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From Nonprofit to For-Profit enterprises: Entrepreneurial ventures typology

Daniela Guerra dos Santos

Instituto Superior Técnico

IN+, Center for Innovation, Technology and Policy Research

daniela.guerra@ist.utl.pt

Daniela Guerra dos Santos

Instituto Superior Técnico

IN+, Center for Innovation, Technology and Policy Research

daniela.guerra@ist.utl.pt

Joana Mendonça

IST

IN+

joana.mendonca@ist.utl.pt

Miguel Amaral

IST

IN+

mdamaral@dem.ist.utl.pt

Abstract

Part of the reason why there is no clear definition of social entrepreneurship is that there is no clear definition of entrepreneurship either (Zahra et al., 2009). The term itself combines two ambiguous words connoting different things to different people (Mair and Marti, 2004). The social component of the social entrepreneurship construct is the distinguishable factor from traditional for-profit entrepreneurship (Hoogendoorn and Hartog, 2010).

This study has advanced research in social entrepreneurship in a number of ways. First by gauging the current state of empirical research on social entrepreneurship focused on nonprofit, for-profit sector. Several authors approach social entrepreneurship from a nonprofit perspective and define the term as bringing business expertise and market-based skills to the nonprofit sector, in order to become more efficient in providing and delivering their social services while serving a social mission (Weerawardena & Mort, 2006).

The notion of social enterprise cuts across a spectrum of organizational possibilities ranging from nonprofit organizations that engage in commercial activity to profit making businesses that claim to be driven by social objectives(Dees, 1998).

While governments and nonprofit organizations have long organized to meet specific human societal ills, hybrid entities have emerged in recent years combining elements of a for-profit focus on efficient use of economic resources with a nonprofit focus on social value creation the "double bottom-line" (Dees, 1998; Austin, et al., 2006).

Selection of corporate form is a key strategic decision for a social purpose organization (Young, 2001). The impact of organizational form on firm performance and survival depends upon the interaction between institutional structure and other features of the environment (Young, 2001). No organizational form is invariably superior but one can isolate factors that will favor one form over another (Young, 2001). The reason for some social entrepreneurs to select one form over the other, first, it may be that the social and/or economic motivations of the social entrepreneur play a decisive role in the choice of organizational form (Katz & Gartner, 1988). Meaning that those individuals with stronger social relative to economic goals would be more likely to organize with a nonprofit status, and those with a stronger focus on the economic goals of the firm might be more prone to start a for-profit organizational form (Townsend and Hart, 2008).

This paper second contribution lies in the development of a typology based on two principal dimensions: social mission (if the venture has an explicit social mission), and legal structure (for-profit or nonprofit organizational form). Several streams of literature acknowledge connections between enterprise mission and industry (Hoogendoorn et al., 2010). The products and services that enterprise provides can be related, unrelated, or central to the venture's mission (Hoogendoorn et al., 2010). Within the Social Enterprise School (Weerawardena & Mort, 2006) and the UK approach (Thompson & Doherty, 2006) a direct link between mission and activities is not a necessity. Social innovation school of thought (Thompson et al., 2000, Mair & Martí, 2009) and EMES (Parkinson & Howorth, 2008) find a connection is either central or related.

Based on Neck et al (2009) we chose two dimensions. First industry is used as proxy for mission, using the premise that enterprises in industries like education, health, social action are created with an intended social mission. The mission is the guide for strategy, policies, manage employees, and interact in the marketplace (Neck et al, 2009). Townsend and Hart (2008) suggest that the adherence to social and/or economic goals of social entrepreneurs play a decisive role in the choice of organizational form. Which lead us to the second dimension: legal structure (for-profit or nonprofit) is used as a proxy for market impact or output. This typology motivates potential areas for future theory building and theory testing.

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Daniela Guerra dos Santos

daniela.guerra@ist.utl.pt

Joana Mendonça

joana.mendonca@ist.utl.pt

Miguel Amaral

mdamaral@dem.ist.utl.pt

1. Abstract

In recent decades academics have paid increased attention to social entrepreneurship, motivated by a growing awareness on the discrepancy in access to opportunities, on the ever-growing inequality in wealth distribution (World Bank, 2007) and concern for the environment, and growth in the number of nonprofit organizations. In spite of numerous contributions, the scholarly field of social entrepreneurship is still in a stage of infancy (Zahra et al., 2009). This paper aims to extent the existing empirical research by reviewing empirical research studies on social entrepreneurship, classifying them along there organizational form and outcome (nonprofit for-profit organizations and hybrids). Additionally we will purpose an entrepreneurial ventures typology using two dimensions: enterprise outcome and social mission. We conclude by outlining our conclusions.

2. Introduction

The concept of social entrepreneurship has become well established throughout different sides. New social ventures have appeared, support organizations (such as the Skoll and the Schwab Foundation) for social entrepreneurs have been founded; articles and special issues on social entrepreneurship have appeared in scholarly journals; it holds a place in the curriculum of leading business schools, and it is the subject of

numerous professional and academic meetings (Peredo and McLean, 2006). Also policies with a regulatory or supportive aim in regards to social enterprise have been developed.

