the organization, doing so to support and extend the capacity of their programs. For social workers who are

involved in the management of the organization, they too contribute to the thinking about strategies to be employed to generate resources. Social enterprise is a strategy that generates revenue (or it is presumed) so for social workers to be apprised of the financial value being generated and its implication for their programs is of use to the field.

Expense Concepts: Transaction Cost

Total expense represents the money expended by the organization. The Internal Revenue Service also expects the organization to report how it is deploying its resources. There are three categories of functional expenses that are reported on the 990:

- Program services expense, which reflects the resources used to implement programs;
- Management and general expense, reflecting spending on the management of the organization;
- Fundraising expenses which reveals the amount spent on the effort to raise funds.

The choice by the Internal Revenue Service to monitor these specific categories of expenses reflects the concern about how nonprofits manage their activities. Given the mission driven purpose of nonprofit organization, the program service expense should represent the bulk of their expenditures as it is this activity that earns the organization its tax exempt status. Close attention is paid to management and general expenses, especially given the recent crisis of confidence resulting from scandals of United Way and other nonprofits that spent lavishly on executive compensation (Salamon, L., M., 2002a). Without fundraising and administration there is little likelihood that the organization can grow and achieve its programmatic goals, yet funders are interested in building in greater efficiency within the nonprofit and are uninterested in supporting overhead. So the tendency in nonprofit

financial management is to find ways to ethically assign expenses to programmatic activities, instead of overhead (Thomas, 2006). This competition for overhead is part of the reason why organizations engage in earned income ventures so as to raise the resources to be able to improve salaries and work conditions. These resources are not generally supported by government and not as much in these days of increased financial accountability by private funders.

Expenses also reveal how the organization implements its activities. The transactions of an organization undertaken can be measured based on its investments. I wonder whether nonprofit transactions that are specific to social enterprise strategies can be recognized through their investments or assets particularly in real estate or significant expenditures in technology. The costs incurred by the organization reveal a great deal about the nature of the organization's program and its strategic priorities. Asset specificity (Williamson, 1981) reveal the relevance and intensity of an organization's involvement in social enterprise.

There is a great deal to be learned about an organization by examining its expenses. **In this study, I will examine the relationship between type and intensity of enterprise strategy utilization and each expense category.**

Excess/Deficits: The "Myth" of Nonprofit-ness

Charitable organizations are constrained from distributing proceeds to members or investors. However, this does not presume that an organization does not accumulate resources

Excess/deficit is the difference between the total revenue and total expenses and is also referred. This metric is parallel to profit in the private sector. Unlike in the private sector context where the proceeds are distributed to shareholders or other investors in the enterprise, in the nonprofit organization, the tendency is to minimize profits. To have a profit suggests that the organization has

overstated its needs to funders. It is intuitive, but yet unproven, that nonprofits do generate profits. Through these profits, organizations pay for the salary increases, adjust for inflation and the unexpected situations that can emerge in any enterprise, including the need for leasehold improvements, expansion of program efforts or the recovery needed following a particularly difficult economic period.

Profit necessarily has a different meaning to a nonprofit, permitting it to tend to its needs and build its capacity so that it can more effectively attain its social mission. An organization could have a good or bad year, so having negative net assets (which is the difference between total assets and total liabilities) in a single year does not mean that an organization is in trouble.

In this study, my focus will be on understanding the financial state of nonprofits. Financial performance can be measured in a variety of ways. The private sector celebrates and is organized around the concept of profit, which is the difference between revenue and expenses. As well, a statement of financial condition looks at assets, or holdings of the organization that may include grants receivable that is owed to the organization for services that have been rendered, investments and real estate. Assets can be liquidated to generate cash for the organization. The counterpart to assets is liabilities which are the financial obligations of the organizations. These might include loans or accounts payable and accrued expenses. The difference between assets and liabilities is net assets, which provide a perspective of the condition of the organization. **That said, I will include a review of net assets to see if they too vary by type of social enterprise.**

Financial Vulnerability

Financial metrics are most informative when they are used to compare the performance of one organization to another. To understand that one organization with X employees has revenue of Y is meaningless unless it is known how many employees and revenue of other organizations that are

engaged in similar activities. The techniques used to compare one organization to another can be rather simple, as in the previous example where number of employees and revenues are compared for organizations. As well, the comparisons can be more sophisticated. Ratios, or mathematical relationships between revenue and expense variables, reveal summary indicators that can improve our understanding of the relative financial states (Hairston, 1985; Thomas, 2006). Commonly applied to private sector firms, financial ratio analysis has been used by nonprofits and has helped to increase legitimacy of nonprofits, as demands for greater accountability require that leaders and staff are increasingly understand and articulate how their organization's are performing. The challenge of ratio analysis for nonprofits is manifold: (1) there are no generally-acceptable ranges of values for ratios for nonprofits as exists for private sector firms; (2) the Internal Revenue Service's 990 form is the only uniform financial filing for nonprofit organizations and does not include organizations with revenues that are less than \$25,000, so if indicators are developed they are only applicable for organizations that file with the IRS; (3) financial data are subjective and of questionable validity. That said, there is an unmet demand to create ratios that both measure and make sense so that the leadership of nonprofit organizations can effectively manage their resources.

A methodological theory exists that uses financial ratio analysis to predict the financial vulnerability, or the sufficiency of organizational resources to withstand financial shock (Chang & Tuckman, 1991). In order for a firm to be shock resistant and therefore less vulnerable, it should have adequate resources from which it could draw upon to reduce services and not jeopardize the ability for the organization to carry on its work. They point to four measures of financial vulnerability:

1. administrative costs ratio, which measures the administrative costs as a percent of revenue;
2. equity ratio, which measures the total assets and liabilities as a percent of total revenue;

3. operating margin ratio, which measured as the square root of the revenues less expenditures divided by revenues, suggesting without adequate operating costs an organization could be challenged to continue operations in the event of financial shock
4. revenue concentration ratio, which measures the number of revenue sources, suggesting that diversification is a prudent strategy to minimize the withdrawal of a funder.

Using ratio analysis, an organization with high administrative costs, equity or operating margin is not financially vulnerable because it could reduce expenses in the event of financial shock. Similarly, an organization that has many revenue sources is not financially vulnerable because the loss of a single source of funding more readily than an organization whose revenue is concentrated in few funders can.

In the Chang & Tuckman (1991) model, financial vulnerability is relatively determined. Once each of the ratios for the organizations in their sample was assessed, the organizations were organized into a sequentially ordered array (smallest to largest) by ratio (i.e., Administrative Cost Ratio: Org 1, Org 2, etc.). The array was divided into quintiles. Organizations that ranked at the higher ends of the quintiles for administrative cost, equity and operating margin suggested that organizations (at the lower end for revenue concentration) were deemed severely vulnerable. The achievement of low Revenue Concentration Ratio suggests that an organization has fewer revenue sources and is therefore severely vulnerable. In this way, financial vulnerability can be assessed across a sample.

Each of these financial metrics contributes to assessing the optimal allocation of scarce resources by the nonprofit. In economics, which is the study of how resources are allocated, optimality allocated is achieved when the marginal social benefit equals the marginal social cost. In organizational terms, an organization has optimally allocated its resources when its marginal outcome equals its marginal costs. While the scant literature has dedicated much energy to defining social enterprise as a

strategy for nonprofit organization and exploring the ramifications for social outcomes, little has explored the financial aspects of the strategy. The following section establishes the importance of a study on the financial implications of the enterprise strategy for nonprofit organizations.

Study Aim: Financial Implication, Not Impact

By definition, an implication is an indirect suggestion that infers a subtle involvement between two concepts. Implications can, but do not necessarily, suggest causality. The decision to frame this study around indirect suggestion of a relationship between the social enterprise activity and financial condition of the nonprofit was a conscious one: there have been few (none identified in the previous literature review) examinations of the costs of social enterprise, the literature on the subject is scant so the aim is to explore, not explain the relationship. However, this research has the potential to indicate that there is value in nonprofit social enterprise and, as any worthwhile inquiry, could also conclude that engagement in social enterprise by nonprofits is not of value. Furthermore, the relationship of the organization to its stakeholders may be different given its earned income. By electing to examine the financial implications, and not financial impact, it is also possible to conclude that both sides of the associated proposition – that nonprofit social enterprise strengthens the organization -- are true and false. It is the intent of this researcher that this inquiry will catalyze a new thread of inquiry in the domain of consequence of nonprofit social enterprise, instead of descriptive projections of process.

Curiously, embedded in this thinking is the question about the efficiency with which the organization is achieving its tasks. This inquiry, quite ironically, raises questions that could answer the anxiety of social work: that being whether these activities are draining the organization's resources and subtly moving it away from its mission and client work. At the center of the concern is whether this activity is worth it. And to determine the worth of the enterprise activity requires an examination of, among other things, the financial performance of the organization. This study stands to greatly increase

the understanding about social enterprise by answering the question of the helping professional who wonders whether the strategy is worth it. Efficiency is therefore a focus of this study.

The Thorny Issue of Efficacy

In contrast to the literature on nonprofit social enterprise and with the goal of extending and generalizing what we know, this inquiry borrows from economics to investigate efficiency of nonprofits that operate a social enterprise. Efficiency is an economic concept, and one that has limited appreciation among social workers and others in the human services/social care fields (Knapp, 1991; Pruger & Miller, 1991). Instead, the literature is rife with discussions and analyses that question the effectiveness of social enterprise (Bornstein, 1998; Cook, Dodds, & Mitchell, 2003; Fabricant & Fisher, 2002a; Farruggia, 2007; Massarsky & Beinhacker, 2002), particularly with concerns about mission creep and the influence of the market on the altruistic purpose of the nonprofit. In the supply side view of nonprofit organizations, Frumkin (2002) argues that the purpose of nonprofits is less about being efficient and more about creating new approaches and strategies to address intractable social problems (Frumkin, 2002b).

However, the purpose of this study is to understand whether social enterprise is supporting or undercutting the nonprofit organizations and, taking advantage of the current economic downturn to determine financial vulnerability and the organization's response to financial crisis. An examination that emphasizes efficiency leads to a statement about vulnerability. Strategy, while important, cannot eclipse excessive costs in production, distribution or other areas of the organization, is the view held by Williamson in his transaction cost theory (Frumkin & Kim, 2001). It is urgent and critical to understand whether and how the strategy may be taxing the nonprofit organization. At the same time, it is important to recognize that engagement in social enterprise has negative implications for organizational sustainability yet makes a profoundly positive impact on the social mission of the organization.

Decoupling Effectiveness and Efficiency

Because the concept of efficiency is often linked in presentations with effectiveness, it is important to distinguish between these two terms. In their seminal work, Pfeffer and Salancik (2003) explain the difference between efficiency and effectiveness as an internal and external vantage point upon which the organization is assessed. The two terms are used by some interchangeably, although the mediators of efficiency and effectiveness are very different. Effectiveness is determined by external stakeholders, who measure whether the activity engaged in is achieving a broad purpose. For example, some might raise the question of whether operating a cupcake shop is a reasonable activity for a nonprofit with the mission to support pregnant and parenting teenagers. If the programmatic purpose is to provide the teens with skills that they could take with them to secure work in other bakeries or transferable skills that might get them jobs in other industries, then it is effective if the consumers decide to shop in the bakery instead of others in the community, by the government or foundation who rewards the service being provided by the cupcake proprietors with additional grant money, and/or the broader community who see the young people engaging in a productive activity that can help improve their future employability. The organization is deemed effective as long as its program model is financially and programmatically viable as evidenced by the support by stakeholders.

In contrast, efficiency is an internally derived evaluation of organizational performance. Pfeffer and Salancik (2003) define efficiency as the measure of not that an organization achieves a qualitative end, but how well (quantitatively) the end is achieved. Efficiency is the measure of resources used to output produced (Pfeffer & Salancik, 2003, p. 11). In their book, the authors tell an illustrative story of then Governor Ronald Reagan of California who took exception to the use of public money to support the state university system which he perceived to be producing radical left wing scholars. Local activists decided to demonstrate to the governor that the University produced graduates at a lower cost than

other universities in the state, thereby being efficient. However, the governor eventually reduced funding to the university. His issue was not with the efficiency of the institution, but with its effectiveness at producing the next generation of people who would hold ideological views that were very different than his own conservatism. Efficiency is not the same as effectiveness.

What is cost efficient for an organization? Efficiency is measured by assessing the amount of resources available relative to the amount used. The organization's resources include its staff, board and financial or in-kind resources. Efficiency can be determined by figuring out how much staff time is used to achieve a specific outcome or to engage in an activity. By way of example, if organization A deploys 2 members of staff to produce 5 widgets and organization B deploys 5 members of staff to also produce 5 widgets, and the quality of the widgets are the same, then Organization A is more efficiently using its staff time. In the case of nonprofit organizations however, the measures of efficiency are difficult to isolate because the end product, particularly for a human service organization is the well being of clients. However there is no consistent framework for understanding, much less measuring nonprofit output (Tinkelman & Donabedian, 2007). Not only is well being difficult to isolate and measure, but it is also mediated by context and the caring labor delivered by its staff. It is for this reason that scholars have been challenged to and social workers have been skeptical of the emphasis on financial performance of an organization. The situation is even more challenging if one deals with the ephemeral and symbolic resources such as the organization's reputation.

Clearly however, financial performance and efficiency is central to nonprofit organization existence. Citing Young (2005) "strong financial performance is instrumental to success only as it contributes to mission success; it should not be a stand-alone nonprofit goal in itself" (Philipp, 2005, p. 547). However, it, along with effectiveness, assures future funding and makes it possible for the organization to continue to work toward mission. Dacin, et alia (2010) situates the need to explore

financial outcomes as well as social mission outcomes specifically among organizations that operate social enterprises. Examining and reporting on programmatic outcomes tells only a part of the story of the social enterprise. From an economic perspective, “strategizing cannot carry the day if a program is burdened by significant cost excesses in production, distribution or organization” (Frumkin & Kim, 2001, p. 272). Financial reports provide a (note the use of the article “a” versus “the” – quotes are mine) means through which to determine the efficiency of an organization and aid in understanding how organizational processes and strategies impact on the well being of organizations. Admittedly, in the context of nonprofit organizations, whose primary selling point to their funders is their programs and the urgency of their cause, efficiency is not rewarded by funders (Frumkin & Kim, 2001). Yet, to operate a quality program the systems and infrastructure must be in place. Strong operational efficiency is particularly relevant to the commercial side of nonprofits (Frumkin & Kim, 2001). One of the variables to measure the efficiency is the organization’s financial performance.

While the output of this study will be financial ratios that describe the composition of the organization’s finances, the contribution to the knowledge about social enterprise is likely to be more. Financial composition, specifically ratios such as revenues to various types of expenses, reveals the management choices made within these organizations. To understand how expenses are aligned with revenues is to know how the organization is managed. Do organizations that operate social enterprise have greater overhead expenses? How intensive is the organization’s fundraising efforts when the organization generates its own income? These are but a few of the questions that can be answered by understanding the financial makeup of nonprofit social enterprises and comparing them to what is known about nonprofits that do not adopt social enterprise.

Research Question, Diagram & Associated Variables

Now informed by the conceptual framework, it is appropriate to revisit the research question. It is a problem that nonprofit organizations, particularly human services that are so closely aligned with social work practice, are under threat and are engaging in social enterprise about so little is known about the impact of this strategy on the integrity and sustainability of the organization. The literature on social enterprise has been noticeably focused on defining social enterprise as a type of organization when it is simply a strategy used by organizations to, among other things, mitigate their reliance upon government and foundation support

Dependent Variable: Financial Circumstances

In this study, I expect to describe the financial characteristics and indicators of financial vulnerability. The two broad dimensions, as has been outlined previously, are financial performance and financial condition. Not surprisingly, each of these variables is measured quantitatively.

Table III.4: Dependent Variables

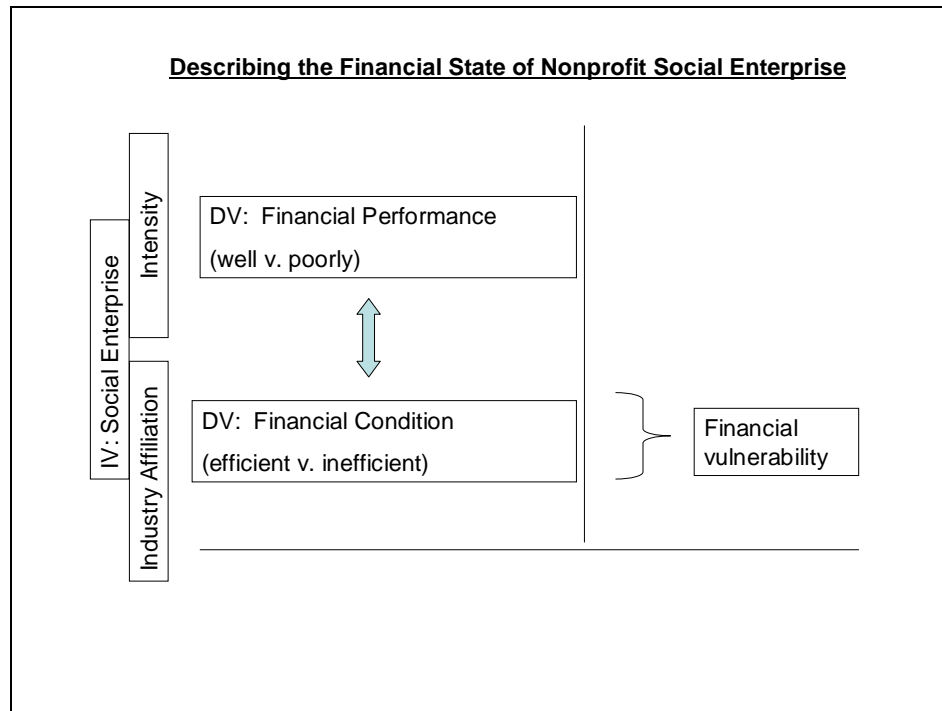
Dimension	Variable
Financial Performance	Revenue
	Expense
	Excess/Deficit
	Net Assets
Financial Condition	Administrative Cost Ratio
	Equity Ratio
	Operating Margin Ratio
	Revenue Concentration Ratio
Financial Vulnerability	Financial Condition ratios

Independent Variables: Type and Intensity of Social Enterprise

Accepting that social enterprise is a strategy, it is conceivable that an organization might employ multiple strategies to toward attainment of the social mission. Therefore, in this study of social enterprises, we will differentiate among type social ventures and the number of social enterprises that the organization is professed to operate as categorical dependent variable. Type of enterprise is qualitatively measured and intensity of social enterprise is measured quantitatively.

The following the relationships are detailed in Diagram III.1, to follow.

Diagram III.1: Describing the Financial State of Nonprofit Social Enterprise



The research question (what are the financial implications of social enterprise on nonprofit organizations) leads to an examination of social enterprise (characterized as a construct within a particular type of organization or as a predisposition of an organization to operate one or more enterprises or org scale on the diagram). In this study, I will explore social enterprise along two dimensions: financial performance (measured by net assets and excess/deficit) and financial condition (measured using the ratios of administrative cost, equity, revenue concentration and operating margin efficiency). The confluence of these dimensions creates a profile of the financial vulnerability of the organizations.

With the concepts outlined and framed, our discussion moves to outlining the shape and contours of the research design.

IV: RESEARCH DESIGN

“Thought is more important than art...To revere art and have no understanding of the process that forces it into existence, is finally not even to understand what art is.”

Amiri Baraka

While the fit between social enterprise strategies and the social mission and programs of nonprofit organizations has been examined in the literature (Cooney, 2006; Eikenberry & Kluver, 2004; Weisbrod, B. A., 1998a; Young, D. R., 2006), little is known about the financial implications of the strategy on the organization. Among the reasons that nonprofits engage in social enterprise is to generate revenue (Dees & Economy, 2001) as well to have greater flexibility in how the organization responds to social needs (Nicholls, 2006). Studies reveal the revenue generating capacity of social enterprise (Massarsky & Beinhacker, 2002), but stop short of exploring whether and how this strategy influences the financial condition of the nonprofit organization. As it is important to appreciate the social value of social enterprise, it is also critical to understand the financial value that it generates (Dacin, Dacin, & Matear, 2010).

In this chapter, I rationalize and outline a strategy to investigate the financial implications of social enterprise on nonprofit organizations. *As alluded to in the opening quotation: without an understanding of the process one cannot possibly understand what is learned.* The preceding conceptual framework provided a general outline of the key variables for this study of exploratory and ultimately descriptive study of the financial condition of nonprofits that operate social enterprise. This exploration of meaning and relevance of financial data is particularly significant and necessary especially in a study of nonprofit organizations, which are not typically characterized by their financial condition (though the acquisition of financing presents a challenge) but by their achievement of social mission. From this exposition, a research methodology emerges.

Design Considerations

In designing a study, it is important situate the phenomenon within the research paradigms that define the “belief system...that guides the investigator” (Guba & Lincoln, 1994, p. 105). The researcher’s world view about the nature of reality (ontology), the dynamic between the knowledge and the inquirer

(epistemology) lead to an appropriate strategy for obtaining and interpreting new knowledge (methodology). To understand my belief set will make more apparent the choices that I make in designing this study and how I perceive, interpret and understand the findings.

Ontology: Static and Dynamic Apprehendability

The financial state of an organization is a singular, apprehendable and verifiable reality. The scale used to measure an organization's financial condition is the number line, on which the application of simple mathematical concepts, yields one answer. Accounting principles guide the collection and reporting of information about the financial performance of organizations. Audits verify and confirm that an organization properly applied accounting principles and is accurately reporting on its financial condition. This perspective of reality that pertains to an organization's financial condition is intuitively positivist.

However, there is a further, deeper perspective about organizational financial data that suggests its nature may be more dynamic. Nonprofits are not motivated by profit: they place emphasis on and are strongly identified by their social programs. How these organizations characterize their finances reflect this tenet: their reports provide evidence of their lean operations and tend to under report overhead expenses (Bedsworth, Gregory, & Howard, 2008). Furthermore, although there are efforts to check and recheck financial filings, inevitable errors occur. Errors made on forms can distort trend analyses and the form is further limited in that it does not comprehensively portray the financial condition of complex conglomerates (Lampkin & Boris, 2002). Organizations that operate social enterprise may choose to create subsidiaries so as to protect the charitable parent organization (Young, D. R., 2006) and complex structures are difficult to understand by merely reviewing these forms. I do not fully accept financial information on its face and recognize that this study is only an initial

exploratory step into understanding the financial structure of nonprofits that engage in the social enterprise strategy.

The dynamism in the financial condition of nonprofits is certainly influenced by the economy. Nonprofits, particularly those providing human services, depend upon public funding (Gronbjerg, 2001a) and find that during periods of economic contraction the political economy diverts resources from social programs to those that support growth of the economy. During downturns in the economy, nonprofits find decreased revenues, increased costs, declining endowments and greatly constricted cash flows (Salamon, L. M., Geller, & Spence, 2009). Studies reveal that organizations engage in strategies that include revenue generation vis-à-vis social enterprise (Bielefeld, 1992; Golensky & Mulder, 2006; Leroux, 2005). Though not empirically proven, it seems intuitive that organization's make their choices about how their resources will be managed (i.e., how much will be saved or released from restriction) in anticipation of a difficult economy. In sum, it is important to acknowledge not simply the idiosyncrasies of interpreting the financial data, but set the interpretation against the backdrop of a down economy.

Because financial information is subjective and its interpretation is subject to influences from its environment, it is critically important to take the added step to verify or otherwise corroborate the data. Studies that involve calculation and manipulation of financial metrics appear on their face to be positivistic and lend itself to quantitative treatment (which is sorely needed in the case of nonprofit social enterprise). However, in recognition of the influence of context, social constructs and variable meanings associated with the key variables in this study, the research design must be understood to be the first and a series of examinations that will uncover how engagement in social enterprise influences the financial condition of nonprofit organizations.

This study is a pilot. Herein I am proposing a test of the typology proposed in the conceptual framework, specifically the ability to apply industry affiliation as a means to differentiate social

enterprise. This may suggest that there are relationships to be mined from the private sector to inform the strategies of nonprofit organizations. Secondly, this is an experiment of a new approach to evaluating a strategy, as reflected by the idea that use of a strategy and variability in that strategy can be correlated to financial performance. Finally, in this study I am also exploring the application of Chang & Tuckman's (1991) financial vulnerability formulation for evaluating not the likelihood of bankruptcy, but the financial tenability of an organization. Because this is a pilot, this study will employ available financial information, anticipating that what is learned about the financial performance of these organizations can be further investigated in subsequent studies, which should increase the validity and reliability of the data used.

Epistemology: Immutability and Socially Constructed Reality

Epistemology is predicated on ontology, as the relationship of the inquirer to the knowledge is dictated by the beliefs about the nature of reality (Guba & Lincoln, 1994). In other words, if as with positivistic research, it is assumed that reality is immutable, then the researcher must remain detached and objective in order not to taint the knowledge. However, if reality is viewed to be dynamic and socially constructed, then the researcher should plan to be more critical and to subjectively interpret the data.

Financial data has both positivist and socially-constructed dimensions that dictate the level of involvement of the researcher. Because it is possible to derive the financial condition from a systematic review of data from the IRS Form 990, the researcher's role is simply to gather the data and run requisite statistical analyses. However, considering the limitations of both the tool and of the data and the implications of both for interpreting the data, the researcher may also need to engage the nonprofit organization to interpret the data. In raising questions about the reported financial information with the organization, there is the potential that simply posing questions will open new possibilities for

understanding the calculus of the financial performance. History can also be revised to reflect the current context. However, the revision is warranted, since context provides both the reason and rationale for an organization's decision to engage in entrepreneurship, it also should inform our understanding of the financial performance of these organizations. While Mintzberg (1983) highlights that the importance of studying organizations involves measuring those actions that "really happen in the organization" (pg. 113), toward getting to that knowledge it is necessary for researchers to mine their own knowledge, experience and intuition to pose questions to unearth decisions about organizations. Although readily apprehendable, there is meaning behind the numbers and the researcher is needed to interpret its meaning.

In an examination of financial implications of nonprofit social enterprise, we find the potential for both positivist and critical theory paradigms in the epistemology. An examination of financial data is an exercise in reporting the findings – the nonprofit social enterprise is either solvent or insolvent. Viewed through the lens of positivism, the researcher maintains objectivity and reports on the financial condition of the organization. However, to look beyond the numbers demands that the researcher engage with the data, or the person who reported that data, and be more critical and demanding to surface the true nature of the organization's financial data. Additionally, it is possible to incorporate the environment into the interpretation of the data, in a way that is consonant with resource dependence theory's tenet that the environment serves to inform actions within an organization and also transaction costs theory which suggests that the acquisition of knowledge and its transformation into strategic action comes at some cost to the organization

The Rationale Design Choice: Quantitative Methods

The focal point of this study is financial performance and efforts by nonprofit organizations that employ the social enterprise strategy to have sufficient revenues to cover their expenses. Quantitative

data reveals narrowly and positivistically whether the organization is generating revenue and operating profitably. Data obtained through financial reports are static and reflect a picture that could be interpreted in any number of ways depending upon the vantage point of the reader. As well, information on the financial condition of nonprofit organizations are reported with their tax exempt status in mind and therefore it is not to their interests to reveal profitability or their sophisticated and diverse revenue and expenses strategies for fear that it could compromise their ability to meet the expectations of the public- and private-sector financiers.

The Quantitative Study Design

Within this study's quantitative method, there is a fairly involved sampling and data collection strategy. The first challenge is to isolate a resource from which nonprofit organizations that are engaged in social enterprise can be derived. Because it is not a legal designation in the US, I will have to rely on organizations that self identify as a social enterprise to develop this dataset. Secondly, financial information about the organizations in the dataset is obtained by mining the IRS Form 990. To learn about and be able to characterize the nonprofits by type, I need to cross reference these organizations with a classification of nonprofit organizations by type. Finally, each of the variables will be defined and described, leading to a characterization of the sample.

Approach: Data Mining

Much effort has been made of late to make financial information about nonprofits readily available. Knowledge about nonprofit emerges from that which is known about the private sector. So, in an effort to increase the scholarship about nonprofit organizations, scholars have worked to create tools that enable easier access to publicly available financial information (Lampkin & Boris, 2002). Additionally there is an urgent interest to encourage scholars to look beyond management and business

for the theoretical bases for understanding nonprofits (Bielefeld, 2006). An overarching theme in this study is that much of what can be understood about organizations already exists.

Clinical data mining is a useful and economical approach to research and discovery that relies upon already-existing data, grounding research in the milieu of practice (Epstein, 2009). It emerges from the perspective of sociologist Irwin Epstein (2009) who contends that the data used by social workers in the course of their practice are rich with information that can help practitioners and researchers understand practice and perhaps serve a means to explore a phenomenon. The metaphor of mining this existing data suggests that researcher may unearth details that are relevant to research questions about practice, even though the data was collected for another purpose. It is an approach to research that generates a retrospective view of a phenomenon.

Borrowing the elements of Epstein's (2009) clinical data mining approach, I propose a design that would rely on existing data not originally intended for research to aggregate observations about social enterprise. Financial information lies at the heart of this inquiry and having access to such data that reveals the financial condition and vulnerability can serve as a powerful foundation for this current and future investigation of nonprofit behavior. Nonprofit organizations file the IRS 990 form as evidence of their compliance with the tax code (this will be discussed in greater detail in a subsequent section). That said, mining of these forms, while they are intended for another purpose, is a means to gather retrospective information about the financial condition and performance of nonprofit organizations that engage in entrepreneurship. This presupposes however, a strategy that enables me to isolate organizations that operate social enterprise, which is discussed in the next section.

Identifying a Sample: The Social Enterprise Directory

Employing a directory of nonprofit social enterprises developed by Community Wealth Ventures and the Social Enterprise Alliance, a listing of organizations that are self-identified as social enterprises is derived. Community Wealth Ventures is a private sector consulting firm that provides support to nonprofits. It was created as a for-profit subsidiary of Share Our Strength, a leading anti-poverty, anti-hunger nonprofit that redistributes food to shelters from restaurants (www.communitywealth.com/about.htm). The Social Enterprise Alliance is a membership organization that supports nonprofits that are employing market based approaches to achieve social innovation. The two organizations collaborated to develop this directory.

The social enterprise directory is a listing of organizations organized by sector and legal status and is profoundly useful in my effort to isolate organizations that operate social enterprise. The directory excludes museums, hospitals and universities, which are thought to have developed earned income programs through membership, tuition and/or fee for service activities (<http://www.communitywealth.com/Directory%20of%20Social%20Enterprises.htm>). Within legal status, I focus on nonprofits, as opposed to foundations and other organizations with a primary mission that is grant making or philanthropy. While social workers are employed at hospital and universities and certainly foundations, my interests are in the organizations closer to the direct provision of services that are located in the community, as opposed to large scale institutional settings that are excluded from this database.

The list does have limitations, however. Chief among these is that the organizations are self described operators of social enterprise. It is not clear whether the organizations that are included are operators or aspiring operators of social enterprise, which given the objectives of the Social Enterprise Alliance and Community Wealth Ventures to support social enterprise activities, could suggest that of

the organizations that are included, some may not be considering enterprise and see this organization and inclusion in the directory as a means to cultivate connections to resources and technical assistance. Further, because the information is not updated, if an organization starts a venture, and it fails or the nonprofit ceases to exist, it is not purged from the system. I sense that the individuals who are inputting information on their programs are focused on their individual programs, and may or may not accurately portray the totality of their organization's interests. Subsidiary programs are listed as freestanding organizations, so there are multiple United Way and Goodwill Industries, which are, as far as nonprofit organizations go, much more substantial in size and resources than a community based organization. As a result, it is necessary that I cross check to validate the identity of these organizations through this data collection component of the study, and continue to corroborate that which is included in this database. That said, there is no other resource of this size of social enterprise organizations nationally, so having this resource is potentially quite useful to researchers.

The organizations in this database are organized by sectors that are listed on Table IV.1: Sectors Included in Communication Wealth Ventures/Social Enterprise Directory, below.

Table IV.1: Sectors Included in Community Wealth Ventures/Social Enterprise Alliance Directory

Advocacy	Education & Research	Media/Communication
Alternative Trade & Development	Elderly	Mental Health Services
Art, Culture & Humanities	Employment Training	Philanthropy/Grant making
Bio-Medical	Environment & Animals	Public Safety
Blindness & Vision Impairments	Health Services	Rehabilitative Services
Children & Youth	Homelessness	Religion
Civil/Human Rights	Housing	Sports/Recreation
Community Econ. Development	Human Services	Substance Abuse
Counseling	Hunger/Poverty	Women
Criminal Justice	Immigration	Other
Disaster Assistance & Relief	International	
	Management & Technical Asst.	

To isolate the types of organizations that are relevant to my study requires the application of logic and cross referencing. Programmatically, the organizations in this database are associated with a particular social issue (i.e., blindness & vision impairment, immigration, disaster relief), the needs of a distinct population (i.e., the elderly, children/youth) or provide a needed services (i.e., counseling, disaster assistance and relief, rehabilitative services, etc.). The sectors that are in bold are intuitively associated with social welfare, broadly, and human services, specifically, as has been defined in the literature (Kendall, Knapp, & Forder, 2006; Schmid, 2004). The study purpose drives the choice to isolate those that are intuitively engaged in social welfare.

Social Ventures, by Type

In this directory, listed organizations specify the types of ventures in which they are engaged. There are 19 types of ventures. Among the types are thrift stores, education and training provision, agriculture/farming, janitorial cleaning services and strategic alliances. However, whereas the other types of ventures include direct service projects, strategic alliances appear to be a different breed of social enterprise. Business ventures are defined as having revenues from sales of goods or services to those beyond the organization's current clients; whereas a strategic alliance is a partnership between a nonprofit and a private sector firm with outcomes that are mutually beneficial ("Community Wealth Ventures: Resources", 2003). While it could be interesting to explore the differences in the financials of organizations that are engaged in ventures and strategic alliances for parsimony and simplicity, I will focus on organizations that operate ventures. This dataset includes organizations that operate multiple enterprises however. Strategic alliances are included among the types of social enterprises and when an organization operates more than one enterprise, it may be included among the types. If an organization operates more than one enterprise and includes strategic alliances as one or more, it will be included, so long as a business venture is included within the combination of enterprises. Put another way, organizations that only operate strategic alliances will be excluded from study. My interest is in organizations that adopt business venture(s) as strategy.

It is inimitably interesting to explore variation of type for the ventures operated by nonprofits. The nature of the venture intuitively influences the financial structure of a nonprofit. For example, if an organization is engaged in housing development and property management, it may have the opportunity to acquire real estate, a significant asset that could strengthen (or drain, depending upon the property) its bottom line. The revenues generated by businesses could be completely overtaken by their operating expenses, as might be the case with employment placement services for physically

challenged or otherwise vulnerable populations. To understand the contributions and influences by type of business venture is an important finding.

The CWV/SEA directory provides indicators of type that I choose to cross walk with the taxonomy established by the US that sorts for profit business ventures. The CWV/SEA directory includes categories that are granular, perhaps too granular for this analysis. So as not to arbitrarily assign organizations to categories, I use the North American Industrial Classification System, or NAICS, to organize the ventures into groupings that are logic and thought through.

Intensity of Social Venturing

As I review the list, I find that the CWV/SEA directory captures not only that the organizations are engaged in social enterprise and the respective type, but also that some organizations operate multiple social enterprises. I suspect that the intensity of social enterprise activity might reveal a distinct financial profile and perhaps state of nonprofit. For example, might the administrative costs of an organization that operates more than one social enterprise be quantitatively different than the organization that operates only one venture? This issue also has a bearing on how I build the dataset, because strategic alliances may be among the enterprises listed in the directory. So, as the intensity of social enterprise activity pertains to the composing of the sample to be used in this study, it is an element that can help characterize and differentiate nonprofit social enterprise activity.

The previous paragraphs reveal the parameters of the selection of organizations that will be extracted from the SEA/CWV directory. In sum, this study will focus on nonprofit organizations, where possible direct service providers in social welfare fields that exclude large institutions like hospitals, universities and museums. Organizations that operate one or more business ventures are the focus. Of the organizations that operate multiple enterprises, some may include strategic alliances among their

ventures, but organizations that operate only strategic alliances will be excluded. In consideration of the sectors that are most relevant, I can parse the dataset to isolate the types of ventures operated by nonprofit service providers (as opposed to grant making organizations). I cull a listing of 227 organizations from this database.

Identifying the Sample: The IRS Form 990

Financial information services as the means of describing and characterizing the nonprofit social enterprises in this study. It will be necessary to obtain financial information for each organization in order to perform the analysis of financials and this process serves to refine the sample further. The instrument used in this study to collect financial data on nonprofits in this sample is the 990, developed and administered through the Internal Revenue Service. Through this filing, nonprofits with income above \$25,000, report their annual revenue and expense and detail how their activities related to and advanced their mission. Specifically, the form includes an income statement, where revenues, costs and excess/deficits are detailed and a balance sheet which summarize assets, liabilities and net assets for the organization. It also provides a summary of statements and attachments that reconcile the program activities and their relevance to the charitable purpose of the nonprofit. For the purposes of this study, the data generated by the 990 is publicly available and is one of the only uniform repositories of financial and mission-related data on nonprofits (Lampkin & Boris, 2002). Given the centrality and relevance of the Form 990 as a source of data in this study, its challenges and limitations are discussed in the following paragraphs.

The Form 990 is not designed nor intended to be a research instrument. Its purpose is to collect single case information that demonstrates the IRS that the nonprofit is in compliance with the tax code governing charitable and tax exempt organizations. It is a tool that is publicly available. The 2008 IRS 990 form was revised to ensure greater ability to meet the compliance interests of the IRS and greater

transparency and accountability (*Background Paper: Summary Form 990 Redesign Process*, 2009). Changes include the addition of a new section on governance and schedules that highlight political campaign and lobbying, international, information on tax exempt bonds, non cash contributions and mission related and non-related partnerships.

However, organizations that promote research on nonprofit organizations, including the Foundation Center and GuideStar have made Form 990 available as a tool of research and each were tapped in this study. The Foundation Center is a learning center that offers continuing education, manages publicly accessible libraries in five US cities and an online database of Forms 990s, publishes directories and reference tools that supports philanthropy and grant making ("The Foundation Center website"). It is from this resource that the Form 990s for each organization in this study were initially sourced. Guidestar has a similar agenda the Foundation Center. Guidestar strives to "revolutionize philanthropy" through the dissemination of information about the nonprofit sector ("Guidestar Website"). In those instances where 990s were not available on the Foundation Center's directory, Guidestar was consulted.

Time Window of Interest

In a study aimed at to understanding the financial implications of social enterprise it is important to recognize the health of the economy as that will have some bearing on how organizations with social enterprises are comprised and behave. In anticipation of the constriction of funding that can occur during poor economies, the level of anxiety by nonprofit will be more conservative in the use of their resources and take less risk. These periods may not be a good time to launch an enterprise and may be, depending upon the relevance of the venture to the social mission and the extent to which the organization has achieved scale and stability in the enterprise, a time when organizations may elect to cut off losing ventures. However, the literature suggests that success of social enterprises is not strictly

measured by nonprofits in financial terms (Alter, 2006; Gray, Healy, & Crofts, 2003). In contemplating a study of financial condition with the goal of characterizing and supporting social workers and others who are tasked with managing ventures, certainly the availability of resources has an implication to how these resources are managed. It is during difficult economic times that the financial vulnerability statistics have particular meaning for a purpose other than what they were developed: difficult economic times provide a context for understanding how organizations are managing their financial vulnerabilities. During lean times, the strategies to manage resources may be different than during times when the economy is stronger. So, it is relevant to recognize and identify that this study will be of organizations in a particular economy as it will have some bearing on how they manage resources and how the findings of the study can be understood.

This study will focus on financial reports covering fiscal year 2007 that are reported in 2008. The Great Recession, the longest recession since the Great Depression, started in December 2007 (<http://www.nber.org/cycles/dec2008.html>). Although nonprofit organizations struggled with financing and management of their financing throughout, 2007 could be considered a relatively steady state when compared to the following fiscal year when the recession had certainly taken hold of the country.

The effort to obtain Form 990s for the subset of organizations that operated social enterprise resulted in 166 organizations. The reduction in the number of organizations that are included in this sample (from the 227 organizations gleaned from the social enterprise directory to 166 that remain after financial information is culled) is attributable to the availability of 990s and idiosyncrasies of the CWV/SEA directory that became apparent during the search for financial information. These factors included the following:

- organizations were located in Canada, therefore are not subject to filing the Form 990.

- Other organizations had not filed a Form 990 for the year (again, this was verified by looking at both the Foundation Center and Guidestar websites. In addition, knowing that nonprofits can and do post their Form 990s on their websites, I also searched webpages for each organization for which a Form 990 was not available on the Foundation Center or Guidestar.)
- Several of the organizations were duplicated on the list, either because the name of the organization was reported in two ways (i.e., “CWV” versus “Community Wealth Ventures” as two entries and not one).
- some organizations reported using short forms or other forms that did not include the analysis of income producing activities and as a result did not have the elements needed to calculate variables in this study.
- Two organizations though included in this directory, did not operate social enterprises. Presumably, they joined the Social Enterprise Alliance in anticipation of operating a social enterprise.

Toward providing greater detail about the organizations that operated social enterprise, I mined data from the National Center of Charitable Statistics (NCCS). Managed by the Urban Institute, this resource provides the ability to build datasets of nonprofit organizations and was cited as a resource in the aforementioned and large scale studies of financial vulnerability (Chang & Tuckman, 1991; Greenlee & Trussel, 2000). This resource could not be the primary resource in my study as it was in these seminal studies because my study is focused on not only nonprofits, but nonprofits that operate social enterprise. As social enterprise is not an organizational designation or otherwise systematically reported to the Internal Revenue Service, or any regulatory or industry body, the NCCS became a tertiary resource that could be used to reveal a single purpose for each organization. NCCS works in

collaboration with the Internal Revenue Service to determine purpose, so this source serves to verify and increase the reliability of type of organizations that are included in this study.

Analytic Strategy

While the inductive and exploratory nature of this study started with the compilation of the sample, it is in the implementation of analysis that its resonance and fit with this study is affirmed. Little in the literature examines the nature of social enterprise, so the basis for a hypothesis about the financial condition and therefore management of nonprofit social enterprise would be largely speculative. Toward subsequent quantitative investigations, this study is one of discovery, where observations will be the basis of findings (Patton, 2002a). While hypothetical-deduction is generally associated with quantitative designs (Patton, 2002b), the absence of empirical evidence about financial structure of nonprofits limit my ability to hypothesize. Therefore, the results of this study will be analyzed against the existing literature, likely take the form of simple univariate analysis that describes and examines relationships among the variable. In the end, I will report on observations about the financial performance. Apropos pilot studies, the findings here could serve as the basis for a more robust prospective study in the future.