Despite the growing attention to social entrepreneurship and similarities between various theories, there is no clear definition of its domain (Zahra et al., 2009). It is a multi-interpretable concept, and although the use of the label is widespread, its meaning often varies. The social entrepreneurship literature is centered on two major levels, the individual and the organizational level. Considerable amount of authors focus on the individual level, defining the founder of the initiative (Mair and Marti, 2006), who generally represents a change agent (Shaw and Carter, 2004), acting upon an opportunity and gathering resources to exploit it. Many have been pointing out different characteristics among social and for-profit entrepreneurs (Austin et al., 2006). Social entrepreneurs are individuals who identify an opportunity to satisfy some unmet need that the existing public and non-public welfare institutions will not or cannot provide (Dees, 1998). For social entrepreneurs the social mission is explicit and central, and any wealth generated is just a means to a social end (Dees, 1998). While For-Profit entrepreneurship (which also benefits society with valuable goods, services, and jobs) has the purpose to maximize profits, social entrepreneurship's prime objective is to generate and maximize social value (Austin et al., 2006)

Other stream of literature is devoted to analyze the organizational level, defining social entrepreneurship referring to the process of value creation, including opportunity recognition, adopting a mission to create social value, engaging in a process of continuous innovation, adaptation, and learning (Dees, 1998, Waddock and Post, 1991). Generally, the process of entrepreneurship is the same across all new ventures: acting on an opportunity, acquiring resources, and building a team to create something of value (Shane and Venkataraman, 2000). For social ventures, however, the difference lies in the founding mission and market impact (Neck et al, 2009).

Social entrepreneurship lack of a unifying paradigm motivated a high rate of publications based on conceptual setup aiming to define key constructs. Meanwhile, empirical research on social entrepreneurship is appearing, but they are still outnumbered by conceptual articles (Hoogendoorn et al., 2010). Empirical research has an important role for social entrepreneurship as a field of scientific inquiry. Research connected to empirical reality allows for the development of a testable and valid theory

(Eisenhardt, 1989). The paper overview addresses the importance of empirical research by reviewing empirical studies, and analyzing their insights.

This paper's aim is to contribute and enhance the empirical research on social entrepreneurship, and highlight potential areas for future theory building and theory testing. Therefore, allow social entrepreneurship research to evolve beyond descriptive purposes towards more predictive purposes. In addition, we identify different perspectives on social entrepreneurship and set a typology of entrepreneurial ventures, dividing ventures accordingly to their mission and outcome.

The paper proceeds with the literature review that provides a rationale for the research. Following, we present and clarify the concepts behind the formulation of the typology. The paper continues with a discussion of the key findings from the analysis, and an inventory of future research opportunities. Finally, the last chapter provides our conclusions.

3. Literature Review

Part of the reason why there is no clear definition of social entrepreneurship is that there is no clear definition of entrepreneurship either (Zahra et al., 2009). The term itself combines two ambiguous words connoting different things to different people (Mair and Marti, 2004). Disagreements persist about the domain of entrepreneurship (Shane and Venkataraman, 2000; Zahra and Dess, 2001) and adding the prefix “social” further exacerbates this definitional debate (Zahra et al., 2009).

What is social entrepreneurship, and what do we mean by social? Before we can demarcate social entrepreneurship in the sense of its social component, we need first to review the concepts of the two components: the adjective ‘social’ and the noun ‘entrepreneurship’.

Entrepreneurship can be perceived as a process (Bosma & Levie, 2010), the process of discovering, evaluating and pursuing opportunities (Shane & Venkataraman, 2000) and entrepreneurship as the process of new business creation (Bosma & Levie, 2010).

Generally, the process of entrepreneurship is the same across all new ventures: acting on an opportunity, acquiring resources, and building a team to create something of value (Shane and Venkataraman, 2000). One recent context-free definition identifies entrepreneurship as a process by which ‘opportunities to create future goods and services are discovered, evaluated, and exploited’ (Shane and Venkataraman, 2000). For social ventures, however, we believe the difference lies in the founding mission and market impact; this is further influenced by stakeholder salience, source of opportunities, and performance metrics (Neck et al, 2009).

The social component of the social entrepreneurship construct is the distinguishable factor from traditional for-profit entrepreneurship (Hoogendoorn and Hartog, 2010). Profit and private economic wealth accumulation is a necessary motive of economic behavior, but in social entrepreneurship the social component refers to the creation of social wealth as opposed to private wealth creation (Hoogendoorn and Hartog, 2010). Social wealth can be defined as the result of social value created offset by social costs incurred (Zahra et al., 2009).