Description

The interplay within the independent and dependent variables will be reported as a first step in our explication of the financial condition nonprofit social enterprises. The categorical independent variables (nonprofit social enterprise, distinguished by type of nonprofit and type of social enterprise) provide a means to identify and characterize social enterprise within social welfare. The quantitative dependent variables (financial state as operationalized by condition and performance as portrayed in

Table III.3: Independent Variables from the preceding chapter) provide a means to compare the financial state of nonprofit social enterprise.

Relationships

The variables in this study and its purpose portend statistical tests that might be used generate new knowledge of nonprofit social enterprise. Correlations between the variables will help to reveal the resonance of variables with each other (Mertler & Vannatta, 2005). Finally logistical regression, considers classifies organizations into groups and is useful to reveal the synergies of categorical variables (Mertler & Vannatta, 2005) related to type of social enterprise within social welfare organizations.

Operationalizing the Questions

Based on the literature and given the conceptual framing that recognizes the assumptions about the relevance of the social enterprise strategy to the social and financial outcomes of the organization, I propose to answer the following question: *What are the implications of the social enterprise strategy on the financial condition of nonprofit human service organizations?* As posed in the problem formulation, the question consists of three subquestions, to which the concepts outlined herein will be applied toward leading to increased understanding of social enterprise activities.

The first subquestion is “Are organizations strengthened or weakened as a result of engaging in social ventures”. The answer to this question will reveal the influence of social enterprise on the financial condition and performance of the nonprofit organization. The influence of social enterprise is operationalized by the intensity of social enterprise activity (in contrast, more or less social enterprise activity should produce variability in the financial condition of the organization). This would involve analysis to determine the relationship between the quantitatively measured intensity of enterprise and quantitatively measured independent variables of financial condition (revenue, expenses, excess/deficit

and net assets) and financial performance (administrative cost, equity, operating margin and revenue concentration ratios). Correlational analysis could be used to statistically determine the relationships between these quantitative variables.

The second question posed is “Does the type of enterprise offer financial benefit to the nonprofit organization”. This question seeks to illuminate what is known about the influence of the type of enterprise on the financial condition and performance of the organization. It is positively stated, but inherent to a study that is emerging from a gap in the literature of information on the financial reporting of organizations that operate social enterprise is the need to look objectively for both the benefit and challenges of type insofar as statements of financial condition/performance of these organizations. The independent variable (type of social enterprise) is qualitative and the dependent variable (financial condition/performance) is quantitative. The purpose of the test is to judge the relationships between the variables, not to predict or assign causation. So, I expect to employ logistic regression as an analytic tool.

The third and fourth questions are specifically concerns with the efficiency of organizations that operate social enterprises. The questions posed are “Are organizations that engage in social enterprise more or less prone to recovery following downturns in the economy” and “What kinds of cost saving measures do organizations that engage in social enterprise take in response to anticipated budgetary shortfalls”. Both questions revolve around the subject of efficiency and the financial vulnerability ratios measure operational efficiency. These questions also incorporate a time dimension that was not part of the previous questions (“following downturns in the economy” and “in response to anticipated budgetary shortfalls) which dictate the time period for which data is collected. These questions could lend themselves to qualitative treatment, but if limited to statistical tests a combination of bivariate

correlations (for the quantitative/quantitative variables) and logistical regression (for the qualitative/quantitative variables).

Feasibility

The challenges to the quantitative element of this study are logistical and pertain to the robustness of the sample size. The previous studies were performed with datasets that were much larger than the one proposed here: the Chang and Tuckman (1991) performed the analysis on a random sample that included 990s from 1983 for 4,370 nonprofits and from 1984 of 6,168 organizations, with the sample considered biased toward wealthy nonprofits (Chang & Tuckman, 1991). In the Greenlee and Trussel (2000) study also involved a large dataset: starting with a dataset of 14,399 organizations, this later study eliminated 8,302 organizations that did not meet the consecutive year test and 179 outliers, resulting in a sample of 435 financially vulnerable organizations and 5,483 organizations that were classified as not financially vulnerable (Greenlee & Trussel, 2000). These might be an issue in this proposed study with the sample for this study which is much smaller than the other two studies. In a smaller pilot study of 52 organizations, the findings were inconclusive because the sample size was too small (Van Brackle, 2007).

Where We're Headed

This quantitative study of financial implications of nonprofit enterprise is structured to yield new, unprecedented data. In describing the sample, the study will reveal the types of enterprise that are embarked upon by social care nonprofits, as well as the revenue and costs associated by type. The phenomenon of nonprofits having more than one venture will be understood, as will the predisposition for some organizations to more readily embark on strategic partnerships or open a business will also be explored. Taking advantage of the current economic crisis, this study will determine the financial

vulnerability associated with the strategy is valid. It will be useful too to understand the thought process of nonprofit leaders, and affirm their focus on mission and tendency to make service cuts rather than layoff staff. These and other issues will help to resolve the question about the consequences of nonprofit social enterprise.

V: Descriptive Account and Interpretation

"Man cannot live by profit alone"

James Baldwin

As a precursor to the analysis of findings, this chapter describes the sample of organizations that serve as the source of data in this quantitative exploratory study of the financial implications of social enterprise on nonprofit organizations. The presentation begins with an identification of the social mission these organizations and recognizes the diversity of nonprofit organizations that engage in social enterprise, while remaining focused on the human serving organizations (a characterization which will be explained shortly). With an understanding of the types of organizations that are included in this sample, I examine the intensity and industry affiliation of social enterprise activity of these organizations. While revealing, the social enterprise activity is reviewed against the revenue and expense, then financial condition, performance and eventually vulnerability of the organizations that comprise this sample, providing an unprecedented portrait of social enterprise. In describing the sample, I make observations that are in and of themselves substantive findings that suggest the consequences of social enterprise on nonprofit organizations. In the chapter that follows, these descriptive findings serve as a context for presenting and interpreting the answers to the research questions that lie at the heart of this study and set the stage for a rich discussion on the implications for the social work field and proposes a course of scholarship on the condition of nonprofit organizations.

Before proceeding, I revisit the purpose and research question. A small but growing body of literature locates and rationalizes the emergence of social enterprise within the context of nonprofit organizations (Alter, 2006; Dees & Economy, 2001; Defourny & Nyssens, 2006; Frumkin, 2002b; Mair & Noboa, 2003). Social workers (including clinicians and administrators) are intimately, yet reluctantly, engaged in managing finances for nonprofit organizations (Lohmann & Lohmann, 2008). These organizations employ social enterprise as a strategy to implement programs and to generate revenue. There has been little empirical examination of the revenue potency and/or costs of the strategy on the organization (Dacin, Dacin, & Matear, 2010), even though one of the reasons why nonprofit engage in

social enterprise as a strategy is to generate revenue (Dees & Economy, 2001; Golensky & Mulder, 2006; Leroux, 2005; Massarsky & Beinhacker, 2002). In recognition of this knowledge gap and its relevance particularly to management of time and effort demanded of social workers in nonprofit settings, this study explores the financial implications of social enterprise on nonprofit organizations. I am specifically interested in understanding the following: (1) whether, as a result of engagement in the social enterprise strategy, organizations are strengthened or weakened; (2) what financial benefits are accorded to organizations because of the nature of social enterprise that they operate; and (3) how these organizations manage resources in the face of uncertainty that is associated with downturns in the economy.

It is the objective of nonprofit organizations to maximize resources (Dacin, Dacin, & Matear, 2010; Valentinov, 2008) and deliver social outcomes. *As suggested in the opening epigraph, profit is not enough.* Profitability does not hold the significance for nonprofit organizations that it does in the private sector. However, it is critical and essential that nonprofit managers understand how to organize for and manage resources to achieve social outcomes. This study is an attempt to identify how an organization whose financing straddles the market and philanthropic sources are managing their resources.

In this exploration of financial implications of social enterprise on nonprofits, there are several concepts upon which my attention is focused. The industry affiliation of the social enterprise (characterized in the sections to follow as '**type**') and number of social enterprises operated by an organization (also characterized throughout as '**intensity**') may each influence the financial health of an organization and serve as dependent variables. I employ financial metrics as independent variables, making them operational along two dimensions: **financial performance**, measured by the net assets and excess/deficit; and **financial condition**, measured by ratios of administrative costs, operating margins, equity and revenue sources as a percent of total revenue. **Financial vulnerability** sheds light

on the overall financial health of the organization, which is of interest during periods of economic distress, such as is being experienced during the time period during which this data was collected.

The analysis to follow relies on largely univariate and bivariate statistical methods to explore and ultimately describe this sample. Simple frequency distributions and cross tabulations help to reveal the depth of this sample and provide a preliminary sense of relationships that may exist between the variables. The more involved multivariate analysis is employed in response to the research questions in the chapter that follows. Throughout, I remain reticent about causality.

Nonprofit Social Enterprise Operators

This sample is comprised of 166 nonprofit organizations that employ social enterprise as a strategy. The sample was culled from a directory compiled by the Social Enterprise Alliance and Community Wealth Ventures (SEA/CWV) of organizations that self identify as operators of social enterprise. Each is a US-based 501c3 tax exempt organization, so designated by the Internal Revenue Service and evidenced by their filing of the IRS Form 990. Based on organization types designated within the SEA/CWV database and cross referenced with National Taxonomy of Exempt Entities (NTEE), the organizations in this sample primarily are identified with the purposes that are intuitively relevant to the social work profession, as is detailed in the following table.

Table V.1: Nonprofit Organization Classifications (Organization Type; n=166)

Class	Number	Percent
Education, Arts, Culture & Humanities	11	6.6
Healthcare, Medical Research & Mental Health	33	19.9
Employment	14	8.4
Housing & Shelter	13	7.8
Human Services	61	36.7
Youth Development	10	6.0
Other	24	14.5
Total	166	100.0

For the sake of brevity, I collapsed the classes that are represented in Table V.1: Nonprofit Organization Classifications. The largest category is “human services. According to the NTEE classification, human services includes organizations like the American Red Cross as well as those organizations that work with vulnerable populations like children, the elderly and families in crisis. I consolidated health to include “health care” provided by hospitals and rehabilitation centers, “mental health/crisis intervention”, “disease, disorders and medical disciplines” as well as “medical research.” Because the CWV/SEA list excludes hospitals, I comfortably add this designation to this summary chart of organizational classes. I broadened “Arts, Culture and Humanities” by adding “Education”. Youth development as a category remains untouched, in that I do not add or detract from it. Finally, the

“other” category is comprised of categories that I could not rationalize consolidating into the other groups. This latter category includes organizations whose missions are identified as involving “food/agriculture/nutrition”, “crime/crime-related”, “international/foreign affairs”, “civil rights”, “community improvement”, “religion” and “philanthropy/voluntarism/grant making” purposes.

The categories mentioned in the previous paragraph resonate with the social work profession and I presume that included among their staff are social workers. Social care as provided by social workers is distinct and revolves around improving “social well being” through responding to the consequences of the “production of social integration and protection” (Kendall, Knapp, & Forder, 2006, p. 417). The role of social work is to more than improve the capacity of the individual, to facilitate the achievement of social objectives. Consequently although the settings may be cast as other than human services, the broad umbrella of services provided by social workers regardless of type of organization renders these organizations into a broader category which I refer to as human serving.

This distribution of diverse human serving (as opposed to human services) organizations will afford a focused perspective about social enterprise. The inclusion of organizations that identify employment as their social mission provides a basis for discussing the findings of this study against the scholarship on work integration social enterprise that has been the basis for research Europe. On some level a larger dataset would have allowed for a more granular accounting of social enterprise activities. I remind myself that this study is exploratory and will include revelations that pertain not only to the content of social enterprise, but how to approach the study of social enterprise methodologically.

Social Enterprise: Intensity

Intensity of social enterprise, referring to the number of social enterprises operated by a nonprofit, is a means to understand the influence exacted on organizations by social enterprise strategy.

The following table provides detail about the intensity of enterprise activities among the organizations in this sample.

Table V.2: Number of Social Enterprises Operated by Organizations (n=166)

No. of Enterprises Operated	Frequency	Percent
1	109	65.7
2	28	16.9
3	19	11.4
4	3	1.8
5	1	.6
6	5	3.0
7	1	.6
Total	166	100.0

Taken together, the 166 organizations in this sample operate 276 social enterprises. Of these organizations, 109 (over 65%) operate only one enterprise, with the balance operating more than one enterprise. Six of the organizations in this sample operate five or more enterprises.

Social Enterprise: Industry Affiliation

The type of business operated as a social enterprise by a nonprofit is central to this study's purpose. In an earlier section, I identified the categorizations of nonprofit organizations that are

included in this dataset, appreciating that the NTEE classifications are a means to represent the missions of these organizations. A similar categorization framework exists for private sector businesses. As the NTEE uses mission as the point of distinction among nonprofits, the private sector version is organized by industry. Mission defines the purpose for nonprofits; industry locates a business within the economy.

To understand the industry with which the business operates reveals the model or approach to organizing its resources and is of value in this study. For example, an organization that operates within the trade category facilitates the distribution of goods and/or services. Distribution is the movement of goods from its source along a continuum that culminates with the end user ("Definition: Distribution", 2011). A distributor might assume any part or all of the activities involved in moving the product, or might limit itself to provision direct to the end user, as is the case with the retailers, supplying intermediaries as does wholesalers. It also includes the physical movement of the product such as warehousing and transporting goods (Rachman & Romano, 1980). The inputs and activities are organized so as to achieve their output, which in the case of a firm operating as an actor in the trade business, earns its keep through distribution.

The CWV/SEA directory, the source of data for this study, provided types of businesses operated by each nonprofit organization, which I use as the basis for assigning these businesses into an accepted industry categories. I cross referenced the types in the CWV/SEA directory with the North American Industry Classification System ("NAICS"), the standard used by federal agencies to categorize businesses ("2007 NAICS"). NAICS is a taxonomy through which the businesses could be identified and understood, and serves as the framework through which statistical analyses and reports on private sector business activity is evaluated. It is a sophisticated and comprehensive taxonomy that underpins the private sector business. In this study's conceptualization, industry affiliation reveals the type of business with

which these nonprofit organizations are affiliated. I define type and industry affiliation synonymously, given the use of the NAICS as a filter of these organizations.

I also consciously remove from consideration of type of social enterprise those organizations designated by SEA/CWV as strategic alliances. In their categorization of social enterprise, the SEA/CWV directory distinguishes strategic alliance from ventures. As was indicated previously, strategic alliances are not of particular interest in this study but would be included for those organizations that operate it as one of number of enterprises. Strategic alliances have a decidedly different relationship to the market than ventures. They are not engage in market-based activities for the benefit of consumers, but are established for the mutually benefit of its partners. In her typology of social enterprise, Alter has identified the “private-not-for-profit partnership model as “being forged on commercial grounds” and where “each partner is a contributor and recipient of the venture’s success” (Alter, 2006). This difference in their intent may have a bearing on how these organizations structure their revenue and expenses. For the sake of parsimony, I focus only on organizations that operate ventures. For this reason, I exclude 4 social enterprises from this pool, reducing the number of social enterprises operated by the organizations in this dataset by 4, to 272.

The 272 enterprises operated by the organizations in this dataset are affiliated with diverse industries. In this analysis, the NAICS categories that are described above have been consolidated into broad groupings so that the frequencies in each category are sizable enough for statistical manipulation:

- The “Building” category includes businesses that are broadly involved with agriculture, construction and manufacturing, under the premise these business activities yield a tangible good.
- As has been discussed previously, “Trade” includes retail and wholesale trade and additionally transportation and warehousing, which are associated with the distribution of goods.

- “Professional” services include those services for which there is a level of technical proficiency associated with the delivery of the service (being distinguished from “building” because the output is not always tangible). Within this professional category I include “finance and insurance”, “real estate, including rental and leasing”, “professional, scientific and technical services”, “management of companies and enterprises” and finally “administration and support and waste management and remediation”. This category is particularly applicable to nonprofit organizations, apply possess real estate which may evolve into revenue centers as the organization rents or leases the property in furtherance of its mission.
- Educational and health care services are consolidated into a category that I designate as “public service” on the premise that these are services that are to some degree publicly available within institutions in the community and fundamental for individual well being of individuals. There is, however, a “public-ness⁴” associated with education and health.
- The “hospitality” category includes those businesses that provide “arts, entertainment and recreation,” “accommodation and food service”. While not the province of this dissertation, museums are particularly active in social enterprise activity, operating gift shops that generate revenue while extending goods that continue to promote the appreciation for the arts and artifacts and charging admission fees (Anheier & Toepler, 1998).
- Finally, the ubiquitous “other” includes those fields that are not classified elsewhere. It also includes public administration or government.

⁴ I note that I am populating this category from a liberal ideological perspective; some may argue that these services can and should be provided by the private sector and are not entitlements. I philosophically believe that access to education or healthcare should not be preconditioned on one’s ability to pay for these services. The inability to access these services compromises one’s ability to engage in the market system and, more relevant in this social welfare driven dissertation, to preclude individual vulnerability. This philosophical debate is best left to another paper: suffice it to say that in this dissertation this category of “public service” stands as a distinct industry.

The following chart reveals the industry affiliations of the organizations of this dataset. Going forward, the labels in parenthesis will represent each of the industry affiliations, making it clearer and cleaner for the analysis to follow.

Table V.3: Types of Social Enterprises Operated by Nonprofit Organizations (n=166)

Type of Enterprise	Frequency	Percent
Agriculture/Construction/Mfg ("Building")	52	19.1
Trade ("Trade")	62	22.8
Info/Prof'l Admin ("Professional")	60	22.0
Public Services ("Public")	27	10.0
Hospitality ("Hospitality")	37	13.6
Other ("Other")	34	12.5
Total	272	100.0

Three industries dominate this dataset. The largest percentage of organizations in this sample, almost 23 percent, is engaged in trade. Closely following trade is the professional category, representing 22 percent. Finally, fifty two of the social enterprises are in the building category, representing more than 19 percent of the industries included in this dataset.

There may be synergies between the industry and human serving nonprofit organizations. While engagement in social enterprise by human service organization is in part mediated by the reluctant and erratic support of social programs, human service nonprofits may possess unique

capacities and resources that may lend themselves to engagement in specific types of enterprises. The following table helps to reveal the intensity of social enterprise by type within these nonprofit organizations.

Table V.4: Intensity of Enterprise Within Type (n=166)

# of Enterprises	Building	Trade	Professional	Public	Hospitality	Other	Total
1	32	48	43	25	37	25	210
2	6	4	5	1	0	3	10
3	0	2	1	0	0	1	4
4+	6	3	4	0	1	2	16
Total	44	57	53	26	38	31	

This table shows the intensity of social enterprise activity of the nonprofit organizations in this sample organized by industry affiliation. There are 166 organizations in this sample, which operate 272 enterprises. In this table, the independent variable is not the number of enterprises or its “intensity”. This table does not take into account organizations that operate multiple enterprises that cross industries (i.e., Organization A operates two businesses: one identified in the “building” category, the other in the “trade” category). Therefore the total column and rows does not sum to 272 and some of the organizations may be represented more than once (i.e., Organization A will appear in the row that indicates it operates two enterprises, once under building and again under trade). Acknowledging this

idiosyncrasy, the table does allow for an analysis of the influence of industry specific enterprise on organizations.

There are 30 organizations that operate more than one enterprise within a single industry. Reading across the row of organizations that operate 2 enterprises, there are 6 organizations that operate 2 building-related enterprises, 4 that operate 2 trade-related enterprises, 5 that operate 2 professional related enterprises, and so on. This chart reinforces the predominance of “building”, “trade” and “professional” social enterprises within this dataset, evidenced both by the significant number of organizations that operate within these industries and the number of instances where these organizations operate multiple enterprises within these industries. Whether these organizations are strongly associated with these industries can be determined through tests of association.

At this point, I recognize the organization that comprises this sample, as well as the extent of their utilization of social enterprise as a strategy. This sample has been carefully crafted to reflect non institutional nonprofit organizations that resonate with and likely employ social workers. These organizations operate social enterprise. Most of the organizations operate one, but one third of the sample operates multiple social enterprises. These enterprises represent at least 5 industries.

To summarize, social enterprise is a strategy employed by a range of human serving nonprofit organizations. In this study, I observe that two thirds of the organizations operate one and one third engage in more than one enterprise. Among these organizations, “building”, “professional” and “trade” predominate.

Toward addressing the research question however, it is important to explore the financial circumstances of these organizations. As was described in the conceptual framework (see Chapter III),

there are three financial scales employed in this study: performance, condition and vulnerability. This is the focus of three sections that follow.

Financial Performance

Social enterprise is born not only of what financial resources an organization possesses (as in, sufficient, consistent financing) but also of the obligations associated with the delivery of services that move the organization closer to the achievement of its social mission. This study is an attempt to understand the capital structure of nonprofit organizations that operate social enterprise, meaning an appreciation of the configuration of resources and obligations of the organization. Presuming that the organizations in this sample are driven by mission (as is evidenced by their status as nonprofit, tax exempt entities), the following discussion reveals the financial circumstances of these organizations, setting up for the discussion of implications of social enterprise as is articulated by the research questions.

Financial performance refers to indicators of what the organization has accomplished in strictly financial terms. **Total revenue, total expense, excess/deficit** and **net asset** are specific financial performance indicators that are available and of interest in this study. This section is focused on this element.

Financial Performance Indicators

The financial performance, the first element in this study's framing, reveals idiosyncrasies of the dataset. Of the core indicators of performance ("Total Revenue", "Total Expense", "Excess/Deficit" and "Net Assets") none are normally distributed, as is evidenced by the differences between their mean, mode and median (Weinbach & Grinnell, 2007b). The details of their non normality are presented in the following table.