Social wealth creation is the enhancement of social wealth creation and the desire to benefit society in some way (e.g. the provision of clean water and education to deprived communities, empowerment of women, and providing jobs for disabled people) (Hoogendoorn and Hartog, 2010).

3.1. Social Entrepreneurs

In 1986, Dennis R. Young distinguished the nonprofit entrepreneur from the ordinary manager as one who “is engaged in breaking new ground in his administrative or organizational role rather than engaging simply in customary managerial practices or ordinary decision-making. Thus, entrepreneurs are the innovators who found new organizations, develop and implement new programs and methods, organize and expand new services, and redirect the activities of faltering organizations”.

Young’s definition was merely the precursor to a long discussion of the nature of a potential field that screened entrepreneurs by field/industry and sector. But by field/industry, he focused exclusively on nonprofits, reliance on hierarchy, the service ethic embedded in volunteerism, charity, and community, and career mobility. For Young, nonprofit entrepreneurs can gain important experience in government or

nonprofits for future income-generating endeavors in the private sector. Young's primary interest was not just in defining a possible typology of nonprofit entrepreneurs, but in laying out a framework for future research.

Five years later, Sandra Waddock and James E. Post (1991) advanced the field with a tighter definition of entrepreneurs as private-sector leaders "who play critical roles in bringing about 'catalytic changes' in the public sector agenda and the perception of certain social issues".

In 2000, John Thompson, Geoff Alvy, and Ann Lees defined the term as a form of business entrepreneurship by arguing that the traits and behaviors of successful social entrepreneurs closely mirror characteristics of successful for profit entrepreneurs, but require an extra dose of visionary ideas, leadership skills, and a commitment to helping others. As such, social entrepreneurs are people who realize where there is an opportunity to satisfy some unmet need that the state welfare will not or cannot meet, and who gather together the necessary resources (generally people, often volunteers, money and premises) and use these to 'make a difference', who operate in the community and are more concerned with caring and helping than 'making money' (Thompson, Alvy, and Lees, 2000; Thompson, 2002).

Dees (2001) integrates into the definition of nonprofit entrepreneur the adoption of a mission to create and sustain social value (not just private value), the recognition and pursue of new opportunities to serve that mission. To achieve this, nonprofit entrepreneur must engage in a process of continuous innovation, adaptation, and learning, acting boldly without being limited by resources currently in hand, and exhibiting heightened accountability to the constituencies served and for the outcomes created. According to Dees, "social sector leaders will exemplify these characteristics in different ways and to different degrees. The closer a person gets to satisfying all these conditions, the more that person fits the model of a nonprofit entrepreneur"

Cook, Dodds, & Mitchell (2001) argues that social enterprises that carry out for-profit activity and reinvest the revenues on other nonprofit activities can be viewed as social entrepreneurs. Others authors suggest that for-profits that may take some innovative action towards building social capital can be considered as being socially entrepreneurial (Canadian Centre for Social Entrepreneurship (CCSE), 2001; Thompson, Alvy and Lees, 2000).

Ashoka (2001) identifies social entrepreneurs and provides them with capital to launch their initiatives identifies the "ethical" purpose of social entrepreneurs as their

distinguishing feature. Ashoka society defines social entrepreneurs as individuals with “the committed vision and inexhaustible determination to persist until they have transformed an entire system” who “go beyond the immediate problem to fundamentally change communities, societies, and the world”.

The characteristics suggested by Ashoka imply some similarities between social and for-profit entrepreneurs. This view is supported by Community Action Network (2001), who argues that social entrepreneurs are the “equivalent” of business entrepreneurs in many ways.

Drucker (1999) and Leadbeater (1997) both agree, arguing that many traits and behaviors of social entrepreneurs mirror those of entrepreneurs working exclusively for for-profit objectives, including their drive, determination, ambition, charisma, leadership. In addition, traits as the ability to network and build the relationships necessary to engage others in their vision and achieve the objectives of their initiative are similar to for-profit and nonprofit entrepreneurs (Shaw *et al.*, 2002). Like all entrepreneurs, nonprofit entrepreneurs are energetic individuals, with a higher than average tolerance for uncertainty, and a willingness to pursue their goals in spite of initial obstacles or lack of resources. Creative thinkers, nonprofit entrepreneurs focus on vision and opportunity, and use their ability to convince and empower others to help turn these visions into reality (CCSE, 2001). They tend to be highly collaborative individuals, with a high degree of concern for their communities (CCSE, 2001).

However it can be argued, that while nonprofit and for-profit entrepreneurs share many similar characteristics, the two can be distinguished in a variety of ways. Firstly, the ethical values that guide nonprofit entrepreneurs help ensure that public money is well spent, ideas are not corrupted by interests and that they are fully committed to the work of their enterprise (Ashoka, 2001). Secondly, their objectives and mission distinguish nonprofit entrepreneurs (Leadbeater, 1997; Community Action Network, 2001). While for-profit entrepreneurs may pursue profit or shareholder value, social entrepreneurs are driven by a focus on meeting social objectives (Leadbeater, 1997).

In developing and emerging economies, social entrepreneurs have become change agents basic and pressing needs, while in more developed countries social entrepreneurs come up with innovative business models that attend to regenerate deprived communities, provide services and jobs for disable people, and waste recycling and nature protection (Bosma, and Levie, 2010).

3.2. Social entrepreneurship

The term “social entrepreneurship” emerged as a new label for describing the work of community, voluntary and public organizations, as well as private firms working for social rather than for-profit objectives (Hoogendoorn et al., 2010). It has been a topic for public consideration and, debate for over 10 years research on the subject has taken longer to gain momentum. In the UK, social entrepreneurship was the bedrock of Victorian private hospitals (Shaw and Carter, 2004). Social entrepreneurship has its origins in the 18th and 19th centuries when philanthropic business owners and industrialists demonstrated a concern for the welfare of employees by improving their working, education and cultural lives (Shaw and Carter, 2004). Since then, social entrepreneurship has been associated with community enterprise and development, education, churches, charities, the not-for-profit sector and voluntary organizations. Social enterprises have been identified as vital to the development and delivery of innovative approaches to social problems that persist despite the efforts of traditional public, voluntary or community mechanisms (Shaw and Carter, 2004).

Even though social entrepreneurship, gained practical relevance during the 1970s and 1980s, it was not until the 1990s that the subject attracted attention from both governments and academia (Hoogendoorn et al., 2010). The Italian government created the first social firm model by adopting a specific legal form for social co-operatives in 1991. The UK government followed in 2004 by introducing the Community Interest Company, a second juridical form for social enterprise within Europe (Nyssens, 2006). In that same period, a stream of research on the subject slowly appeared in academic work (Dees, 1998; Leadbeater, 1997). From the turn of the century onwards, the stream of publications became more substantial. At the same time, some highly successful social entrepreneurs attracted considerable media attention, amongst them: Muhammad Yunus, founder of the Grameen Bank for microfinance and recipient of the Nobel Peace Prize in 2006.

Much early work focused on practical guides on how to engage with the emerging phenomenon upon the disciplines and paradigms within management theory. The

second (2002-2007) expanded the range of social science disciplinary approaches engaging with political theory, social movement theory, anthropology, and critical theory. This second wave also saw researchers in Europe engage with the subject for the first time in a meaningful way. The third wave (2008 onward) is broadening further the theoretical settings for social entrepreneurship research and, perhaps more significantly, widening the geographical spread of researchers to include Asia and Africa (Shaw and Carter, 2004).

Early work at Harvard Business School, under the leadership of Professor James Austin, proved highly influential in the U.S. in terms of exploring for-profit opportunities to deliver significant public value often characterized as social enterprise. The Harvard-based Initiative on Social Entrepreneurship, founded in 1993, built up a cross-business school curriculum of case studies on social enterprise and helped establish a powerful student social enterprise group. The Center for the Advancement of Social Entrepreneurship (CASE), founded at Duke University by Professor J. Gregory Dees, consolidated and broadened the work of the Harvard pioneers and has addressed key questions concerning the scalability of social entrepreneurship, as well as its research agenda. In Europe, the EMES network of ten research centers working on the social economy also developed pioneering work on social enterprise, though here the specific focus was on work integration social enterprises (WISEs).

There is a particularly strong contrast between the North American view which typically prioritized business solutions to social problems and, consequently, focused largely on the social enterprise part of the social entrepreneurship spectrum (Dees et al, 2001 and 2002; Austin et al, 2006), and the European tradition of studying innovation in the broader social economy, with a strong interest in co-operatives (Nyssens, 2006). European countries introduced new legal forms late nineties reflecting the entrepreneurial approach adopted by an increasing number of nonprofit organizations, in Portugal these new legal forms are of the co-operative type, social solidarity co-operative (created in 1997) (Defourny and Nyssens, 2010). This type of co-operative provides services with an objective to foster the integration of vulnerable groups, such as children's, people with disabilities and socially disadvantaged families and communities (Defourny and Nyssens, 2010). Portuguese social solidarity co-operatives combine in their membership users of the services, workers and volunteers; the distribution of any profit to their members is forbidden (Defourny and Nyssens, 2010).

Social entrepreneurship expresses itself in several activities (economic, educational, research, welfare) engaged in by various organizations (Leadbeater, 1997). Reflecting this diverse array of activities, researchers have attempted to conceptualize the social entrepreneurship construct in a number of contexts, including the public sector, the nonprofit (as community organizations, social action organizations, and charities), and also for-profit sector.

Several authors approach social entrepreneurship from a nonprofit perspective and define the term as bringing business expertise and market-based skills to the nonprofit sector, in order to become more efficient in providing and delivering their social services while serving a social mission (Weerawardena & Mort, 2006). Leadbeater (1997) define social enterprises as nonprofit organization that identifies under-utilized resources which are put to use to satisfy unmet social needs. The use of entrepreneurial behavior for social ends rather than for profit objectives, or alternatively, that the profits generated from market activities are used for the benefit of a specific disadvantaged group.