Table V.5: Measures of Central Tendency of Financial Performance (in thousands; n=166)

	Total Revenue	Total Expenses	Excess/ Deficit	Net Assets
Mean	44,598	46,810	-2,211	35,154
Median	7,144	6,856	25	3,327
Mode	2.9(a)	14.2(a)	-480,216(a)	-4,163(a)
Minimum	2.9	14.2	-480,216	-4,163
Maximum	3,183,958	1,664,160	47,739	2,559,637

a Multiple modes exist. The smallest value is shown

While it would be my preference to use mean values to discuss and analyze the financial condition and performance indicators, extreme values would render average values meaningless. Instead, the descriptions that follow use median values as a cutting point.

Observations of these financial variables will help to illuminate the texture of social enterprise and provide a first look at the influence of social enterprise on nonprofit organizations. While frequency distributions on these financial variables reveal the character of the organizations in this dataset, simple cross tabulations of median values for each financial variable provide insight into the influence of social enterprise intensity and type of social enterprise on the organization's financial performance and condition.

Total Revenue

The median revenue for the organizations in this sample is \$7.1 million, though 65% of the organizations in this sample are smaller than \$10.5 million.

Table V.6: Total Revenue (n=166)

Revenue Distribution	Frequency	Percent
<\$500K	13	7.8
\$500K - \$10.499M	94	56.6
\$10.5M - \$20.499M	28	16.9
\$20.5M - \$30.499M	10	6.0
\$30.5M - \$40.499M	4	2.4
\$40.5M - \$50.499M	3	1.8
\$50.5M - \$60.499M	1	.6
\$60.5M - \$70.499M	2	1.2
\$70.5+	11	6.6
Total	166	100.0

Over 6% of the organizations in the sample have revenues over \$70.5 million and 7% are below \$500,000 revealing a wide dispersion of revenues for the organizations in this sample. Relying on median values, revenues are comprised of \$2.2 million in contributions, \$780,000 in program service revenue, investment revenue representing \$34,100 and zero in membership revenue. It is also relevant

particularly in this examination of social enterprise that the median value of revenues that are unrelated to the tax exempt purpose is zero, while the median of \$737,000 was found for revenue related to tax exempt purpose.

Even within this purposively selected sample of organizations whose missions are relevant to the practice of social work, there is considerable variation in total revenue. Those differences are revealed in the table below.

Table V.7: Organization Type of Nonprofit Social Enterprise Operators and Their Revenue (n=166)

Organization Type	Median Revenue
Education	\$841,212
Healthcare	\$9,433,034
Employment	\$8,840,918
Housing	\$5,272,132
Human Services	\$9,335,597
Youth Development	\$5,446,381
Other	\$4,781,358

The organizations in this sample have median revenues that are consistent with sector-specific financial statistics reported in the literature. The largest category of organizations is that which provides healthcare which have reported median revenues of \$9.433 million and the smallest is education, the latter having median revenues of less than \$1 million. While this data helps to describe the

organizations of this dataset and gives perspective on how the circumstances within human serving organization may vary, the evaluation against nonprofit organizations in general might be helpful in distinguishing these organizations.

Nationally, health organizations, specifically hospitals and primary care facilities, have revenues that exceed other public charities, followed by education (Wing, Roeger, & Pollak, 2010). In the cases of this study, I find that health is the largest category, which is consistent with the national patterns of nonprofits. In actuality, the alignment of these data assembled in my study with national statistics provide false comfort, because my study is less concerned with non institutional settings and excludes hospitals and colleges and universities which nationally are significantly represented among its reporting organizations. In the national study, health organizations include the large institutions and are substantially dependent upon fees paid through Medicaid and Medicare, which accounts nationally for almost half of the revenue of nonprofits that operate within the sector (Boris & Steuerle, 2006). That said, nonprofit organization have access to Medicaid and Medicare sources of funding, which might explain why in this dataset health organizations maintain their position as the largest of these organizations.

In contrast to the statistics reported on nonprofits, education has the smallest median value in my sample. I recall that in my study, the education category includes “arts, culture and humanities” and excludes major institutions. Arts organizations struggle to secure funding, being heavily reliant upon private donations (Boris & Steuerle, 2006; Hager, 2001). Insofar as traditionally-defined education organizations are concerned, beyond elementary and secondary education, public funding of education is specific to type of institution (meaning, to colleges or universities, vocational education, etc.) or flows to the individual so that they can access educational services, as is the case with government grants

given to students to fund their educations (Boris & Steuerle, 2006). In sum, nonprofits that are not institutions have fewer revenue streams to access.

This study is particularly concerned with social enterprise activity within the human serving organization. Toward understanding the type and intensity of social enterprise activity within these organizations, the following table presents the median revenue by intensity of enterprise.

Table V.8: Median Total Revenue of Nonprofit Social Enterprise Operators by Intensity (n=166)

No. of Social Enterprise ("Intensity")	Median Revenue
1	\$6,692,464
2	\$5,943,924
3	\$6,329,982
4	\$8,214,305
5	--
6	\$37,715,457
7	--

Table V.8: Median Total Revenue of Nonprofit Social Enterprise Operators by Intensity shows variability in the total revenue of organizations, measured by the intensity of social enterprise activity. Because one organization each operates 5 and 7 enterprises, median values are not calculated for these levels of intensity. As the intensity of social enterprise activity increases, the median revenue values decrease (between the operation of 1 and 3 enterprises), then sharply increases.

I observe that the number of social enterprises operated is not linearly related to median revenue. Although the organizations that operate 6 enterprises show median revenue that substantially exceeds those operating 4 or fewer enterprises, there seems to be no pattern of increase in median revenue. Those organizations that operate 2 enterprises have revenues that are less than those operating 1 and 3. More activity does not generate more revenue.

The variability of revenue might be understood by examining the influence of type of enterprise on nonprofit revenues. The following table overlays type of social enterprise on intensity in an exploration of its influence on nonprofit revenues.

Table V.9: Median Total Revenue of Nonprofit Social Enterprise Operators by Type of Business and Intensity (n=166)

Sector	Social Enterprise Intensity	Median Revenue
Building	1	\$6,576,827
	2	\$15,142,078
	3	0
	4	\$19,866,007
Trade	1	\$4,978,159
	2	\$3,642,685
	3	\$14,398,103
Professional	1	\$7,584,198
	2	\$13,892,866
Public	1	\$5,625,755
Hospitality	1	\$9,443,444
Other	1	\$9,552,218
	2	\$9,564,708

Table V.9: Median Total Revenue of Nonprofit Social Enterprise Operators by Type of Business and Intensity describes the financial revenues generated by organizations that operate social enterprise, organized by industry sector. As was revealed in Table V.4: Intensity of Social Enterprise, by Type, organizations can and do operate more than one enterprise at a time. Some choose to replicate

enterprises within the same sector, others operate in different sectors. Table V.9: Median Total Revenue of Nonprofit Social Enterprise Operators by Type of Business and Intensity reveals by industry the number of social enterprises operated by the organizations in this sample, highlighting those that operate multiple enterprises within each industry sector. For example, the median revenue of an organization that operates two social enterprises that are engaged in retail, wholesale or otherwise in the business of transporting or warehousing goods is \$3.6 million. Organizations that operate three social enterprises that are classified as trade businesses have median revenues of \$14.4 million.

This table shows that increased enterprise activity should not presume an increase in revenues. The revenues for organizations included in the building category, which includes organizations that are engaged in business that produces a tangible good, such as buildings and agricultural products, increases as the intensity of social enterprise activities within the sector increases. In the other sectors however, the correlation between the number of enterprises and intensity is not always positive.

To appreciate the depth of social enterprise activity within these organizations, the following section uses expenses to characterize social enterprise activity of these organizations.

Total Expense

As the total revenues reported by the organizations in this sample were diverse, so too with their reported expenses. In Table V.5: Measures of Central Tendency, the median expense is \$6.8 million, the average is \$46.8 million and mode is \$14.2 million. The following table reveals the frequency distributions of the organizations that comprise this dataset.

Table V.10: Total Expense (n=166)

Distribution	Frequency	Percent
<\$500K	12	7.2
\$500K - \$9.499M	89	53.6
\$9.5M - \$18.499M	31	18.7
\$18.5M - \$27.499M	9	5.4
\$27.5M - \$36.499M	6	3.6
\$36.5M - 45.499M	4	2.4
\$45.5M - \$54.499M	2	1.2
\$54.5M - \$63.499M	1	.6
\$63.5+	12	7.2
Total	166	100.0

As was the case with their revenues, the expenses reported by these organizations are negatively skewed, having a median that is smaller than the mode and the average values.

It is relevant to this analysis to understand how these organizations deploy their resources. Median “program services” expense (which represents the cost of programs for the organizations in this sample) is \$5.6 million. The median “management and general” expense for these organizations is \$649,000 and \$135,000 is the median value of their “fundraising” expenses.

Once again to appreciate and distinguish this sample, I consider this data against national statistics on nonprofit performance. In a national examination of financial indicators of charitable

organizations, approximately three quarter of the reporting organizations had annual expenses of less than \$500,000 yet these organizations represented for 2.3% of all spending (Wing, Roeger, & Pollak, 2010). The organizations in this sample cumulative spent over \$77 billion. Twelve of these organizations had revenues of less than \$500,000 which totaled \$126 million in expenses and accounted for 1.6% of all spending. Admittedly, this is a smaller dataset and I am working with medians and not means, but the smaller median spending values of this data could be explained by the focus on human service organizations or that these human service organizations operate social enterprise.

Within this broad category of organizations that I have referred to as “human serving” organizations, we find revenue varying depending upon their mission. The following table shows the variability in terms of spending for the organizations by type.

Table V.11: Organization Type of Nonprofit Social Enterprise Operators and Their Expenses (n=166)

Organization Type	Median Expenses
Education	\$664,457
Healthcare	\$9,416,498
Employment	\$8,723,448
Housing	\$5,173,229
Human Services	\$9,218,884
Youth Development	\$5,072,951
Other	\$4,331,348

As a corollary to Table V.7: Organization Type of Nonprofit Social Enterprise Operators and Their Revenues, healthcare spends the most, almost \$9.4 million and education-related organizations spend the least, in this case \$664,000. Human Services is a close second to healthcare in spending, as it was in the revenue table. I also find that of the categories displayed in Table V.11: Organization Type of Nonprofit Social Enterprise Operators and Their Expenses, it in “housing” and “youth development” that median expenses exceed median revenues, a fact that will have some bearing on the discussion in the Excess/Deficit, to follow.

This analysis explores the influence of social enterprises on nonprofit organization and although the reason that nonprofits engage in this activity is to generate revenue, to understand how nonprofits deploy their resources is useful to an exploration of the financial impact of the strategy. The following chart reports on the median expenses based on intensity of enterprise activity for the organizations of this sample.

Table V.12: Median Total Expenses of Nonprofit Social Enterprise Operators by Intensity (n=166)

No. of Social Enterprise ("Intensity")	Median Expenses
1	\$6,252,111
2	\$6,383,597
3	\$7,057,633
4	\$9,639,454
5	--
6	\$36,597,817
7	--

As with Table V.8: Median Total Revenue of Social Enterprise Operators by Intensity, there was only one organization each operating 5 and 7 social enterprises, so there is no median to report. The expenses reported for organizations that operate 6 enterprises, \$36.6 million, is almost six times as much as reported for organizations that operate a single enterprise. Unlike the corollary table of median revenue, this table shows an increase in expenses as the intensity increases. It is intuitive that as an organization operates more social enterprises, their expenses would increase. In this case, more activity generates more expenses.

Type of organization operated may have some bearing on the level of expenses. In this study, I have been able to isolate industry sectors where these human serving organizations operate social enterprise. The data is organized around industry, so reports on intensity within sectors, meaning, those

instances when nonprofits operate multiple social enterprises of the same type. The following table reveals the expenses of these organizations and is organized by the type of enterprise operated intensively by each.

Table V.13: Median Total Expenses of Nonprofit Social Enterprise Operators by Type of Business and Intensity (n=166)

Sector	Social Enterprise Intensity	Median Expenses
Building	1	\$6,560,677
	2	\$14,814,825
	3	0
	4	\$19,305,242
Trade	1	\$5,152,532
	2	\$3,846,985
	3	\$1,302,684
Professional	1	\$7,099,386
	2	\$157,388
Public	1	\$58,047
Hospitality	1	\$9,218,884
Other	1	\$8,998,678
	2	\$9,417,445

The reported expenses within industry sectors of the social enterprises are erratic. In the “building” and “other” category, the expenses increased for organizations as the intensity of social enterprise operation increased. However, in the “trade” and “professional” categories, the expenses decreased. A decrease in expenses would suggest that an organization may be realizing economies of scale or the advantage that follows the leveraging of resources in the operating of the second and third enterprises. More simply put, in the course of establishing the first enterprise, there may be basic and operational expenses that are essential for the business. The cost of the expense is spread across two businesses or can be applied against the revenues of multiple businesses of the same type. In relation to Table V.9: Median Total Revenue of Nonprofit Social Enterprise Operators by Type of Business and Intensity, I find that those organizations that median expenses for those operate 1 or 2 trade-related enterprises exceed their expenses.

From the preceding discussion of total revenue and total expense, this characterization of this sample moves to exploring the indicators that reflect the financial accomplishments of these organizations. Total revenue and total expenses are most revelatory when the organizations are measured in relation to one another: one organization is presumed to be in better shape because it has revenues that are larger than another organization. In contrast, the variables of “excess/deficit” and “net assets” affords a look at how an organization is managing its resources, with a very distinct and calculable measure of whether it is doing well. If the indicators of the private sector are applied, an organization with resources remaining after expenses and one that has assets values that exceed its liabilities are performing well. However, having greater resources is not the metric of interest to nonprofit organizations, but how well it applies its resources to achieve mission. This dissertation is focused on financial performance under the premise that an organization that has resources and maximizes those resources can reach and do more.

Excess/Deficit

Throughout the preceding discussion of expenses, I alluded to deficits that emerge when expenses exceed revenues. The following section examines these shortfalls and their more positive corollary: the surplus. The following table shows frequency distribution of the amount of excess/deficits reported by organizations in this sample.

Table V.14: Excess/Deficits (n=166)

Distribution	Frequency	Percent
<-\$5M	4	2.4
-\$5.0M - -\$2.9M	3	1.8
-\$3.0M - -\$.999K	8	4.8
-\$999K - \$1.0M	120	72.3
\$1.0M - \$2.99M	19	11.4
\$3.0M - \$4.99M	5	3.0
\$5.0M - \$6.99M	3	1.8
\$7.0M - \$8.99M	1	.6
\$9.0M+	3	1.8
Total	166	100.0

The measures of central tendency for this variable are disperse. The average reported difference between total expenses and total revenues, which is the definition of excess/deficit, is -\$2,188. The mode is also negative, being rounded to -\$480,000. The median, the measure that will be

the basis of this analysis, is \$24,463. It is significant to restate these central tendency measures particularly for this variable, for its reports on what amounts to the earnings of these organizations.

These organizations are operating with small margins. Not surprisingly given the median revenues and expenses, the excess/deficits that were reported on the IRS 990s for the majority of organizations in this sample hovered between a profitable \$1 million and a not profitable -\$1 million, as is seen in Table V.14: Excess/Deficits. Other efforts to calculate frequency distributions that allowed for less aggregation at the break point of profitability were fruitless; the values in the sample for this variable clustered around zero, break point of profit and loss. I reason that since nonprofits are constrained from distributing profits and freed from the stigma of loss by funders, their motivation is less focused on profitability and more on their social mission. It is acceptable, perhaps expected, that there will be losses shown on the financial statements of nonprofit organizations.

How then does an organization, be it for profit or nonprofit, rationalize losses? In the private sector, surpluses or deficits are retained and reflect the equity or financial value of the organization. The same is technically true in the nonprofit context. However unlike in the private sector, in nonprofits losses are offset by the promise of future financial support. Philanthropy represents a source of equity of nonprofits (Jegers & Verschueren, 2006, citing Sloan, et al., 1988). Losses are balanced by resources that are contributed to the organization which represent a type of in-kind or non-monetized support for the programs and for the business of a nonprofit. That which is reported on the financial statements represents the application of revenue to mitigate the loss.

Because nonprofit organizations are discouraged from distributing profits, they are more trustworthy relative to for profit firms and government (Steinberg, 2006). In market transactions, the consumer is conscious that the private-sector provider of the good is attempting to earn as much as the market will bear so as to fulfill its profit mandate. Absent the profit motive, an organization is principally

concerned with maximizing its resources, in effect making the most of its resources and attractive to consumers. The goal is less about making the most money, but having the dollars go further.

Fundamentally, nonprofit organizations are managed in such a way that costs are covered, with the objective of maintaining its "social status" (Ciancanelli, 2010, p. 213). However, given the objectives and demands of nonprofits services, if resources that remain after implementation of programming is at or near zero maximizing and the social objectives are pursued and met, then the organization performed well. Since these organizations are not expected to be profitable, if they generate no resources or if an organization's expenses exceed its revenues there are no immediate repercussions. Over the long term however, to operate with insufficient resources could challenge the integrity of the organization and cast it irreparable in the eyes of its financing sources. So, from a management perspective, excess/deficits are to be monitored, rationalized and minimized.

Excess/deficits provide an interesting lens through which to appreciate social enterprise strategy and opine about its influence on nonprofit organizations. An organization with resources might be more inclined to engage in social enterprise, and presumably to maintain the strategy, especially as there are little resources available to finance social enterprise other than the surpluses from programs, contracts and grants. Some enterprises may demand little in the way of start up and operations, or may be started and sustained through existing operations. As a consequence, variation in excess/deficit of the organization may be influenced by the type of business or the intensity of social enterprise activity. The following table reports on the excess/deficits reported by the organizations in this sample, by intensity of enterprise.

Table V.15: Median Excess/Deficit of Nonprofit Social Enterprise Operators by Intensity (n=166)

No. of Social Enterprise ("Intensity")	Median Excess/Deficit	Median Revenue	Excess/Deficit as a % of Revenue
1	\$6,520	\$6,692,464	.1%
2	\$174,397	\$5,943,924	3%
3	\$53,838	\$6,329,982	.8%
4	(\$1,425,149)	\$8,214,305	17%
5	--	--	--
6	(\$553,540)	\$37,715,457	15%
7	--	--	--

In Table V.15: Median Excess/Deficit of Nonprofit Social Enterprise Operators by Intensity, I find it is the organization that is operating between 1 and 3 enterprises that report a surplus, albeit negligible given the revenues reported previously. Once again, since only one organization each operated 5 and 7 enterprises, this table presents no data at these levels of intensity. Since revenue generation is a rationale for social enterprise, I examine excess/deficit against median revenues and find that the losses are more significant for organizations that operate 4 and 7 enterprises (17% and 15%, respectively) to the surpluses found by those that operate social enterprise less intensively.

Type of business may influence excess/deficit, so I examine median excess/deficit through intensity, within industry sector.

Table V.16: Median Excess/Deficit of Nonprofit Social Enterprise Operators by Type of Business and Intensity (n=166)

Sector	Social Enterprise Intensity	Median Excess/Deficit	Median Revenue	Excess/Deficit as a % of Revenue
Building	1	(\$17,255)	\$6,576,827	(.2%)
	2	\$100,551	\$15,142,078	.6%
	3	0	0	--
	4	\$560,765	\$19,866,007	2.8%
Trade	1	\$41,946	\$4,978,159	.8%
	2	(\$79,581)	\$3,642,685	(2.1%)
	3	\$1,371,267	\$14,398,103	9.5%
Professional	1	\$16,536	\$7,584,198	.2%
	2	(\$1,425,149)	\$13,892,866	(10%)
Public	1	\$58,047	\$5,625,755	1%
Hospitality	1	\$141,890	\$9,443,444	1.5%
Other	1	\$257,196	\$9,552,218	2.6%
	2	\$147,263	\$9,564,708	1.5%

Within industry sector, the influence of median excess/deficit as an absolute percent of median revenues increases with intensity. In Table V.16: Median Excess/Deficit of Nonprofit Social Enterprise Operators by Type of Business and Intensity reveals that for each category of enterprise except “other”,

as intensity increases, the excess/deficit represents a larger absolute percent of revenue, regardless of whether it is a surplus or deficit.

Net Assets

To complete the review of the indicators of financial condition, the following section examines net assets. The accumulation of assets and/or mitigation of liabilities reveal how the organization is managing its resources. Net assets are a measure of the financial value of a nonprofit organization.

Table V.17: Net Assets (n=166)

Distribution	Frequency	Percent
<\$0	8	4.8
\$0 - \$7.99M	110	66.3
\$8.0M - \$15.99M	19	11.4
\$16.0 - \$31.99M	9	5.4
\$32.0 - \$39.99M	5	3.0
\$40.0M - \$47.99M	1	.6
\$48.0M - \$55.99M	2	1.2
\$56.0M - \$63.99M	1	.6
\$64.0M+	11	6.6
Total	166	100.0

In Table V.17: Net Assets among the organizations in the sample, the majority, almost 67% of the organizations, reported net assets between zero and \$8 million and a negligible 5% operated with negative net assets.

It is plausible that a relationship could exist between positive net assets and the mission of the organization. For this reason, I prepared the following table.