One year later Dees (1998a) defined social enterprises as nonprofit and also public organization with intended social mission; pursuing new opportunities; continuous innovation; acting boldly; heightened sense of accountability. Dees also characterized social entrepreneurs as a change agent in the social sector. Other authors focus on the demand side defining it as nonprofit or social action entrepreneurial organizations whose primary mission is social mission and the development of their client group Prabhu (1998). More recently definitions continued to stress the key points defined in the last century, Shaw et al. (2002) focus on the importance of bringing to social problems the same enterprise that business entrepreneurs bring to wealth creation, in a creative, innovative and ethical way. Other research have a more descriptive approach social entrepreneurship in the nonprofit sector and focus on characterizing who they are, what they do and what support is available to them (Thompson, 2002). A more encompassing definition tries to gather several concepts previously discusses defining social entrepreneurship as the searching for and the recognition opportunities that lead to the establishment of new social organizations and continued innovation in existing ones (1) driven by social mission (2) show a balanced judgment (3) explore and

recognize opportunities to create better social value for clients (4) innovative, proactive and risk-taking Sullivan Mort et al. (2003).

3.3. Hybrid Ventures

Social entrepreneurship is also emerging as an increasingly common approach to meeting social and economic needs at the same time. While governments and nonprofit organizations have long organized to meet specific human societal ills, hybrid entities have emerged in recent years combining elements of a for-profit focus on efficient use of economic resources with a nonprofit focus on social value creation (Austin, et al., 2006). This dual focus on concurrent economic and social value creation has been termed by some as the “double bottom-line” (Dees, 1998). Some authors state that social entrepreneurship venture is by nature a hybrid organization, fusing identities drawn from both the social and entrepreneurship sectors (Wesley and Curtis,(2010).

Unless the market is extremely competitive, forcing the business to pursue profit-maximizing strategies, it is entirely conceivable that owners who value both income and social benefits will choose to optimize some preferred combination thereof (Young, 2001).

The hybrid stream of literature focus on bringing about social change and view social entrepreneurship as an intersectoral domain where legal structure and sectoral belonging are less important and social change prevails (Mair & Martí, 2006; Nicholls, 2006; Peredo & McLean, 2006). Social innovation school (Thompson et al., 2000, Mair & Martí, 2009) focuses on the social entrepreneurs as individuals who tackle social problems and meet social needs in an innovative manner. This approach puts no limitation on legal structure, and no constraints on the distribution of profits, freeing the entrepreneur to choose whatever is suitable to achieve her mission (Thompson et al., 2000, Mair & Martí, 2009). Some researchers (Cook, Dodds, & Mitchell, 2001; Wallace, 1999) suggest that social enterprises that carry out for-profit activity to support other nonprofit activities can be viewed as social entrepreneurs. Others have argued that for-profits that may take some innovative action towards building social capital can be considered as being socially entrepreneurial (Canadian Centre for Social Entrepreneurship (CCSE), 2001; Thompson, Alvy, & Lees, 2000).

It is noteworthy that the definitions we gathered from entrepreneurship centers at some leading business schools usually cite a double bottom line, placing social and economic dimensions on an equal footing. For example, NYU Stern and the Fuqua School all emphasize doing well financially by doing good. However, other definitions suggest that social entrepreneurs are strongly motivated to achieve some socially desirable objectives. These latter definitions stress the creation of social wealth (Reis, 1999; Mort et al. 2002; Mair and Marti, 2006a; Peredo and McLean, 2006), social and economic wealth (Schwab Foundation, 2005; Tan et al., 2005). On the whole, most existing definitions imply that social entrepreneurship relates to exploiting opportunities for social change and improvement, rather than traditional profit maximization.

The hybrid is to be distinguished from the for-profit enterprises with social consequences, although it may appear to do many of the same things. The latter fits into the overall corporate strategy for making profit, although they may disguise that orientation from the public to take maximum advantage of social investments (Young, 2001). The hybrid has a more complex interpretation; it must first decide how to balance social and private benefits and then determine what organizational structure and strategy fit best (Young, 2001). If the social component is sufficiently strong, the leaders of a hybrid may wish to take advantage of the nonprofit form allowing access to tax benefits, charitable and volunteer resources, and the social trust that often accompanies a nonprofit façade and limit their private benefit to a reasonable salary and perquisites (Young, 2001; Townsend and Hart, 2008). If the private-benefit component is stronger, or if the flexibility of the for-profit form is compelling, hybrid leaders may wish to retain the for-profit structure and try to maintain the discipline of addressing social needs within a framework of increasing market pressure (Young, 2001; Townsend and Hart, 2008). Over the long run, this position may become untenable, and it seems likely that a hybrid in for-profit form will gradually move either toward a for-profit organizational form, where it can compete successfully in the marketplace without conflict over producing private benefits; or toward the social purpose organization, where private benefits are clearly subordinated to achieving a social mission (Young, 2001).