Table V.18: Organization Type of Nonprofit Social Enterprise Operators and Their Net Assets (n=166)

Organization Type	Net Assets
Education	\$567,358
Healthcare	\$3,178,736
Employment	\$4,003,302
Housing	\$4,685,794
Human Services	\$4,298,645
Youth Development	\$7,052,528
Other	\$3,158,903

In this sample, net assets are positive regardless of the mission of the organization. As has been the case for other variables in this dataset, education has the smallest net assets value relative to the other industries. Youth Development organizations have the largest net assets value, exceeding housing, by almost 50%. I note without a rationalization that healthcare, a category that predominated both in total revenues and expenses, falls precipitously in this ranking of net assets.

Table V.19: Median Net Assets of Nonprofit Social Enterprise Operators by Intensity (n=166)

No. of Social Enterprise (“Intensity”)	Median Revenue	Net Assets	Net Assets as a % of Revenue
1	\$6,692,464	\$3,280,636	49%
2	\$5,943,924	\$3,037,938	51%
3	\$6,329,982	\$3,039,482	48%
4	\$8,214,305	\$19,351,977	236%
5	--	--	--
6	\$37,715,457	\$12,095,582	32%
7	--	--	

Net assets are significantly less for organizations that operate with three or less social enterprises, than for those operating four or more. As is revealed through this table, the difference in net assets is slightly more than \$1,500; the difference in net assets for organizations that operate one and two enterprises is \$300,000. It is notable that the net assets for operators of four and six enterprises are \$19 million and \$12 million respectively.

These similarities and differences might be better understood by examining the influence of industry of social enterprise on these organizations. The following table displays the data in such a way as to reveal the variances by industry.

Table V.20: Median Net Assets of Nonprofit Social Enterprise Operators by Type of Business and Intensity (n=166)

Sector	Social Enterprise Intensity	Median Net Assets	Median Revenue	Net Assets as a % of Revenue
Building	1	\$3,680,049	\$6,576,827	56%
	2	\$3,619,480	\$15,142,078	24%
	3	--	--	--
	4	\$11,433,421	\$19,866,007	58%
Trade	1	\$3,244,109	\$4,978,159	65%
	2	\$1,291,257	\$3,642,685	35%
	3	\$8,814,937	\$14,398,103	61%
Professional	1	\$4,298,645	\$7,584,198	57%
	2	\$10,408,493	\$13,892,866	75%
Public	1	\$2,178,006	\$5,625,755	39%
Hospitality	1	\$4,386,935	\$9,443,444	46%
Other	1	\$6,026,668	\$9,552,218	63%
	2	\$4,386,935	\$9,564,708	46%

According to Table V.20: Median Net Assets of Nonprofit Social Enterprise Operators by Type of Business and Intensity, it is the single operators of businesses, as opposed to multiple operators within the same industry, that have the highest net assets as a percent of revenue. In all but the “building” category, the operators of a single enterprise have greater net assets as a percent of revenue for single,

as opposed to multiple operation of a social enterprise within the same sector. If I define an “asset rich organization” as one having positive net assets representing more than 50% of median revenue, organizations that operate social enterprises in the “building”, “trade”, “professional” and “other” categories of social enterprise are asset rich. I can rationalize asset richness among organizations in the professional category because it includes “real estate, rental and leasing” and could include organizations with real estate holdings which can be an appreciable asset. However, assessment of assets demands an evaluation of the capital structure of these organizations, a point that might be best investigated as a separate study in follow up to this dissertation.

In sum, these descriptions of the financial performance of organizations that operate social enterprise reveal that these organizations are reporting revenues, perhaps at the expense of organizational capacity. Increasing social enterprise activity does not presume that revenue will increase in kind, although human serving organizations that operate a social enterprise in industries where a tangible product is produced have revenues that increase with intensity. However, as the intensity of social enterprise activity increases, expenses also rise. In opposition to the data on the relationship between revenue and industry, as intensity increases, it is the organizations that operate social enterprises that produce intangible products, specifically in the “trade” and “professional” categories whose expenses decrease.

The influence of the constraint from distributing proceeds is noticeable in the excess/deficits and net assets reported by the organizations in this sample. The organizations that operate more social enterprises reported organizational deficits. I note that as intensity increases there is a significant range in variation in net assets regardless of industry. Put another way, there is a substantial change in net assets, in some cases higher than the overall sample, in others much lower. Net assets are larger for less

intense social enterprise activity, though on balance it is the “trade”, “building” and “professional” industries that are asset rich.

From this discussion, my attention turns to understanding the efficiencies realized within these organizations, a point which I think can help to illuminate the influence of the social enterprise strategy on the financial well being of the organizations.

Financial Condition

Among the responses of nonprofit organizations to difficult economic times and constricted financing streams is the reduction of expenses (Bielefeld, 1992; Golensky & Mulder, 2006). However, it is only possible to make cuts if an organization has excess or slack resources. In their attempt to understand failures among nonprofit organizations, Chang & Tuckman (1991) devised financial ratios that would reveal the extent to which an organization might be vulnerable, meaning having insufficient resources from which to draw when financial shock occurred. Using organizational vulnerability as a proxy for financial condition, I employ the Chang & Tuckman (1991) methodological theory to explore how financial conditions vary among organizations that employ social enterprise strategy.

Financial Condition Indicators

Financial condition reflects the efficiency in the deployment of overhead expenditures and resources within an organization. The financial efficiency is assessed based on the expense-to-total-revenue ratios that measure **administrative cost**, **operating margin**, and **equity**. In addition, a financial ratios that assesses **revenue concentration** reveals the level of diversity among funding sources (in an extreme example, if an organization has only one funding source and it cannot continue to provide support, the organization is pressed to discontinue services and close its doors). The table that follows presents the measure of central tendency and dispersion for this sample.

Table V.21: Financial Ratios (n=166)

Ratio	Mean	Median	Mode	Minimum	Maximum
Administrative Cost	.1113	.0971	.00	.00	.72
Equity	5.7853	.5172	-5.51	-5.51	814.13
Operating Margin	-.0085	.0107	-3.99	3.99	.53
Revenue Concentration	.7235	.7216	1.00	.00	4.80

These ratios reflect the percentage of the stated expenses (i.e., administrative cost, equity, and operating margin) as a percent of total revenue and an index that reveals the proportion of funding received (revenue concentration) from different funding sources as a percent of total revenue. As was found with the indicators of total revenue, total expense and financial condition, these variables are also not normally distributed.

The organizations in this sample have questionable financial health, yet without a basis of comparison that assessment is inconclusive. Reading only the medians, the nonprofits in this study have equity that represents 52% of their total revenue, meaning that they have the ability to access that much in the event of financial crisis. While the liquidity (availability in cash) is a question, in a financial crisis the organization could tap up to half of their revenue in equity to address the challenge. Their administrative cost and operating margin ratios represents 10% and 1% of their total revenue, respectively. Again, these ratios suggest that in the event of a financial crisis, the organization could cut back their administrative and operating costs and still continue to function (the quality and length of their functioning are indeterminate, however). Revenue concentration ratio values that are closer to 1

suggests that an organization may have fewer sources contributing to their total revenues, versus a number closer to zero which would indicate that the organization has multiple sources of financial support. In this sample, a .72 revenue concentration ratio, being closer to 1, suggests that these organizations have fewer sources of revenue. Having few sources of revenue suggests vulnerability: the organization will be challenged by the loss of a funder.

The influence of the social enterprise strategy on financial performance might be inferred from an examination of the financial ratios according to intensity and type of social venture deployed. In the following section, I review variations in type of organization, recalling that while human services predominate in the sample, there are organizations representing other NTEE categories. As the focus of this inquiry is on social enterprise, I evaluate the variation in the ratios against the number of social enterprise operated by organizations. Finally, given the important and resonance of type of business, I review the financial condition of these organizations by nonprofit sector categories.

Financial Condition by Type of Nonprofit Organization

The category of nonprofit organization that operates a social enterprise may influence the financial condition of an organization. Funding streams are often associated with particular types of organizations (Boris & Steuerle, 2006). So as to maintain their funding, organizations may maintain expected levels and types of revenues and expenses and assets and liabilities. The impulse to yield to expectations of funding sources lies at the heart of resource dependency theory. I presume that it may be possible to describe the financial condition by categories of organizations that operate social enterprise and in so doing perhaps uncover a circumstance that is distinctively entrepreneurial.

Previous discussions (see “Financial Condition Indicators” at the beginning of this section and review Chapter III: Conceptual Framework) provided a detailed explanation of the meaning and

interpretation for each financial ratio ascribed to Chang & Tuckman’s (1991) financial vulnerability assessment methodology. In the table that follows, I consolidate output of the four ratios into one table.

Table V.22: Median Financial Condition by Nonprofit Category (n=166)

Category	Equity Ratio		Revenue Concentration Ratio		Administrative Cost Ratio		Operating Margin Ratio	
	Ratio	% Diff	Ratio	% Diff	Ratio	% Diff	Ratio	% Diff
<i>Overall →</i>	.5172		.7216		.0971		.0107	
<i>Education</i>	.7852	52%	.5339	(26%)	.0858	(12%)	.0270	152%
<i>Healthcare</i>	.4587	(11%)	.5907	(18%)	.1061	9%	.0019	(82%)
<i>Employment</i>	.4331	(16%)	.6945	(4%)	.1126	16%	.0168	57%
<i>Housing</i>	1.1818	128%	.6656	(8%)	.0628	(35%)	(.0042)	(139%)
<i>Human Services</i>	.4950	(4%)	.7353	2%	.0973	0%	.0160	50%
<i>Youth Development</i>	.9688	87%	.7670	6%	.1083	12%	.0011	(90%)
<i>Other</i>	.4872	(6%)	.8726	21%	.0742	(24%)	.0062	(42%)

Table V.22: Financial Condition by Nonprofit Category shows the financial state of nonprofit organizations that operate social enterprises by NTEE categories. Table V.21: Financial Ratios revealed overall ratios for equity, revenue concentration, administrative cost and operating margins for the entire sample; these ratios are added to this table to provide a basis for comparing how the entire sample differs from the ratios values for individual categories. In order to facilitate the analysis and

interpretation of these data, I calculated percent differences (calculated as the difference between the individual category's and the entire sample's financial ratio divided by the entire sample's financial ratio) so as to isolate variation. Those individual category's financial ratios that are less than that of the overall sample are bracketed and highlighted. The larger the ratio value, the more slack resources possessed by the organizations in the category for equity, administrative cost and operating margin ratios. The opposite is true for revenue concentration ratio: values that are closer to one suggest high concentration and therefore greater vulnerability in the event that a funder decides to no longer support an organization and conversely values closer to zero indicate greater diversity and promise of withstanding the shock of the loss of a funder.

In general, this table reveals that there is no category of organization that is performing below the median across all of the financial ratios, but there are three categories where the organizations performed below the median score in for three of the four ratio indicators reported for the entire sample. Housing organizations performed below the sample's median in all but the equity ratio: the positive equity held by these organizations may be explained by the possibility that housing organization may have significant equity in the form of real estate, which is logical given their missions to provide housing and/or shelter. Healthcare organizations also performed below the sample's median in three of the four ratios, only performing better than the sample in administrative cost ratio. This suggests that there are significantly more administrative costs from which a health care provider might be able to draw during times of economic or financial shock. Finally, organizations in the "other" category also performed below the sample in three of the four categories (in this case, all but revenue concentration). However, because this category represents an amalgamation of several categories, I am hard pressed to rationalize this finding.

It should be noted that particularly given this dissertation's interest in human services that the organizations in this category performed above the sample in all but in the equity ratio. Perhaps reflecting the substantial number of human service organizations that comprised this sample, for the revenue concentration ratio and in the administrative cost ratios, these organizations performed very close to that of the entire sample (at 2% and 0% respectively). Interestingly, human service organizations performed 50% higher than the median score on the operating margin ratio for the entire sample.

Finally, youth development appears to be a category of nonprofit organizations that, relative to the other categories, is least vulnerable. Its operating margin ratio is 90% below that of the other categories of organizations included in this analysis, yet these organizations had a strong showing in equity (87% more than the entire sample), revenue concentration (6% greater than the entire sample) and administrative cost (12% greater than the entire sample).

The focus of this dissertation is on social enterprise activity within human serving organizations where social workers are employed. Social enterprise activity is characterized in this study by intensity, meaning the number of enterprises operated and type of enterprise. Both are detailed in what follows.

Financial Condition by Intensity of Social Enterprise

Earlier in this chapter the number of enterprises operated by the organizations in this sample was specified. The majority, or 66%, of the organizations that comprise this sample operate a single enterprise, as was presented in Table V.2: Number of Social Enterprises Operated by Organizations. It is relevant to this study's purpose to understand the influence of intensity of social enterprise activity on the financial condition of these human serving organizations that operate social enterprises.

Table V.23: Median Financial Condition by Intensity of Social Enterprise (n=166)

No. of Social Enterprise ("Intensity")	Equity Ratio		Revenue Concentration Ratio		Administrative Cost Ratio		Operating Margin Ratio	
	Ratio	% Diff	Ratio	% Diff	Ratio	% Diff	Ratio	% Diff
<i>Overall</i> →	.5172		.7216		.0971		.0107	
1	.4950	(4%)	.7346	2%	.0995	2%	.0039	(64%)
2	.8126	57%	.7602	5%	.0910	(6%)	.0281	163%
3	.4976	(4%)	.6021	(17%)	.0890	(8%)	.0018	(83%)
4	.8039	55%	.5841	(19%)	.1942	100%	(.1508)	(1509%)
6	.3045	(41%)	.7268	1%	.1192	23%	.0096	(10%)

Table V.23: Median Financial Condition by Intensity of Social Enterprise compares financial condition of these organizations by the number of social enterprises it operates, or its social enterprise intensity. As with the preceding table, financial condition serves as the basis for comparing the performance within the sample and is listed in the “overall” row. For organizations that are grouped by the number of enterprises that they operate, their financial ratios are presented, along with the percentage differences between the financial performance for the group of organizations that operate within the category of social enterprise intensity (refer to the column labeled as “No. of Social Enterprise (“Intensity”)” and the entire sample. Although organizations in this sample operate between 1 and 7 social enterprises, there is only one organization each that operate 5 and 7 social enterprises which

made medians for these intensity levels incalculable. The four indicators of financial performance are ratios that reveal equity, revenue concentration, administrative costs and operating margin ratios.

Two issues that will be the subject of subsequent multivariate analysis are pronounced in this table. First, operating margin ratios seem to be affected by the operation of social enterprise. Recalling that these ratios reveal where organizations may have resources that could be cut during times of financial shock, I find that in all levels of social enterprise intensity the operating margin ratio is smaller than the overall sample, except for those organizations that operate two enterprises: across the 6 levels of social enterprise intensity, 5 report operating margin ratios that are less than the median for the entire sample. While a simple cross tabulation does not reveal the strength of the relationship, I note that the influence of intensity on operating margins are more than 50%, except for those organizations that operate 6 enterprises. Secondly, and this may be unique to this dataset, organizations that operate three enterprises performed below the median for the sample across each of the four ratios. At this point in the exploration of the data, this a point about which I will only note because of its stark contrast to other levels of social enterprise intensity.

Financial Condition by Type and Intensity of Social Enterprise

Industry affiliation of the social enterprise may help to illuminate subtleties of the financial condition of these organizations. The following table distills within types of social enterprise, the levels of intensity and its influence on the financial condition of these organizations.

Table V.24: Median Financial Condition of Nonprofit Social Enterprise Operators by Type of Business and Intensity (n=166)

Type of Social Enterprise	No. of Social Enterprise ("Intensity")	Equity Ratio		Revenue Concentration Ratio		Administrative Cost Ratio		Operating Margin Ratio	
		Ratio	% Diff	Ratio	% Diff	Ratio	% Diff	Ratio	% Diff
<i>Overall</i> →		.5172		.7216		.0971		.0107	
		Ratio	% Diff	Ratio	% Diff	Ratio	% Diff	Ratio	% Diff
<i>Building</i>	1	.7363	42%	.6750	(6%)	.1245	28%	-.0084	(179%)
	2	.4649	(10%)	.8768	22%	.1114	15%	.0086	(20%)
	4	.5948	15%	.7163	(1%)	.1569	62%	.0158	48%
<i>Trade</i>	1	.6600	28%	.7498	4%	.0877	(10%)	.0060	(44%)
	2	.2235	(57%)	.5842	(19%)	.0860	(11%)	-.0094	(188%)
	3	.6631	28%	.7774	8%	.1225	26%	.0823	669%
<i>Profl</i>	1	.4976	(4%)	.6783	(6%)	.0963	(1%)	.0037	(65%)
	2	.5245	1%	.6094	(16%)	.1031	6%	-.1322	(1336%)
<i>Public</i>	1	.5099	(1%)	.6303	(13%)	.0842	(13%)	.0150	40%
<i>Hospitality</i>	1	.4587	(11%)	.7099	(2%)	.0958	(1%)	.0177	65%
<i>Other</i>	1	.7122	38%	.6653	(8%)	.0958	(1%)	.0184	72%
	2	.4587	(11%)	.5431	(25%)	.1168	20%	.0588	450%

Table V.24: Median Financial Condition of Nonprofit Social Enterprise Operators by Type of Business and Intensity compares the financial condition within industry sector (referring to the social enterprise) and within sector, its intensity with that of the entire sample. There are organizations that

operate more than one enterprise within several industry sectors, and this table details how those categories of organization's financial performance relative to the overall sample. So, there are organizations that operate 2 trade enterprises, having an equity ratio of .2235, which is 57% less than the median equity ratio of .5172 of the entire sample. Through this analysis, I can locate variation that may help to illuminate the influence of social enterprise on a nonprofit's financial condition.

This table reveals interesting variability in financial condition within industry and intensity of social enterprise operators. I note that the revenue concentration ratios are lower than for the entire sample, which means that these organizations have revenues that are less concentrated and would be less vulnerable in the event that a funding source withdrew its support from the organization. From the table I learn that organizations that operate businesses that are affiliated with "trade" (and within that sector those that operators of 2 enterprises) had a 19% lower revenue concentration ratio when compared to the entire sample, "professional" had lower revenue concentration ratio for operators of a single enterprise by 6% and 16% (for operators of 1 and 2 enterprises respectively), "public" (lower by 13%) and other (lower by 8% and 25% for 1 and 2 enterprise operators respectively). While these are not huge differences, they reflect decreased concentration of revenue sources (which would positively impact on an organization's ability to rebound from financial shock) found within the other industries. Of the industries, the "building" sector (those that operate 2 enterprises) has a concentration ratio that is larger as compared to the other industries and is therefore in more vulnerable that all other sectors and intensity levels.

I also note the huge differences in operating margins ratio that extends the observations made previously in the discussion of Table V.23: Median Financial Condition by Intensity of Social Enterprise. The absolute values, which disregard whether the difference between the ratio values of the individual category and the overall, are substantial within "professional", "other" and "trade". Within each of

these sectors, the operating margin ratios were negative, which suggests that these organizations were under resources to operate their programs.

Informed by the observations embedded in the financial performance of the organizations, the following section reveals vulnerabilities within this sample cohort.

Financial Vulnerability

As has been detailed previously (see Chapter III: Conceptual Framework), financial vulnerability presupposes that an organization has limited resources at their disposal during time of financial crisis. The formula was developed with the goal of identifying factors that might contribute to organizational bankruptcy (Chang & Tuckman, 1991). As has been the source of the rich discussion about these organizations to this point, Chang & Tuckman (1991) calculated ratios for each organization within their sample, divided each into quintiles and assumed that those falling into the lowest quintiles (highest for revenue concentration) are in severe financial distress. Within their sample, the organizations that were designated as being in severe distress across the four variables were deemed financially vulnerable.

Financial vulnerability is assessed based on vulnerability scores for each of the financial efficiency indicators: if an organization is vulnerable across each of the four afore-mentioned ratios, then it is in **severe distress**. In contrast, if another organization is not vulnerable on any of the four ratios, then it is considered to be **financially sound**. Financial performance and vulnerability will be the subject of the section that follows this.

Financial Vulnerability Indicators

For my study, the ratios and the calculation of financial vulnerability are useful proxies of financial condition. Dividing my sample into quintiles did not yield a single organization that was

financially vulnerable as defined by the Chang and Tuckman (1991) model (a fact that could be corroborated with a visual scan of the data, possible because of the small sample). Toward further searching for financial vulnerability within my sample, I divided the results of the ratios by thirds instead of fifths. The results remain the same: none of the organizations in this sample are financially vulnerable as defined by Chang & Tuckman (1991). I maintain the structure of thirds as opposed to quintiles because it is far less cumbersome and may reduce the need for transformations in later analyses.

The following table presents the levels of financial vulnerability among the organizations that are included in this sample.

Table V.25: Financial Vulnerability (n=166)

Frequency	Frequency	Percent
Not at Risk "Not Vulnerable"	35	21.1
At Risk - 1 ratio "Minimumly Vulnerable"	56	33.7
At Risk - 2 ratios "Moderately Vulnerable"	61	36.7
At Risk - 3 ratios "Severely Vulnerable"	14	8.4
Total	166	100.0

To interpret this table, I recall that the determinants of vulnerability are the scores on the financial condition variables (administrative cost, equity, operating margin and revenue concentration ratio) that were analyzed in the previous section. Organizations that were classified in the bottom third of an ordered array for each ratio are deemed vulnerable. This table reveals the numbers of organizations that are vulnerable in multiple areas, with the severity of the vulnerability being calibrated to the number of categories in which an organization is vulnerable. Consequently, if an organization is vulnerable in one category, it is deemed “minimally vulnerable”; if an organization is vulnerable in two categories, it is deemed “moderately vulnerable” and if an organization is vulnerable in three categories, it is deemed severely vulnerable. There are no organizations that are vulnerable across all four of the financial condition variables, so hence those organizations that are labeled as being “severely” at risk are determined as such because relatively within this sample, they are the worst of the lot.