3.4. Nonprofit Organizations

Nonprofit organizations are characterized by the fact that they are subject, by the laws of the state in which they were formed, to a non distribution constrain that prohibits the distribution of residual earnings to individuals who exercise control over the firm (Hansmann, 1987). It is very important to distinguish the earnings distribution with earning profits; rather, they must simply devote any surpluses to financing future services or distribute it to non controlling persons. Despite of the non distribution constrain being a nonprofit enterprises does not mean that it must have a social mission or purpose, the nonprofit sector is not focused on aiding the poor and needy (Weisbrod 1988). Altruism does not require the creation of a nonprofit organization, and conversely, many nonprofit institutions receive minimal private donations of money and time (Rose-Ackerman, 1996). Similarly, ideological commitment is not tightly linked to nonprofit creation (Rose-Ackerman, 1996).

The economic theories of nonprofit organizations appearing in the literature can be divided in two types: theories of the role of nonprofit institutions and theories of their behavior (Hansmann, 1987). The first type analyze why they exist, the economic functions that they perform, in what industries are they located. Theories of nonprofit behavior address questions such as their motivations, the differences between them and their counterparts for-profit and there governmental organizations with respect to their goals, productive efficiency (Hansmann, 1987). The first general economic theory of the role of nonprofit enterprise was proposed by Weisbrod (1977), who suggests that nonprofits serve as private producers of public goods. In his perspective nonprofit firms provide services that have the character of public goods, at least for a limited segment of the public. This theory might be controversial, Hansmann (1987) argues that services provided by many nonprofits do not seem to be public goods but rather appear to be private ones. A somewhat different theory of the role of nonprofit states that these firms arise where ordinary contractual mechanisms do not provide consumers with adequate means to police producers “contract failure” theory (Hansmann, 1980). In such cases nonprofit firms has both the incentive and opportunity to, owing to the non distribution constrain, those who control the organization are constrained in their ability to benefit personally from providing low quality services and thus have less incentive to take advantage of their costumers than do the managers of for-profit firms (Rose-Ackerman, 1996).

Selection of corporate form is a key strategic decision for a social purpose organization (Young, 2001). The impact of organizational form on firm performance and survival depends upon the interaction between institutional structure and other features of the environment such as entrepreneurial motivations, private donations, government policies, and the overall competitive environment (Young, 2001). The nonprofit form is a natural choice precisely because it puts mission first and requires any financial surplus to be used in support of mission (Young, 2001). But other forms, such as a limited profit or cooperative enterprise, are possible and indeed may be best suited in some circumstances (Hansmann, 1987). No organizational form is invariably superior but one can isolate factors that will favor one form over another (Young, 2001).

The main advantage of the nonprofit form to the ideologue is the absence of owner-investors. Of course, a for-profit business wholly owned by the principal could also eliminate outside investors, but if the firm's founder is motivated by ideas rather than profit, relatively modest tax or regulatory benefits would push the founder in the nonprofit direction (Rose-Ackerman, 1996).

The legal constraints imposed on the nonprofit firm's mission may be an advantage to those who hope that their ideas and projects will outlive them. Also customers, like donors, may favor nonprofits because they believe that they have less incentive to dissemble because the lack of a profit motive may reduce the benefits of misrepresentation (Rose-Ackerman, 1996). Thus if poorly informed customers find it costly to determine quality before purchase, or even after purchase, they may prefer a nonprofit to a for-profit provider (Rose-Ackerman, 1996). Ideological founders will seek to hire managers and employees who share their vision (Hansmann, 1987). Because these employees want the services they provide to reflect these values, they will need little monitoring. Committed employees may be easier to attract if the firm is a nonprofit (Rose-Ackerman, 1996). High level professional employees may accept lower levels of pay in return for greater certainty that their efforts are actually helping to achieve their altruistic goals (Preston, 1989). For these reasons a nonprofit may have an advantage over a for-profit and may in some cases have a cost advantage as well.

Most work on the role of nonprofit ventures has focused on the choice of the nonprofit versus for-profit form of organization mainly because of the work that has sought to explain the development of nonprofit as response to contract failure (Hansmann, 1987). Relatively little work has been done comparing the role of nonprofit and government enterprise, however such contrast is deeply relevant since nonprofit ventures typically operate in industries in which the organizations of firms as governmental entities is a serious alternative. Weisbrod (1977) theory of public goods suggests that nonprofits serve to fill a gap left by governmental enterprise meeting some of the demand that is left unmet by government provision. Nonprofits will have an edge over public sector providers only if nonprofits can be monitored and controlled more easily by customers (Rose-Ackerman, 1996). One situation in which this is likely to be so is when the nonprofit is organized as a de facto consumer cooperative (Hansmann, 1987). Consumers overcome their information deficit by actually running the organization (Rose-Ackerman, 1996). nonprofits may provide a more diverse collection of services than is possible in the public sector (Rose-Ackerman, 1996), also can be more easily tailored to serve a narrow consumers since it doesn't need to respond to the interests of the public at large (Hansmann, 1987).

4. Enterprises Typology

As Dees (1998) points out the notion of social enterprise cuts across a spectrum of organizational possibilities ranging from nonprofit organizations that engage in commercial activity to profit making businesses that claim to be driven by social objectives.

An interesting aspect of social enterprises is that some founders choose to organize under a for-profit organizational form while others organize under a nonprofit form, even though they have intended social mission and are engaged in essentially the same functional activities (Fukuyama, 1999). The reason for some social entrepreneurs to select one form over the other, first, it may be that the social and/or economic motivations of the social entrepreneur play a decisive role in the choice of organizational form (Katz & Gartner, 1988). Meaning that those individuals with stronger social relative to economic goals would be more likely to organize with a nonprofit status, and those with a stronger focus on the economic goals of the firm

might be more prone to start a for-profit organizational form (Townsend and Hart, 2008).

Social value maximization as a motivational goal implies the social entrepreneur attempts to maximize the social welfare of others without diminishing any individual's utility (Townsend and Hart, 2008). But would an entrepreneur with a dominant economic motivation form a social enterprise firm at all? It would seem that the primacy of the economic motivations would encourage such an entrepreneur to create a firm with a profit mission (Townsend and Hart, 2008). Social value creation in such a scenario would most probably play a minor role compared to the central economic goals. In contrast to those with strong economic goals, entrepreneurs with dominant social goals should form a nonprofit venture (Townsend and Hart, 2008).

Thus, in cases where the entrepreneur is primarily motivated by either economic or social goals, such goals are likely determinative of both the form and function of the emerging venture (Townsend and Hart, 2008).

The dependent variable or outcome of entrepreneurship is job and wealth creation (Shane & Venkataraman, 2000). Job creation leads to economic growth, contributing to the overall wealth of individuals and society therefore having a social impact. Such an argument is established and supported by literature however what distinguishes social entrepreneurship from traditional for-profit entrepreneurship is not output but, rather, input. Sources of opportunity and the founding mission are the starting points (Neck et al, 2009). Following we relate the entrepreneur explicit social mission with the firms market output, to develop a typology of entrepreneurial firms.

Several streams of literature acknowledge connections between enterprise mission and industry (Hoogendoorn et al., 2010). The products and services that enterprise provides can be related, unrelated, or central to the venture's mission (Hoogendoorn et al., 2010). Within the Social Enterprise School (Weerawardena & Mort, 2006) and the UK approach (Thompson & Doherty, 2006) a direct link between mission and activities is not a necessity. Social innovation school of thought (Thompson et al., 2000, Mair & Martí, 2009) and EMES (Parkinson & Howorth, 2008) find a connection is either central or related.

Based on Neck *et al* (2009) we chose two dimensions. First industry is used as proxy for mission, using the premise that enterprises in industries like education, health, social action are created with an intended social mission. The mission is the guide for strategy,

policies, manage employees, and interact in the marketplace (Neck *et al*, 2009). Townsend and Hart (2008) suggest that the adherence to social and/or economic goals of social entrepreneurs play a decisive role in the choice of organizational form. Which lead us to the second dimension: legal structure (for-profit or nonprofit) is used as a proxy for market impact or output. Taking in consideration these two firm dimensions and the continuum from pure social to traditional firms we design the typology on figure 1.

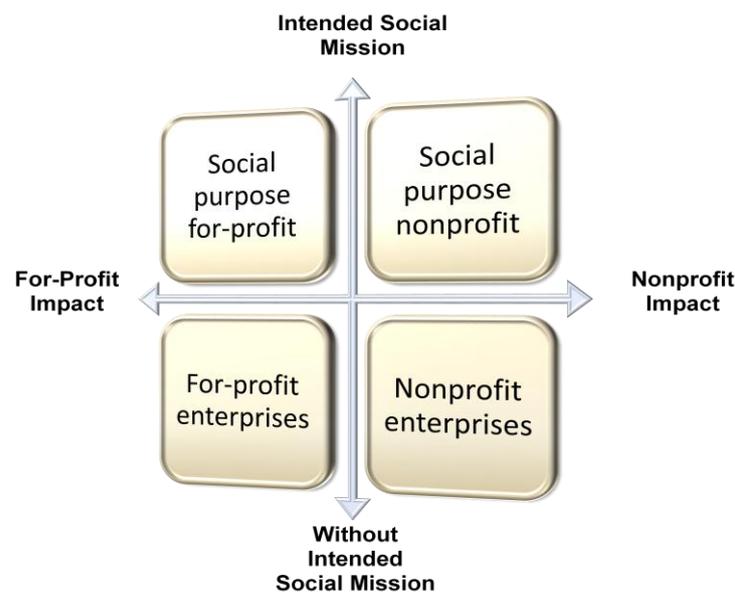


Fig1. Typology of enterprises

Social purposes nonprofit enterprises are founded with a clear intention to serve social mission, mitigating a social problem or market failure. These organizations operate with financial discipline in a nonprofit status; with surpluses distribution constrained. At the same time these ventures try to achieve economic sustainability, commercial revenue and business activity are part of the strategic means to generate income to support the mission, or to carry out mission-related functions (Young, 2001). Such generate surpluses however are reinvested in the organization or in the community (DTI 2002).