The table is revelatory. One fifth of the sample, or 20.8%, shows no vulnerability, having no severe risk across the four variables. One third of the organizations fell into the bottom third of risk in one ratio. However, the greatest number of organizations show risk in across one or two ratio categories (33% and 37%, respectively) and a relatively negligible 8% were at risk in three of the ratio categories and are considered to have “severe vulnerability”.

There is much to be learned by parsing this data. The work of the nonprofit may influence its vulnerability. Of course, there are many factors that contribute to that vulnerability, but to find variability in vulnerability may help to illuminate the character and temerity of these human serving organizations. The table that follows presents an analysis of financial vulnerability within the classes of nonprofit organizations.

Table V.26: Financial Vulnerability by Organization Type (n=166)

Sector	Risk of Financial Vulnerability							
	None		Minimum		Moderate		Severe	
	#	%	#	%	#	%	#	%
Education	4 (2.3)	11%	1 (3.7)	2%	3 (4.0)	5%	3 (.9)	21%
Health	10 (7.0)	29%	9 (11.1)	16%	12 (12.1)	20%	2 (2.8)	14%
Employment	1 (3.0)	3%	4 (4.7)	7%	9 (5.1)	15%	0 (1.2)	0%
Housing	2 (2.7)	6%	6 (4.4)	11%	4 (4.8)	7%	1 (1.1)	7%
Human Svc	13 (12.9)	37%	25 (20.6)	45%	19 (22.4)	31%	4 (5.1)	29%
Youth	2 (2.1)	6%	5 (3.4)	9%	3 (3.4)	5%	0 (.8)	0%
Other	3 (5.1)	9%	6 (8.1)	11%	11 (8.8)	18%	4 (2.0)	29%
Total	35	100%	56	100%	61	100%	14	100%
% of Sample	21%		34%		37%		8%	

In Table V.26: Financial Vulnerability by Organization Type, the data is presented of the degree of financial vulnerability by type of nonprofit organization. Recalling from earlier tables, there are seven categories of nonprofit organizations, referring to the missions of these organizations. These are listed under the column headed with “sector.” Table V.25: Financial Vulnerability, presented previously, detailed that vulnerability of organizations that are included in this sample, categorizing both the number and percent those that placed in the bottom third of one or more of the four financial vulnerability indicators (administrative cost, equity, operating margin and revenue concentration ratios).

In each cell under the “#” heading and presented within parentheses are expected frequencies, a statistically derived value assigned, a point that will be explained shortly. An organization that did not place at the bottom of any of the financial vulnerability indicators is considered to have no risk; those organizations that placed at the bottom of three of the four financial vulnerability indicators is considered to have severe risk. Placement in the bottom of two or three of the financial vulnerability indicators is reflected as minimum- and moderate risk respectively. Finally, the composition of the sample’s financial vulnerability is relevant to interpreting this data, so the percentage of organizations within the sample overall are presented in the row headed with “% of sample”.

In Table V.26: Financial Vulnerability by Organization Type, I find distinction of human services organizations and greater detailing of those organizations that are classified as having severe financial vulnerability. Human service organizations predominate relative to the overall sample as having no risk (representing 37%, the largest percent of the sectors with no risk) or minimal risk (representing 45%, the largest percent of the sectors with minimal risk). Health organizations had a strong showing among the organizations with no risk, representing 29%. I also find that in the severe category, human service and “other” (quotes reflect a categorical distinction) represent 58% (29% each) of the organization categories, with education representing a close second, with 21% of the organization sectors appearing in this category.

As the preceding also reveals, financial vulnerability is a categorical indicator. Consequently, the presentation that follows is, when compared to my review of this sample’s financial performance and condition indicators, less quantitative and more categorical. In the case of financial vulnerability metric, I report on categories, as opposed to quantitative variables that of themselves offer a specific numerical value of which variation can be discussed. Because the variables being examined here are both categorical, this analysis lends itself to chi-square test of association.

In situations where both the dependent and independent variables are nominal, this nonparametric tests afford the opportunity to statistically determine the association and strength of association between variables (Weinbach & Grinnell, 2007a). However, in its present configuration, the previously presented table includes violations of the requirements for the expected frequency values, particularly as 61% of the cells have expected values that are below 5. Expected frequencies are statistically derived and are distinct from the observed values presented on the table. I reconfigure the independent variable, creating instead of four categories of financial vulnerability, now two categories to increase. Low financial vulnerability includes those organizations that revealed none or minimal financial risk, as defined previously. High financial vulnerability includes those organizations that have moderate or severe financial vulnerability. The following table is the output of this recoded variable.

Table V.27: Lo/Hi Financial Vulnerability by Organization Type (n=166)

Sector	Financial Vulnerability				
	Low		High		Total
	#	%	#	%	#
Education	5	18%	6	8%	11
Health	19	21%	14	19%	33
Employment	5	6%	9	12%	14
Housing	8	9%	5	7%	13
Human Services	38	42%	23	31%	61
Youth	7	8%	3	4%	10
Other	9	10%	15	20%	24
Total	91	100%	75	100%	166

The data presented in Table V.27: Lo/Hi Financial Vulnerability eliminates the violations of the preceding table, permitting the determination of associations between organization type and financial vulnerability. The table presents the organization sectors and within each the number and percent that are classified as having either “low” or “high” financial vulnerability. With the recoding of the independent variable, the number of expected frequencies that are below 5 falls from 61% to 14%. Of the organizations in this sample, the majority, or 91 of the organizations have low financial vulnerability and the balance show high vulnerability (75 organizations are included in this latter category). In the chi-square result I find a high p-value in a two-tailed test ($\chi^2 < 8.56$, $df = 6$, $p > .20$), which suggests that

the relationship between financial vulnerability and nonprofit sector may be attributable to sampling error.

With the focus on social enterprise, I examine the influence of the intensity of social enterprise on the financial vulnerability of these organizations. The table that follows details the numbers of organizations according to the revised and recoded two category financial vulnerability indicator. Recognizing that the value of collapsed variables affords for statistically determining associations and strength of said associations, I also collapse intensity as well.

Table V. 28: Low/High Vulnerability by Intensity of Social Enterprise (n=166)

Intensity	Financial Vulnerability				
	Low		High		Total
	#	%	#	%	
1	57 (52%)	63%	52 (48%)	69%	109 (100%)
2	17 (61%)	18%	11 (39%)	15%	28 (100%)
3	11 (58%)	12%	8 (42%)	11%	19 (100%)
4+	6 (60%)	7%	4 (40%)	5%	10 (100%)
Total	91	100%	75	100%	

Table V.28: Low/High Vulnerability by Intensity of Social Enterprise provides data that reveals changes in financial vulnerability that may respond to intensity of social enterprise activities among the sampled organizations. The data contained under columns headed by “#” (number) and “%” (percentage) represent the number and percentage of organizations that are categorized as having “low” or “high” financial vulnerability. The data is organized by the column that is headed by “intensity”. Each row represents the number of social enterprises that are operated by an organization, with the corresponding cells showing the number or percentage of organizations that operate that number of enterprises. The percentage column sums vertically and reveals the allocation of organization within the financial vulnerability. However, note that I also include percentages in the number column. These percentages, which sum horizontally, reveal within each number of enterprises, the percent that reports as having “low” or “high” financial vulnerability.

The majority of the organizations in this sample have low vulnerability. Of the 166 organization, 91 report low vulnerabilities. Among those organization that report low vulnerabilities, the most operate a single enterprise (63%). Similarly, those operating a single enterprise are in the majority among organizations that are financially vulnerable, with 69% of the total of 75 organizations reporting as vulnerable.

However, the significance of the table is noted not by interpreting this characteristic horizontally according to vulnerability, but with a focus on the difference within intensity levels. The percentages that are included with the number boxes reveal the percentages within of organizations within intensity levels. Organizations that operate two enterprises outperform all other levels of social enterprise intensity: a higher percentage of organizations (61% of those operating two enterprises) operating at this intensity level report low vulnerability. Among the higher intensity levels (58% of those operating three enterprises; 60% of those operating four) more organizations report low vulnerability. Curiously,

that operate one enterprise had fewer organizations (52%) that reported low vulnerability relative to the other intensity levels. This could presume economies of scale achieved with greater intensity of enterprise or that these organizations leverage their resources so that the additional revenue can be put to work more effectively within the organization. This reasoning needs to be supported by more in-depth empirical work.

The nature of the relationship between these two variables is inconclusive however. The result of the chi-square analysis is similar to that which was discovered in exploring the relationship between type of organization and financial vulnerability. Based on the chi square test ($\chi^2=.855$, $df=3$, $p>.20$), I find a value which is lower than values located on the chi square table. At 3 degrees of freedom, the value produced a probability level that exceeds 20%. It is possible that the relationship that seems to emerge between these two variables is attributable to sampling error.

Greater clarity about the fit between intensity and financial vulnerability may be found by integrating the type of social enterprise operated into the review. In previously sections, I included “type of social enterprise” as a means to assess the influence of the industry of the business to the organization’s health. The following table looks at industry affiliation of enterprise and intensity therein.

Table V. 29: Financial Vulnerability of Nonprofit Social Enterprise Operators by Type of Business and Intensity (n=166)

Type of Social Enterprise	No. of Social Enterprise ("Intensity")	Low Financial Vulnerability		High Financial Vulnerability		Total	
		#	%	#	%	#	%
<i>Building</i>	1	20	62%	12	38%	32	100%
	2	2	33%	4	67%	6	100%
	4	2	100%	0	0%	2	100%
<i>Trade</i>	1	25	52%	23	48%	48	100%
	2	2	50%	2	50%	4	100%
	3	1	50%	1	50%	2	100%
<i>Prof'l</i>	1	27	63%	16	37%	43	100%
	2	3	60%	2	40%	5	100%
	3	0	0%	1	100%	1	100%
	4	1	100%	0	0%	1	100%
<i>Public</i>	1	11	44%	14	56%	25	100%
	2	1	100%	0	0%	1	100%
<i>Hospitality</i>	1	20	54%	17	46%	37	100%
<i>Other</i>	1	16	64%	9	36%	25	100%
	2	3	100%	0	0%	3	100%
	3	0	0%	1	100%	1	100%

Table V.29: Financial Vulnerability of Nonprofit Social Enterprise Operators by Type of Business and Intensity presents the financial vulnerability of the organizations in this sample categorized by type of business and intensity within each type. As has been presented previously, the “#” and “%” represent the number and percent of organization within each level of intensity within each type of industry of the social enterprises. Because the intensity levels only represent multiple numbers of businesses of the type listed (meaning, there are two organizations that operate two business enterprises that are within the building industry), there is a possibility for overlapping data. Therefore, column sums would not be of value and have not been calculated. The percentage columns total horizontally, not vertically. Unfortunately, in this table I find distinction with sectors for the organizations that operate more enterprises. There is no discernible variation within these cells.

With this comprehensive quantitative analysis and understanding of the character of the organizations in this sample, I direct myself and the remainder of this dissertation responding to the research questions and situating the findings in the context of the literature and articulating possibilities for future research.

VI: Findings, Conclusions & Implications

*Sometimes we can see that truth and sometimes not, because [we] may have different perspective...
So, rather than arguing like the blind men, we should say, "Maybe you have your reasons."*

East Indian fable

The preceding chapter provided a descriptive overview of the characteristics of the sample that will be used to further explore the financial implications of social enterprise on nonprofit organizations in this chapter. Through that prefatory review, I learned that diverse organizations, even within the human serving context, engage in social enterprise. I also learned that the influence of social enterprise strategy on the nonprofit organization's financial reports, as indicated by variation in intensity of activity or industry affiliation, may be discernible through data mining of their financial reports.

Poised as I am to present multivariate findings and draw conclusions that illuminate the consequences of the social enterprise strategy on nonprofit organizations, I recall the story of the elephant and the blind men. As the story goes, several blind men touch an elephant and based on the part of the elephant that they feel, they describe an elephant to their peers. The person who is closest to the tail describes an elephant to be a soft, lithe, yet muscular object; the individual who grasps the leg describes the elephant as being sturdy, solid and firm; and so on. Each describes an elephant based on their point of contact. However, because of the perspectives of each, their descriptions are different, true, yet incomplete. None has the picture of the whole elephant, and therefore each contributes to knowing, but none are complete in their interpretation. Perhaps as a defense, but more likely with the realization of what a data mining study of nonprofit social enterprise could possibly yield given a sparse and fragmented knowledge base, this fable reminds me that this study represents one view on this subject.

In this chapter, I intend to achieve several objectives. First, I present the analytic findings the response to this study's research question. There are three subsidiary questions that, taken together, shape a conception of the financial implications of social enterprise on nonprofit organizations. I use this framing to analyze the collected data to learn how these organizations that operate social enterprise are fairing financially. Second, I derive the meaning of these findings. This quantitative data

can be most useful when interpreted through the lens of existing knowledge and the challenges confronting nonprofits. Third, I recognize the particular resonance (or lack thereof) of this subject for social work, I use the findings as a pathway to reinforce the importance of nonprofit administration as an area of study for and research by social workers. However blind I may be (as the researcher in this endeavor), this study has the potential to contribute to the growing interest in social enterprise by nonprofits and to enrich the conception of social workers as active participants in the management and administration of social programs and nonprofit organizations.

This chapter addresses the issues raised in the problem formulation and fills a gap in the literature with a tenor that resonates with the ethos and character of social work. Nonprofit organizations struggle to obtain financing and employ social enterprise as a means to raise revenue (Germak & Singh, 2010). Engagement in social enterprise by nonprofits, while novel to academic researchers, is not a new phenomenon for practitioners. Social workers are increasingly tasked with responsibility that includes the management of financial resources (Lohmann & Lohmann, 2008). Through the examination and analysis of social enterprise by scholars, there have been questions raised about its fit with the social mission of nonprofit organizations in general and the social work profession in particular (Fabricant & Fisher, 2002a; Gray, Healy, & Crofts, 2003). However, aside from analysis that explores the primacy of mission among organizations that operate social enterprise (Young, D. R., 2006), the literature reports little of the financial consequences of the use of a market-based strategy by nonprofits on those nonprofits. This is ironic, given that the reason nonprofits engage in this activity is to generate revenue. Therefore, this study examines the financial disposition of nonprofit organizations that operate social enterprise to surface the consequences of this strategy.

It all begins with the following discussion of findings.

Financial Implications of Social Enterprise on Nonprofit Organizations

What are the financial implications of social enterprise for nonprofit organizations? At the core of this inquiry are three subsidiary questions that inform an interpretation of the financial implications of social enterprise. These questions include:

- Are organizations strengthened or weakened as a result of engaging in social enterprise?
- Does the type of enterprise offer any financial benefit to the nonprofit organization?
- Do organizations that engage in social enterprise more or less prone to recovery following downturns in the economy?

I recognize that although this is an exploratory study, these questions imply a directional hypothesis. The first question suggests that as a result of engagement in social enterprise, the organization could be either strengthened or weakened. The second question considers that type of enterprise influences the financial benefits realized by an organization. The third presupposes that social enterprise makes an organization more or less resilient to volatility in the economy. Each question presupposes that social enterprise is the catalyst for and can be measured by a change in the financial status of the organization.

However, there is no empirical support for the hypothesis that a social enterprise strategy informs financial status (regardless of the quality of that status). It is just as likely that an organization's financial status (presumably, a positive or strong financial position) makes engagement in social enterprise a possibility for an organization. The absence of venture resources (Salamon, L., M., Geller, & Hall, 2007) suggests that organizations that operate social enterprise may do so with reserved or optimized resources that are available. In the spirit of exploration, I remain open to the possibility that the sequencing between social enterprise and financial status of the organization is in question as well. This is particularly relevant as there may be synergies, evidenced by their positive financial disposition,

between human service organizations and particular types of social enterprise. Therefore, in the analysis that follows, I may find occasion to toggle between social enterprise and financial status as independent and dependent variables, respectively.

In the preceding Conceptual Framework (see Chapter III), each question was made operational. The following revisits the variables associated with each question and reports on findings that pertain to these questions.

Q1: Are organizations strengthened or weakened as a result of engaging in social ventures?

The response to this question will reveal the degree to which the resources of organizations that operate social enterprises (ventures) are fortified or eroded, presumably as a result of their operation of social enterprise. The subjects in this study employ a variety of revenue generation strategies of which social enterprise is among them. The question presupposes that variation social enterprises (either number or type) will register a variation in the financial disposition of the organization. The following names the indicators and how they can be interpreted to respond to this question.

Independent Variable: Intensity of Social Enterprise

The organizations that are subjects in this inquiry operate at least one social enterprise. Social enterprise, as has been describe earlier, is a strategy that is presumed to generate revenue for the organization. Social enterprise is not the only revenue generation strategy, as was confirmed in Chapter V: Descriptive Account's discussion of "Total Revenue": organizations revenue sources can and often do include fees, contracts, grants and gifts. Further, just as an organization may operate multiple strategies, so too might an organization operate more than one social enterprise.

I assume that the operation of one or more social enterprise influences an organization's financial condition. More is more: if one organization manages one enterprise and a second manages ten enterprises, then it seems likely that their respective revenue, expense, net asset and excess/deficit levels would be different. Of the two, I assume that the organization that operates ten enterprises will have greater revenues. However, the magnitude of their revenues, the associated differences in expenses, net assets and excess/deficit levels and in what ways are these differences are proportional to the change in revenues between the two organizations are not intuitive. It is important to explore the extent of the influence of enterprise and financial disposition of the organization.

I also note that this study only examines level of enterprise activity (that which operates one or more enterprises) and does not include the relative comparison of organizations that do not operate social enterprise at all. This latter analysis could powerfully and provocatively distinguish organizations that operate social enterprise from those that do not. However, in this initial examination of social enterprise, I am centrally concerned with examining only those organizations that operate social enterprise. A subsequent study might include a comparison.

In this question, social enterprise intensity is the independent ordinal variable to be analyzed for this question. The variation in intensity of social enterprise is presumed to influence a financial variable, therefore this variable is independent. Further, social enterprise activity is a numerical variable that is an ordinal measure: it ranks the intensity level social enterprise of these organizations.

With this social enterprise intensity identified as the independent variable that will be used to respond to the above referenced question, this discussion now turns to the factor that mediates "strength" and "weakness" of organizations.

Dependent Variable: Financial Performance and Financial Condition

In the context of this study, organizational strength and weakness are indicated by financial well being. The research design (Chapter IV) and descriptive account (Chapter V) described three categories that serve as indicators of financial disposition: financial condition, financial performance and financial vulnerability. Financial vulnerability has a distinct meaning as articulated by Chang & Tuckman (1991) that relates to efficiency. While the Chang & Tuckman (1991) categorical distinction of being financially vulnerable (which is calculated based on the indices of the four financial ratios), I prefer the granular data for this analysis and am therefore excluding financial vulnerability as an indicator in this analysis.

As was detailed in the conceptual framework (Chapter III), financial performance (revenue, expense, excess/deficit net assets) and condition indicators (administrative cost ratio, equity ratio, operating margin ratio and revenue concentration ratio) measure the financial disposition of an organization. These indicators measure how well the organization is performing in relation to other organizations. However, as was suggested in the Descriptive Analysis, excess/deficit and net assets offer a definitive, positivistic assessment of organizational performance. While an organization's excess/deficit and net assets can be measured in relation to other organizations, negative values in these two variables suggest a decided failure of the organization to operate within its means. Revenue and expense values are used to calculate excess/deficit and are redundant and will not be discussed as such. The indicators of financial condition provide insights into the other-than-program-related efficiency levels within these organizations. The financial ratios, representing the component elements of financial vulnerability will be included as they locate the source of strength or weakness. An organization that has sufficient margins is stronger than one that has little or no margin. In the interest of expediency and parsimony, strength and weakness will be indicated by positive or negative values of

excess/deficit and net asset values and administrative cost, equity, operating margin and revenue concentration ratios.

These variables are dependent and measure at the interval level. As was stated earlier, the intensity of social enterprise will, presumably, influence the organization's financial performance and condition. As intensity changes, so will the values of the financial indicators.

With each variable that will be applied to responding to the research question revealed, it seems useful to specify the analytic strategy that will be used to derive the answer.

Analytic Strategy

Understanding whether these organizations are strong or weak is a complex exercise that is not completely understood based on the reading of the results of a mathematical equation. I am reminded of how complex the data that has been compiled is and how, given this study's focus on nonprofit social enterprise, the overlay of social mission and disincentive to emphasize financial elements of operations by these organizations clouds the pure and straight forward "strong" or "weak" assessment. Further, this study is an effort to understand the consequences of a strategy and there are intervening and contravening forces that are related and unrelated to the operation of these enterprises that certainly influence their financial condition and performance. Among them is the volatility of economy, the challenges of assessing social and financial value creation and the primacy of social mission over financial beneficence in the context of the nonprofit organization. For these reasons, my calculation of strength or weakness may unduly diminish or embolden my perceptions of these organizations.

However, it is my purpose to appreciate the financial status of these organizations so that managers and staff could appreciate how their work in the social enterprise contributes to the organization. An analysis that yielded an answer that identified strength or weakness based on the

value of the financial metrics would serve to only pique interest, and minimize the richness that is possible given the data that has been collected. I certainly expect to know whether these organizations are stronger or weaker, but I think the knowledge base and the opportunity for helping particularly social work practitioners with managing resources of an organization that operates a social enterprise would be served if it were possible to additionally understand the degree of and the strength of relationship between the variables so as to understand whether any of the metrics used can or should be monitored in an ongoing fashion.

Given these complex influences and the latitude afforded by statistical tests derived from the levels of measurement of the variables, cross tabulations and correlation analysis will be conducted. It is my intent to explore “social enterprise intensity” and the indicators of “financial condition” (specifically “net assets” and “excess/deficit”) and “financial performance.”

Findings

The preceding descriptive account consisted of tables of cross tabulated data and surfaced preliminary insights that lead to an answer in the research question and preface/reinforce more rigorous statistical assessment of these variables. In Table V.15: Median Excess/Deficit of Nonprofit Social Enterprise Operators by Intensity, I found that nonprofit organizations that operate between 1 and 3 enterprises reported a surplus, though the organizations that operate 4 or more enterprises reported deficits. The level of deficit, as a percent of total revenue, was 17% for those operating 4 enterprises and 15% for those operating 6 enterprises. The deficits were much larger in absolute terms than the surpluses, which were reported no higher than 3% for organizations that operated between 1 and 3 enterprises. On its face, it would seem that with more social enterprise activity, an organization has fewer resources remaining at the end of the fiscal year. From a purely accounting standpoint, an organization is weakened with an increase in intensity of social enterprise activity.

In contrast and as was revealed in Table V.19: Median Net Assets of Nonprofit Social Enterprise Operators by Intensity, net assets averaged about 50% as a percent of total revenue for those organizations that operate between 1 and 3 social enterprises. Net assets as a percent of total revenue are substantial among organizations that operate 4 enterprises relative to the other intensity levels, as is shown in Table V.19: Median Net Assets of Nonprofit Social Enterprise Operators. Among the organizations that operate 4 enterprises, their reported net assets as a percent of total revenue represent 236%. I cannot account for this surge in net assets that occurs among those organizations that operate 4 enterprises. Those organizations that operate 6 enterprises report their net assets are 32% of total revenue, an amount that is the lowest relative to the other levels of intensity. The net (pardon the pun) result is that organizations that operate social enterprise report a decrease (if we exclude 4 enterprises from the equation) in net assets as a percent of revenue as the intensity of social enterprise increases. This would imply that these organizations are weakened by greater social enterprise activity.

The case could be made that nonprofit organizations are not organized to generate surpluses or to accumulate assets over liabilities. Toward maximizing resources, it may be enough to appreciate that these organizations are operating surpluses, or in the situation where the resources are varied and mixed, that these organizations are better suited to operating fewer, rather than more enterprises. What matters to this study's purpose however, is less about the amounts and more about the nature of the relationships for these variables. For that reason, the answer to whether organizations are strengthened or weakened is deepened by understanding how increasing social enterprise activities are related to financial performance and condition.

In their calculation of the ratios to determine financial vulnerability, Chang & Tuckman (1991) identified measures of financial performance that were independent and could reflect different

components of organizational vulnerability. I performed correlation analysis to determine whether the independence of these four financial ratios, as well the financial condition variables, hold in this sample of organizations and are guideposts of strengthening or weakening of nonprofit organizations that operate social enterprises.

Table VI.1: Correlation Matrix

	No. of SEs	Excess Deficit	Net Assets	Equity Ratio	Revenue Concentration Ratio	Administrative Cost Ratio	Operating Margin Ratio
No. of SEs	1	-.155	.150	.086	-.002	.038	-.074
Excess/Deficit	-.155	1	-.929	.005	.005	.028	.062
Net Assets	.150	-.929	1	-.011	-.039	-.051	-.020
Equity Ratio	.086	.005	-.011	1	.051	-.093	-.852
Revenue Concentration Ratio	-.002	.005	-.039	.051	1	-.074	-.101
Administrative Cost Ratio	.038	.028	-.051	-.093	-.074	1	.036
Operating Margin Ratio	-.074	.062	-.020	-.852	-.101	.036	1

As revealed in Table VI.1: Correlation Matrix, the strongest relationship among the variables in this study exists between the variables that are highlighted. Excess/deficit (which might be interpreted as “profit”; $r=-.155$; $p<.05$) and net assets ($r=-.150$; $p<.01$) are both weakly correlated with intensity of

social enterprise activity. The negative correlation between these two variables that I use in this study to measure financial performance (“excess/deficit”) and financial condition (“net assets”). Excess/deficit is the difference between total revenue and total expenses and is the simplest indicators of efficiency of an organization. I recall that the central measures on balance sheet (which is also referred to as the statement of financial condition) are assets and liabilities. Net Assets are the difference between assets and liabilities.

The correlation between intensity of social enterprise activity and net assets and social enterprise activity and excess/deficit are weak and negligibly significant. It is possible that while the social enterprises as part of the suite of financing may be generating revenue for the organization, the costs of it and the other programs are beyond the organization’s means. In contrast, program revenue and expenses are only part of the organization: the organization owns physical assets, including real estate and investments. In the context of a social enterprise there could be the need to acquire assets and incur expenses to support the enterprise, in keeping with the asset specificity ideas that have been advanced in transaction cost theory (Williamson, 1981). For the purposes of managers and staff of nonprofits that operate social enterprise, it is useful to recognize the potential for smaller excess/deficits and richer net assets as the intensity of social enterprise activity increases.

I conclude from this analysis that more social enterprise activity, nonprofit organizations are weakened. This does not preclude social enterprise as a strategy, but is a caution to firms that are predisposed to relying on multiple social enterprises as the means through which their services are delivered. These organizations should monitor their excess/deficit, as the analysis reveals that their bottom line (as measured by excess/deficit) would be eroded as they add on social enterprises. In contrast, their net assets will increase, likely because the business demands increasing assets or

inherently mitigates liabilities. It would seem then that the message for organizations is simple: don't get greedy.

Additionally, I recognize a inter correlations between variables having nothing to do with the independent variable. Excess/deficit and net assets are strongly correlated ($r=-.929$, $p<.01$) and operating margin and equity ratios are also strongly correlated ($r=-.852$, $p<.01$). The operating margin ratio captures operating margin as a percent of revenue, reflecting the slack that might be located in the difference between an organization's revenue and expenses. Equity is its corollary, specifically, the difference between total assets and total liabilities as a percent of revenue. These correlations will be examined later in this analysis.

Q2 (Does the type of social enterprise employed offer any financial benefit to a nonprofit organization?)

The response to this question will illuminate the dynamic between type of social enterprise and the financial disposition of nonprofit organizations. It is stated in the affirmative. Consistent with the exploratory nature of this inquiry, I instead will explore the broader interaction between type of social enterprise and financial status. In this way, I can draw a pair of conclusions: (1) the existence of a relationship between type and any of the indicators of financial disposition (i.e., type "A" has strong net assets or organizations that have strong net assets tend to operate type "A" social enterprises); and (2) the strengthen of the nature of the association between the variables. Benefit or loss will be determined, as will the financial indicators that are associated with specific types of social enterprise.

Key Variables: Type of Enterprise and Financial Benefit

The nonprofit organizations that comprise this sample are largely human service organizations that operate at least one social enterprise. As I collected data for this study, I identified the industries with which the social enterprises are affiliated. Five broad categories ("building," "trade,"

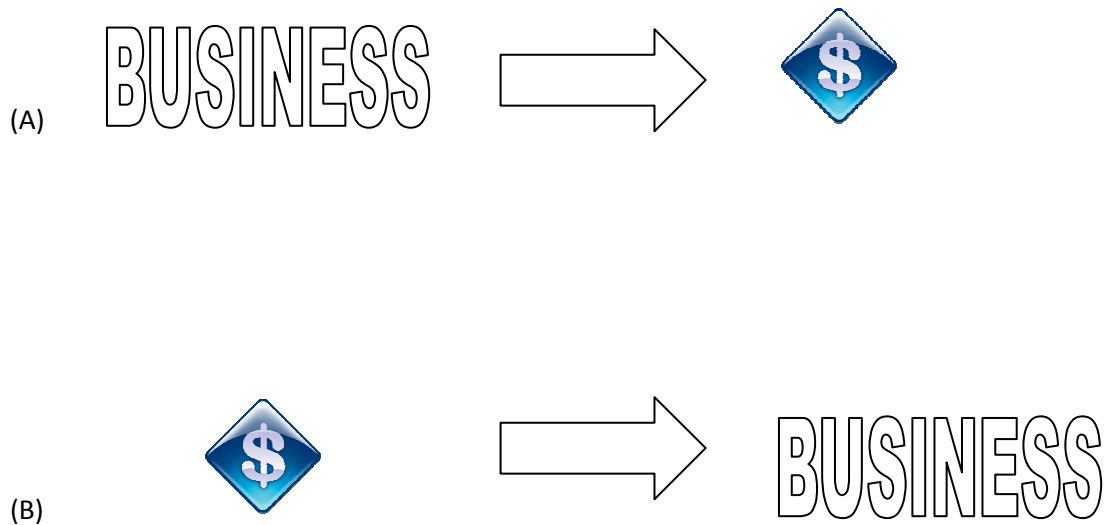
“professional,” “public,” and “hospitality,”) plus “other” (a designation that captured those organizations of which too few were identified in the sample or that did not intuitively fit within the other categories) were identified. Type of social enterprise is a categorical variable.

Variation in financial disposition, as indicated by financial performance and financial condition, will reveal the well being of the organization. The concepts of financial condition (specifically, net assets and excess/deficit) and performance (indicated by the financial ratios of administrative cost, equity, operating margin and revenue concentration) are all continuous ordinal variables.

Variable Sequence: The Chicken or Egg?

The assignment of dependent and independent to variables is predicated on the location of influence. Depending upon perspective and sequence, the influential variable could be the type of social enterprise or the financial disposition of the organization. Whether the influence is placed on social enterprise (in this case, measured by categorical types of social enterprise) or financial disposition (in this case, measured by variation on numerical values of net assets, excess deficit or the financial ratios), the research question is answered and knowledge of the implications of social enterprise is deepened. The figure below illustrates this point.

Figure VI.1: Sequence Options – Social Enterprise and Financial Status



Depending on sequence, the output of the analysis will yield different responses. Sequence A suggests that there are financial consequences to the organization that follows the type of social enterprise. In the figure, “business” precedes the dollar sign (the latter indicates financial consequence) and by virtue of its sequencing influences the performance of the organization. This is the question that is fundamental to concerns of the social work profession and it assumes that the social enterprise is either helping or hurting the organization. Following this sequence, type of social enterprise is the independent variable and the financial indicators of performance and condition are dependent. In contrast, Sequence B suggests that the financial condition is an antecedent to the social enterprise. There may be financial circumstances that nurture social enterprise. Ultimately, an objective of this

study is to manipulate these financial indicators so as to understand social enterprise within nonprofit organizations.

Analytic Strategy

I am adopting a two-pronged strategy to analyzing the data that is consistent with the split perspective on this inquiry. Bivariate cross tabulations display the relationships of the organization's performance and condition by type of social enterprise and weakly respond to the question raised in Sequence A. Though limited to numerical data only (which precludes the categorical type of social enterprise) the previous correlation matrix alluded to relationships between the financial variables which may be informative when applied to type of social enterprise. Finally, a logistic regression will determine which of these related financial variables may inform the type of social enterprise, thereby revealing clusters of organizations within industry around levels of financial performance and condition variables, fitting with Sequence B.

Findings

The bivariate analysis revealed few discernible patterns that led to the identification of type of social enterprise and strong financial performance and condition. In Table V.13: Median Total Expenses of Nonprofit Social Enterprise Operators by Type of Business and Intensity, as intensity of social enterprise increased within "trade" and "professional" related enterprises, expenses decreased, suggesting that economies of scale are be realized as an organization takes on additional social enterprises. I also note that "trade" and "professional" businesses are both service based, meaning that they do not produce a tangible good. This could suggest that at intensity within service industries increase, so too do their efficiencies. Perhaps in contrast, Table V.9: Median Total Revenue of Nonprofit Social Enterprise Operators by Type of Business and Intensity shows that as intensity within

“building” related enterprises (a product-based industry with a tangible output) increased, so too did their revenue. Hence, the phrase, “more is more”.

Of the cross tabulations, the most definitive findings are from Table V.20: Median Net Assets of Nonprofit Social Enterprise Operators by Type of Business and Intensity. The data in this table suggested that nonprofits that operate enterprises within 4 of the 7 industries are “asset rich.” “Asset rich” is a term that I assign to organizations that have net assets that represent 50% or more of their total revenue. Positive net assets refer to the net worth of an organization, or the difference between its assets and liabilities. Asset rich organizations operate social enterprises in the “building”, “professional”, “trade” and “other”. From this I could intuit that these sectors offer a financial benefit to their nonprofit hosts. In contrast, the remaining industry sectors are less asset rich.

Recognizing that it is conceivable that the financial variables precede the categorical variables that are defined by the operation of a social enterprise, a forward logistic regression analysis was performed to determine which variables (net assets, excess/deficit, and administrative cost, equity, operating margin and revenue concentration ratios) could predict type of enterprise. This analysis should identify which variables are closely associated with which industries. Admittedly, this is a complete reversal of the hypotheses that are implied in this question. The unit of analysis is not “organization” but type of enterprise, so the output includes the financial performance and condition of organizations that operate social enterprises within the same industry. The data was transformed to create dichotomous variables for each of the industry affiliations that are investigated in this study (recall from Table V.3: Types of Social Enterprises Operated by Nonprofit Organizations, that these types include “building,” “trade,” “professional,” “public service,” “hospitality,” and “other”).

The analysis results to follow are limited to those industries where the regression results produced a model for predictor variables. “Building,” “public,” and “other” industries produced models for predictor variables.

Building.

Regression results indicated the overall model fit of two predictors (operating margin and administrative cost ratios) in the “building” category. (The following reports on the last step of the analysis which includes both predictors.) The model of the predictors were statistically reliable in distinguishing between organizations that operate a building-related and any other industry affiliate enterprise (-2 Log Likelihood=176.526; $\chi^2(2)=10.743$, $p<.001$). The regression model correctly classified 77.1% of the cases using both predictors. Regression coefficients are presented in Table VI.2:
Regression Coefficients – “Building” to follow.

Table VI.2: Regression Coefficients – “Building”

	β	Wald	<i>df</i>	<i>P</i>	Odds Ratio
Administrative Cost	3.904	3.616	1	.057	49.600
Operating Margin	-1.787	3.459	1	.063	.168
Constant	-1.632	27.366	1	<.0001	.196

Table VI.2: Regression Coefficients – “Building” reveals that of the two predicted variables for building-related social enterprises, the administrative cost ratio has a larger relative effect on the

dependent variable than operating margin ratio. The table shows that the beta weight of administrative cost ratio is positive and also more than twice the absolute beta weight of operating margins, which suggests not only a strong influence of administrative cost over operating margin in predicting building related enterprises. Neither of the predictor variables yielded significant regression coefficients, although the odds are very strong that administrative costs could anticipate a building from a non-building-related enterprise.

Organizations that operate building related enterprises are likely to have strong administrative cost and negative operating margins as related to the intensity of involvement in this type of enterprise. There may be added administrative costs associated with these ventures that are contributing to the strong showing in the administrative cost ratio and eroding the margins as revealed in the operating margin ratio. Further, more in depth examination of the financial performance of these organizations is warranted in order to firmly attribute the variables that contribute to what this data alludes to in administrative costs. For the purposes of this question, an organization that operates a building related enterprise should anticipate higher administrative costs and slim operating margins.

Public.

Logistic regression results indicate the overall model fit of net assets as a predictor of operation of a “public” related enterprise. I recall that “public” refers to nonprofit social enterprise that is engaged in providing what I considered to be public services of healthcare or education. The model of the predictor was statistically reliable in distinguishing between organizations that operate a public-related and any other industry affiliate enterprise ($-2 \text{ Log Likelihood}=141.322$; $\chi^2(1)=2.777$, $p<.05$). The regression model correctly classified 85% of the cases using the predictor. Regression coefficients are presented in Table VI.2: Regression Coefficients – “Public” to follow.

Table VI.2: Regression Coefficients – “Public”

	B	Wald	df	P	Odds Ratio
Net Assets	.000	1.728	1	.189	1.000
Constant	-1.748	63.089	1	.000	.174

Table VI.2: Regression Coefficients – “Public” reveals that the net assets variable can predict the operation of public-related social enterprises. The table shows that the beta weight of net assets has negligible power to predict public related enterprises. The predictor variables yielded significant regression coefficients, although the odds are very strong that net assets could anticipate a public from a non-public-related enterprise.

There is a strong programmatic synergy for nonprofit organizations that operate health or education related programs as a social enterprise. The value of logistic regression is that it proposes to classify cases into groups (Mertler & Vannatta, 2005). In the interpretation, the net assets variable is revealed as a predictor of organizations that operate public-related enterprises. However, the nature of that influence is negligible (beta weight is .000), statistically insignificant fit of the model ($\chi^2(1)=2.777$, $p<.05$) and its ability to predict cases with 85% accuracy. I suspect that the effect of a social enterprise that is entirely in synch with the programming of the organizations would also produce perfect odds (100%) yet not be statistically significant. I infer that these businesses have a financial consequence that is not different from their other program strategies and therefore has a unique synergy with nonprofit

organizations. So, while there is no financial benefit, there should be no difference in the net assets for organizations that operate public-related businesses.

Other.

Regression results indicate the overall model fit of net assets and a predictor of operation of “other” enterprise. I recall that other refers to nonprofit social enterprise that is engaged in a business “other” than the other six categories of industries that have been the subject of my focus in this study and specifically include those that are engaged in public administration and government related business. The model of the predictor (net assets) was statistically reliable (-2 Log Likelihood=3.159; $\chi^2(1)=3.159, p<.05$). The regression model correctly classified 83% of the cases using the predictor. Regression coefficients are presented in Table VI.3: Regression Coefficients – “Other” to follow.

Table VI.3: Regression Coefficients – “Other”

	β	Wald	<i>df</i>	<i>P</i>	Odds Ratio
Net Assets	.000	1.504	1	.220	1.000
Constant	-1.6	58.803	1	.000	.198

Table VI.3: Regression Coefficients – “Other” reveals that the net assets variable can predict the operation of other-related social enterprises. The table shows that the beta weight of net assets is zero, which I interpret to mean that net assets, while significant, produces little change for those organizations that operate an “other” type of enterprise. The predictor variables yielded significant

regression coefficients, although the odds are very strong that net assets could anticipate an organization that is operating a social enterprise that is other than the industry types from those that are not involved in industries that are part of this dissertation's focus.

As was found with the "public" type of organization, there is a strong programmatic synergy for nonprofit organizations that operate these "other" types of enterprises. However, the nature of that influence is negligible (beta weight is .000), statistically insignificant fit of the model ($\chi^2(1)=3.159, p<.05$) and its ability to predict cases with 85% accuracy. This suggests to me that while the change in I derive from these findings that among organizations that operate other-related social enterprise, I note that net assets change negligibly and the minimal change of the enterprise on this variable. I infer that these businesses have a financial consequence that is little different from their other program strategies and am particularly mindful that these organizations may have classified their government contracts in this category of work.

Based on the results of the bivariate analysis and the logistic regression, social enterprises that represent different industries emerge as benefiting nonprofit organizations differently.

- The "building" industry produces greater revenues as an organization elects to operate more of these kinds of enterprises. Organizations that operate social enterprises that are in the "building" industry are among the more asset rich relative to other types of social enterprise and for this reason is a good choice for nonprofits that want to grow their assets or that have assets to contribute to an enterprise. Finally, administrative costs and operating margins ratios are influenced among organizations that operate "building" related social enterprises. These two metrics are indicators of an organization that engages in building related industry and while this does not suggest a benefit per se, it does suggest a point of reference for how an organization operating this type of business can recognize increased efficiency opportunities.

- Organizations that operate “professional” related businesses also realize a financial benefit. As intensity of operation of these kinds of businesses increase, the level of expenses decreases relatively. Also, professional related businesses are included among those of organizations that are asset rich.
- Trade also emerges as a type of social enterprise that benefits its host nonprofit organization. The expenses of organizations that operate a trade-related business decreases as its intensity increases and these organizations are also among the asset rich.
- There appears to be a negligible association between net assets and “public” enterprises that may suggest the close synergy in health and education businesses and their fit with nonprofit organizations.

The organizations that operate other appear among the asset rich and as having a fit in terms of negligible net assets as revealed in the results of the logistical regression. However, I am hard pressed to identify it as an industry per se as this industry is an amalgamation of industries that are not otherwise classified. However, I mention it because I suspect that those organizations that operate enterprises in public administration or government are included and may be particularly synergistic with human service nonprofit organizations.

Q3: Does type of industry or intensity of social enterprise activity influence the resiliency of nonprofit organizations during times of economic distress?)

The response to Question 3: Does type of industry or intensity of social enterprise activity influence the resiliency of nonprofit organizations during time of economic distress will yield insight into the vulnerability of these organizations during the current economic environment. I purposely populated this sample with data from 2008, the beginning of the economic recession. Although the recession had not yet taken hold, rumors of it demand that an organization adopt a stance to weather even greater than usual economic uncertainty. The question seeks to uncover whether variability in

social enterprise (both type and intensity) registers with more or less financial vulnerability.

Fundamentally, this question asks this: which of these social enterprise operators is in the best position to withstand the economic downturn?

The following section names the relevant variables and how they can be interpreted to respond to this question. Given the previous detailed discussion, the following sections are much more focused on content, rather than description.

Independent Variable: Intensity and Type of Social Enterprise

In a manner that is likely familiar to the reader by this point, intensity and type of social enterprise are the independent variables in this question. Intensity of social enterprise is an ordinal variable. Type of social enterprise is categorical. Through analyzing variation in both variables (separately, not combined) I can determine their influence on the independent variable.