Social purpose for-profit (hybrids) enterprises are created with social aims, to solve a social problem, having no constrained on profit distribution. The income generated from commercial activities can fund the social programs, creating social and economic value.

These enterprises claim to have dual objectives: to make a profit for their owners and to contribute to the broader social good (Young, 2001).

These entrepreneurs place higher importance on the creation of social value and vary in their ambition for economic value creation. In theory, constrain their level of profit making to accommodate social criteria such as environmental conservation or social justice, or they give away a substantial portion of their profits to support social causes rather than distribute them to owners.

For-profit enterprises have as primary goal economic mission maximizing private wealth creation and shareholder return. Despite making profit being the bottom line of these financially driven firms some of their practices have social outcomes or social consequences. However such social outcomes are not the reason for firm's existence, but rather an output of firm's activity (Neck *et al.*, 2009). Engaging in socially beneficial activities such as corporate grantmaking, volunteering of company personnel, or engaging in corporate sponsorship can be appreciated as elements of philanthropic activity contributing to the productivity of employees, strategic marketing, or polishing the corporation's public image, just for the sake of profitability (Young, 2001).

Nonprofit enterprises operate under a non distribution constraint. No one has a legal claim to the organization's earnings, but such firms may, in fact, earn surpluses. These funds may be reinvested in the organization, kept as endowment, or used for other charitable purposes.

Organizational form, per se, may not serve an important signaling function it may only be an indication that certain kinds of entrepreneurs and managers find the nonprofit form desirable.

Conclusions

This study has advanced research in social entrepreneurship in a number of ways. First by gauging the current state of empirical research on social entrepreneurship focused on nonprofit, for-profit sector (and public any time that a comparison was suitable).

A social venture's mission defines the organization and the customers it serves, and reveals an organization's identity and goals (Wesley and Curtis, 2010; Neck et al, 2009), course of action and shape strategy for the future (Young, 2001). Entrepreneurs who

lead a social enterprise must give serious thought to the question of organizational form. Particularly the new generation of social entrepreneurs who wish to combine commercial success with social responsibility. Although hybrid objectives are possible, the social purpose nonprofit and for-profit identities are much less equivocal than the hybrid identity, and hence much more likely to serve as a clear beacon for strategic and structural decision making (Young, 2001).

The four entrepreneurial types investigated here show that alternative organizational forms are commonly in play and face different strategic dilemmas.

The nonprofit sector is not just a receptacle for charitable donations. Although private charitable impulses are important determinants of nonprofit activity, they are not a sufficient explanation for the size and growth of the sector (Rose-Ackerman, 1996). Clearly, the nonprofit form is not in itself a guarantee of high quality, altruistic performance, but neither is it a signal of a slack and inefficient organization. Potential entrepreneurs and funding sources will select the nonprofit sector only if they have goals other than single-minded profit maximization (Rose-Ackerman, 1996).

First, an organization that binds itself not to distribute its surpluses to owners may be trusted more by customers and donors unable to judge service quality directly. Therefore nonprofits may have a competitive advantage if customers have imperfect information about service quality (Rose-Ackerman, 1996). Second, nonprofits can be outlets for the generous impulses of individuals; nonprofits provide a shell within which people can reify their ideological beliefs without having to be accountable to profit-seeking investors (Rose-Ackerman, 1996). Despite entrepreneur's ideology and altruistic intentions, nonprofit organizations can survive only if it can attract money and customers, and in some cases its ideological character will facilitate both of these tasks.

A well defined organization form focusing only on social value creation, or on the other way around only on profit maximization allows for clear decision making process, governance, and grantmaking policies (Young, 2001). Moreover, an unclear organization form as an hybrid enterprise with double bottom-line leads to uncertainty over strategy and structure; as a result, these decisions may be driven by other factors (such as environmental pressures) or just stumbled into without a clear rationale (Young, 2001). Hybrid or multiple objectives are possible; however, this situation poses immense challenges. It implies a balancing act to manage several organizational values (as having a social mission and trying to be profitable in the best way) (Young, 2001).

The second and the most original contribution lies in the development of a typology based on two principal dimensions: social mission (if the venture has an explicit social mission), and legal structure (for-profit or nonprofit organizational form) which is used as a proxy for market impact or output. This typology motivates potential areas for future theory building and theory testing.

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