Dependent Variable: Financial Vulnerability

This question examines the level of buoyancy of organizations that operate social enterprise. The financial vulnerability calculation serves as a surrogate of ability of organization to recover from economic downturns and serves as the dependent variable. Recalling from the Conceptual Framework (Chapter III), Research Design (Chapter IV), and the Descriptive Analysis (Chapter V), financial vulnerability is categorized as being either high (meaning the organization has scored in the top third for three of the four of the financial condition ratios) or low (the inverse or scoring in the bottom third of three of the four financial condition ratios). The basis of this formula is to determine whether an organization has the wherewithal to withstand financial shock.

This variable is measured using an interval scale.

Analytic Strategy

Ideally, the response to this question should yield a chart which indicates by level of intensity and type of enterprise the organizations are vulnerable. While there are many factors that may contribute to the vulnerability levels of these organizations, having such a chart will enable me to answer this question with specificity. A cross tabulation affords an opportunity to observe the differences in financial vulnerability for organizations by number and type of enterprise.

Findings

The earlier descriptive analysis found that the distinctions by intensity and type of social enterprise for the organizations in this sample. The majority of organizations in this sample (55%, or 91 of 166 organizations) are in the low vulnerability category, though within the high intensity levels more organizations reveal low vulnerability (see Table V.28: Low/High Vulnerability by Intensity of Social Enterprise). Previously I noted the possibilities that these differences at the higher intensity levels reflect efficiencies of scale, or the capacity of organizations to deliver services more efficiently by added businesses within the same category because they are able to leverage already-existing resources. I find that organizations that operate “public-” related social enterprises report higher vulnerabilities than those operating any of the other types of enterprises (based on Table V. 29: Financial Vulnerability of Nonprofit Social Enterprise Operators by Type of Business and Intensity).

In another view of the levels of financial vulnerability by industry, I compile a table to distinguish type of enterprise and their respective vulnerability levels. It follows.

Table VI.4: Financial Vulnerability by Single/Multiple Type of Social Enterprise Operated

Single Type/Multiple	Low Vulnerability		High Vulnerability		Total	
	#	%	#	%	#	%
Building	11	12.1	9	12.0	20	12.0
Trade	13	14.3	16	21.3	29	17.4
Professional	19	20.9	10	13.3	29	17.4
Public	8	8.8	10	13.3	18	10.8
Hospitality	9	9.9	6	8.0	15	9.0
Other	9	9.9	8	10.7	17	10.2
Multiple	22	24.2	16	21.3	38	22.8
Total*	91	100.1	75	99.9	166	99.6

* Errors due to rounding

Table VI.4: Financial Vulnerability by Single/Multiple Type of Social Enterprise Operators affords a different perspective about intensity and type of social enterprise that is particularly relevant to this question. In this table, the familiar (by this point) “types” (i.e., building, trade, etc.) are presented for those organizations that operate a single enterprise, whereas the multiple category refers to an organization that operates more than one social enterprise. While it seems that to combine the two concepts of type of enterprise and number of enterprise in a single table is unwieldy, this presentation offers a granular view of the organizations in this dataset. The table reveals 91 organizations, or the majority of organizations, report as having low vulnerability and 75 organizations have high vulnerability.

In this table, I note that trade organizations are in the majority among industries that report high vulnerability. Most of the organizations that operate social enterprises in the “professional” category and those operating multiple enterprises report particularly low vulnerabilities relative to the other categories presented in this table. I recall that low vulnerability suggest that these organizations have greater propensity to recover from financial shock based on the availability of resources in administrative costs, operating margins, equity and/or diversification of revenue. In contrast, most of the organizations that operate trade-related enterprises are more vulnerable, meaning that they have fewer resources to recover from economic uncertainty. .

This chapter’s findings reveal the nuance of nonprofits that operate social enterprise. Through these pages, I have examined both the nature of social enterprise and learned about its implications on nonprofit organizations. However, this study also provides a very narrow view of nonprofit organizations, departing significantly from the view that nonprofits are not only defined by their social programs, but are actors in the economy with financial merit and objectives. It is worth it, particularly after these findings of their financial condition, performance and vulnerability, to consider the challenges and limitations of this study.

Conclusions/Discussion

The sample characteristics and the statistical tests both shed light on social enterprise within the context of nonprofit organizations. By design, the sample was populated to strongly emphasize human service organizations. The statistical tests describe nonprofit organizations that operate social enterprise and provide glimmers into their financial performance and condition. However, these findings lead me to draw conclusions about nonprofits that operate social enterprise. Observations about each, as well as the ways in which these findings complement and tug toward new understanding of this phenomenon and nonprofit organizations in general, are discussed in this section.

Nonprofit Organization-Social Enterprise "Fit"

Although this is a sample was drawn with an emphasis on the human services, the organizations that are comprised of this sample are diverse. While the majority of the organizations are human services, the focus of the activities of the organizations in this sample include education, housing, crime and other missions that work toward supporting vulnerable populations. So too with the enterprises that they operate: although retail and professional services predominate, the businesses engaged in by these human service organizations run the gamut.

That said, there is no strong identification by human service organizations with any one type of business, or in this case, industry affiliation. It is beyond the design of this study to understand the types of business models employed by these businesses. Yet these tests on this sample do not point to a particular industry with which human services has a particular affinity. Given that the purpose of nonprofit organizations is to satisfy an unmet need in the market, technically there is space across a variety of industries to be satisfied by nonprofit organizations.

Transaction cost theory provides a framework for understanding the consequences of engagement in social enterprise by nonprofit organizations and possibly its financial implications on the nonprofit. Within each industry is an opportunity and need that is apparent to the nonprofit, that would enable it to more fully maximize its mission. Since nonprofits are not motivated by profit, the prospect of achieving of their mission by positioning their clients in the marketplace becomes the rationale and purpose of these enterprises. The maximizing of their mission is in part achieved by the organization aligning its assets to the transaction, viewed not as just that which is occurring within the enterprise, but organization, crossing the earned income, philanthropically funded and government contracts. This study has been useful in illuminating the fit of assets within the organization. Interestingly, without the detail on the nature of their assets, the organizations in this study have a positive relationship between

net assets as the number of social enterprises in which they engage increases. While the balance sheet captures hard assets, including investments, physical equipment, real estate and other holdings (as opposed to human capital), the findings suggest physical asset specificity and perhaps site specificity might be reflected among the organizations in this sample. From this suggests that organizations are leveraging resources to the enterprise and perhaps particularly among the organizations in this sample there is a resonance between that which takes place within their contract, earned income and philanthropically funded activities.

The notion of fit between nonprofit organization and their industry of social enterprise is examined, though further analysis is needed to fully appreciate this nexus. It seems intuitive to me and based on the findings of this research, that there is synergy realized as organization engage in businesses that are close in character and financial disposition to existing programming, as is found in those organizations that are engaged in “public” or “other” (the latter includes organizations that are engage in “public administration” and “government”). So too is the increased efficiency among the organizations that are engaged in service based businesses, which are close in nature to the businesses of nonprofit organizations. While the results of this research does not conclusively lead to identification of fit, I have in the use of financial ratios identified financials that are associated with particular industries and may be of use to other scholars who are interested in delving deeper into the idea of fit between nonprofit category and social enterprise industry.

Resource depth

The calculation of financial vulnerability is relative (Tuckman & Chang, 1991a), limiting its measurement to organizations that are within a sample. Within this sample, none of the organizations are vulnerable across all four of the variables. In one of the studies which examined organizations across diverse nonprofits found that of organizations within the human service category 10% were

severely at risk (Chang & Tuckman, 1991). In general, the number of organizations that are severely at risk is small (Tuckman & Chang, 1991a).

While financially vulnerable, the organizations in this sample are not as financially vulnerable as they could be. By virtue of their wherewithal to implement an enterprise in this volatile economy, the organizations in this sample would not be among the weakest organizations in human services. While, there is little institutionalization within the human service field insofar as the acquisition of resources is concerned, which in turn forces organizations to maintain diverse revenue portfolios (Gronbjerg, 2001b), a consistent force across human services may be the demands created as a result of performance-based contracting, which creates a need to document and report outcomes. Organizations that adopt social enterprise as a strategy are often organized to track and report on their outcomes (Bornstein, 1998). These factors may be contributing to a tendency within the organizations in this sample to perform well in administrative costs, equity, operating margins and revenue concentration. Yet managing multiple sources of income increases costs for nonprofit organizations (Carroll & Stater, 2008, citing Gronbjerg, 1993).

Ratios, by their definition, compare two values, determining that there is a relationship and the degree of that relationship. Although the values may change (meaning, revenue could be anywhere along the number line), percentages capture relationships between financial metrics, revealing the possibility of acceptance of a standard of the relationships. Admittedly, ratio analysis has been the subject of discussion among scholars who are conflicted about how to measure productivity, which is the ultimate purpose of ratios (Ritchie & Kolodinsky, 2003; Tinkelman & Donabedian, 2007). In this study, the purpose of the ratios is to help frame an understanding of social enterprise without valuation. However, variability within reported financial ratios could suggest distinctions between the types of

organizations being measured. As a result of their use of social enterprise as a strategy, the financial performance of organizations in this sample may be different than that reported in the literature.

Relative to other studies, the organizations in this sample are financially vulnerable. Among the financially vulnerable organizations in their study of prediction, Greenlee and Trussel (2000) found the mean equity of financial vulnerable organizations was .81, compared to the median equity of .51 in my study, administrative costs of .73 versus .10 among the nonprofits that operate social enterprise in this study, operating margin of .05 (compared to .01) and revenue concentration of .73 in their study and .72 in mine. Admittedly, these statistics were compiled at two different points in time, with the Greenlee and Trussel (2000) study evaluating nonprofits that experienced declining ratio of program expense to total revenues for three consecutive years between 1985 and 1995 and my study looking at data from a single year and during a recession. However, further deconstruction of the elements of financial vulnerability is warranted.

The sole intercorrelation between the financial vulnerability measures exists between operating margin and equity ratio, suggesting that there are resources to be found in one that do not exist in the other. Unlike entrepreneurs in the private sector, there is relatively little in the way of venture capital available to nonprofit organizations (Salamon, L., M., Geller, & Hall, 2007), much less to launch and sustain their social enterprises. While nonprofits struggle with day to day resource acquisition, the on balance these organizations, across a variety of nonprofit categories, maintain a positive surplus (Tuckman & Chang, 1991b). Therefore, these organizations must accumulate equity in order to operate their businesses. However, the reason why this accumulation occurs reflects the desire by nonprofit leaders to have the latitude to maximize resources toward their mission. In the application of these funds to support nonprofit enterprise is an example of their utility maximizing behavior. The inverse relationship between operating margin and equity reveals is a trait not exclusively of organizations that

operate social enterprise, but of a financially healthy organization that opts to adopt social enterprise. It would seem that any equity margins may be applied to the businesses, meaning that their resources are shuttled between equity and operating to sustain the business. This dynamic between operating margin and equity existed too between dance organizations and performing arts organizations and was interpreted to refer to an organization that did not need profitability to “maintain respectability” (Hager, 2001, p. 383). Of the organizations in my sample, they are sizable in terms of their amount and diversity of revenue.

Skepticism of how revenue or proceeds are being applied within the organization is a point worth addressing. Of the four ratios, three reflect expense as a percent of revenue. Equity is accumulated resources that are invested within the organization, either remaining as an asset, which may include cash, inventories, investments that include land, building and equipment. Operating margins reflect the difference between revenue and expenses, the latter including overhead expenses that include program services as well as management and fundraising. Finally, administrative costs speak to the degree of management and general and fundraising as a percent of revenue and may reflect on the character of these organizations.

Administrative costs have a storied history within the discussion about nonprofit organizations. Scholars note that increasing the efficiency of administrative costs does not assure increased visibility/recognition among financing for nonprofit organizations and in the process reveal an average administrative cost ratio of 8.6 (Frumkin & Kim, 2001), compared to 9.7 among these organizations. Admittedly, the earlier calculation was performed in a different context and during another time, but the negligible difference is not to be ignored: social enterprise demands more of an organization. The administrative expenses are greater because that there are separate administrative apparatuses established (one to manage the traditional programming of the organization; the other to manage the

social enterprise). Case studies detail that there are competing structures established within organizations (Cooney, 2006) and point to higher, albeit negligible administrative expenses within the organization.

If nothing else, this study reveals that there are metrics worthy of attention for administrators of nonprofits that engage in social enterprise.

Study Implications or Limitations?

As indicated by the story of the elephant, it is difficult in one study of a phenomenon to state definitively that its findings are fact. The preceding discussion, informed by reflections upon the descriptive account and substantive analysis of data to respond to the research questions represent a best effort at exploring this phenomenon. However, it is clear retrospectively that there were impediments in terms of data, process and outcome that could be handled more deftly in future research. There are new questions revealed by this study and challenges which should be taken into consideration in future studies. Admittedly, this study and its finding represent only part of the elephant.

The Chicken/Egg Dilemma

First among the unresolved questions is whether the social enterprise follows or is followed by the financial disposition of the organization. Conceptually, I positioned the choice to engage in social enterprise as emerging from a need for the organization to raise additional resources. However, it is unclear whether the organization needs to have the financial resources in place to launch an enterprise. If there are financial conditions in place that support the launch of the enterprise, then certainly at least those or others could be in place to support the continuation of the enterprise. While I attempted in

this study to take an egalitarian view of this so called “chicken and egg” phenomenon, a subsequent study to establish the sequencing could be conducted as a follow up to this study.

Measuring the Financial Consequences of a Strategy

Strategies are difficult to define and therefore measure. In this study, social enterprise is a revenue strategy in which an organization engages and is evidenced by an organization’s admission of the use of the strategy. However, organizations engage multiple revenue strategies, among them their acceptance of fees, contracting with government and the private sector, of solicitation donations or gifts. A nonprofit may accept one or more of any of these options and its financial disposition is strengthened not by any one, but the combination of revenue sources to the mix. So, this study’s supposition that by observing changes in financial disposition based variability in intensity and type of social enterprise is logical but could well be indirect.

After having completed this study, it appears to me that to fully appreciate the contribution of type of revenue source to the bottom line of the organization, it would be important to take a longitudinal view on the subject. Several of the studies that employed the financial vulnerability methodology were longitudinal (Chang & Tuckman, 1991; Greenlee & Trussel, 2000; Hager, 2001). To understand variation and the influence of the economy, it might be informative to follow this study with an examination of these organizations in this current post economic recession era, comparing their financial vulnerability in particular to establish whether there was any change in their financial circumstances and well being.

As well, it might be useful as a follow up study to compare these findings with a matched sample of organizations that do not operate social enterprise. Measuring the differences between those that

operate a social enterprise and those that do would increase the validity of the findings. Having such a comparison group strengthens more likely be attributable to use of the enterprise strategy.

Methodological Considerations

In contemplating implications of this study for future research, three issues that pertain to methodology emerge. I chose to conduct this as a quantitative study, but the questions raised within this context beg for qualitative treatment. The 990 form was used as source data for this data mining study. The 990 is not intended as a research tool and as such created opportunities and challenges in this research. Finally, this study relied upon Chang & Tuckman's (1991) financial vulnerability index to assess the financial condition of these organizations. This represented an unprecedented use of this theory. Both are discussed in greater detail in this section.

Qualitative Support

A next step in fortifying the knowledge about social enterprise could be achieved through gathering qualitative data. Throughout this study, questions were raised that did not lend themselves to quantitative responses, and because the IRS 990 is not designed as a research instrument per se, qualitative interviews could be useful to corroborate and further elucidate these findings. This study relied exclusively on secondary data and while data mining offered insights that indicate financial metrics that may have some validity to reflecting the contribution of social enterprise to the bottom line of a nonprofit organization, supplementing these findings with insights from practitioners could have increased the validity of findings.

Data Mining the 990

To ascertain financial information of nonprofit organizations, there is no more comprehensive and widely accepted resource as the 990. Nonprofits are obligated to file 990 in evidences of their adherence to the tax code and focus on the social purpose of their organization. While not every nonprofit in the country files a 990, organizations that have revenues that are greater than \$25,000 are required to submit the form. While there are financial tools that organizations use to track and report their financial performance to their stakeholders, the 990 is publicly available and readily accessible to scholars, especially given the efforts to make it a repository of data on nonprofit organizations.

However, the 990 is not intended as a research tool and does not allow for flexibility that would make it an ideal resource for research. In this study, for example, the revenues generated from fees or contracts are lumped into an entire category, into which nonprofit may report their revenue from social enterprise. Different organizations report their social enterprise activity on different places on the form, if at all. Certainly, the form was useful to validate the existence of social enterprise if the organization recognized it as a strategy that is worthy of clearer characterization (especially in those instances where the organization established a subsidiary to house the enterprise). In this study, it was not consistently possible to track social enterprises back to their nonprofit parent, so the determination of financial implication of the strategy is merely suggested. A follow up quantitative study might be useful to tease out the details of the social enterprise activity.

Financial Vulnerability Measurement

The financial vulnerability methodology has been applied in different contexts and for different purposes than applied here. Chang & Tuckman (1991 and 1994) were pointedly examining organizational failure among nonprofits and used this as the basis for establishing this methodology.

Later Greenlee & Trussel (2000) and Hager (2000) applied the methodology to predict failure, examining data over several years and making subtle changes to the method that addressed nuances in their populations or purposes. Others emerged, each with the objective of specifying financial distress. Most recently, the predictive quality of the existing models were called into question, though they can serve as proxies that explain financial disruption (Keating, Fischer, Gordon, & Greenlee, 2005). However, it has been the methodological premise that while financial vulnerability is revealing, the nature of the vulnerability is of importance as well.

The correlations between the financial vulnerability ratios found within this sample may be reflective of the implications of the social enterprise, but likely speak more aptly to the condition of the organization. On its face, the financial vulnerability methodology identifies organizations slack, which may or may not reflect on the efficiency of the organization. The ratios were conceived to be independent of each other, not related. Yet, relationships emerged, which given the limited use of the component parts of the financial vulnerability methodology, may be revelatory of the nature of organizations that operate social enterprise or more generally about organizations regardless of their involvement in social enterprise. The correlations between the financial vulnerability metrics are important and useful for determining where an organization may be finding distress.

More detailed data mining is needed to appreciate the value of financial ratios as tools to not only predict and define bankruptcies by nonprofit organizations, but also as a tool to assess and characterize nonprofit financial performance. The fit that seems to exist between organizations in this sample and industry is on the horizon, if more detailed work could be done to verify first that the financial ratios accurately represent slack capacity in the administrative, operating margins and equity ratios within these organizations.

Implications for Social Work

Social work has a long tradition of service that is complementary to organizations of the nonprofit sector. The work of this profession is important to vulnerable populations. The profession is a destination of individuals who are focused on ameliorating conditions in society (Patti, 2008). Social work is a potent force in organizations that are engaged in work with those who are most marginal in society.

The work of strengthening the placement of social work within these organizations is located in the day to day activities of the clinical and administrative practitioners. Financial management is no longer relegated to the executive suites of these organizations (Lohmann & Lohmann, 2008), it is the clinician, supervisor and administrative personnel that make decisions about care with an eye toward the financial ramifications of said actions. Their work cannot take place within a vacuum and without evidence of promising practices and an understanding of how their activities contribute to the well being of the organization. For social workers to contribute meaningfully to the organizations by being effective in their roles as caregivers, they also must understand the financial levers that lead to organizational efficacy.

Social enterprise as a strategy that is used by nonprofit organizations is neither new nor fading. Engagement in innovation with the objectives of serving social purposes lies at the heart of social entrepreneurship (Nicholls, 2006), and the need to diversify resources while engaging in innovative market based enterprises compels organizations to engage in social enterprise (Dees & Economy, 2001). The ability to maintain transparency in terms of how resources are accrued and managed are central to the effort to “balance ... commitments to clients and external stakeholders simultaneously” (Germak & Singh, 2010, p. 85) and to reconcile social enterprise with the ethics of our profession.

This study reveals some of the metrics that may be useful to social workers and other practitioners who are employed by organizations that operate social enterprise. The findings of the research suggest that there are relationships between financial variables that can be monitored at the program level. The measures presented in this dissertation have value at the organizational level, but can also be used at the division and possibly program level. It is conceivable for an administrator to identify revenues, track expenses and report on the efficiency of their activities. For an administrator who is tasked to manage an enterprise, these measures and their respective values may be of some relevance and usefulness.

The debate within the social work profession about the purpose and imperative of administration and management of organizations continues. Social workers staff the middle levels of organizations, largely because of the perception that they lack the mettle to manage a complex organization in a volatile environment (Perlmutter, 2006). However, our field's primary focus on the individual client, which need not be diminished in the pursuit of securing the place of social work within the organization, is not abandoned by strengthening, not only for students of administration, but for all credentialed social workers, an appreciation of more than a single semester's overview of administration, but a required course on financial management within the social work curriculum.

As has been discussed throughout this dissertation, the role of social work within an evolving organization during a volatile economy is in a word, challenging. The extent to which social work owns the critical role that it plays in the implementation of programs and the management of financial performance will define the longevity and efficacy of social work services going forward. Supply and demand are not simply terms to be found in a text book, but are metrics that enable our profession to make choices that can serve the best interests of the client. The focus on organizational efficiency is not out of step with our desires to serve the client: in fact, the effort to serve the client is strengthened

when there is increased certainty that organizational resources are being used to their fullest extent. As for the profession, I do not advocate that we abandon client care but recognize and also advocate for the resources needed to implement effective services, realize the efficiencies that exist within our organizations and maximize resources so that clients needs are addressed and wherever possible, fully ameliorated.

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