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HUMAN SERVICE ORGANIZATIONS AS COMPLEX ORGANIZATIONS

Social Enterprises

An Organizational Perspective

Edited by

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Social Enterprises and Social Categories

*Joseph Galaskiewicz and Sondra N. Barringer**

The discussion of what makes nonprofits and for-profits different from one another is still relevant. Research has touched upon the role of the non-distribution constraint (Hansmann, 1980), values or preferences of leaders (Weisbrod, 1998a), funding streams (Frumkin and Galaskiewicz, 2004) and legal status (Stark, 2010). There is usually the assumption that the identities of the organizations under study are unambiguous and their forms distinct.

The fact is that while organizations may be incorporated as nonprofits or for-profits, many are hybrids. They have elements drawn from different sectors, combined in novel and provocative ways. Indeed almost all nonprofits rely on sales unrelated to their mission activities and provide private as well as public benefits. Also firms often have some public or community service component. Yet some organizations appear to go to extremes and, while embracing one form, they operate according to a logic characteristic of another form. The social enterprise is such a case. Given that the emergence of organizational forms is a topic that has been central to organizational theory from its inception, it is important to spend some time thinking about what makes this form distinct and some of the problems it creates.

In this chapter we put forward two arguments. First, social enterprises are controversial because they are difficult for audiences to categorize and thus difficult for them to hold accountable. The claims of social enterprises do not always match up with what they do. Claims about who they are evoke behavioral norms that social enterprises are evaluated against and which then become the basis for external audiences to validate their claims of authenticity. Because it is a hybrid by definition, the social enterprise is "betwixt and between" different categories. Second, given its marginality, we argue that being a social enterprise is a high risk strategy. On the one hand, straddling two categories (for-profit and nonprofit) allows them to exploit opportunities in these different domains which more "legitimate" businesses and charities cannot tap into. On the other hand, this may confuse audiences and engender distrust. Nonprofits may be "too business-like" or for-profits "too ideological" and thus suspect and better to avoid. So the downside is that stakeholders may find them too confusing, question their legitimacy or simply ignore them, while the potential benefits are the "fruits" which purer forms are forbidden to taste.

Organizational identities

When stakeholders (or audiences) have to interact with organizations there is always the problem of information asymmetries and the potential for opportunism. Over the years different theorists have offered different solutions. Williamson (1975) says the solution is hierarchical control; Ouchi (1979) says culture; Granovetter (1985) says networks; Podolny (1993) says status; Zukerman (1999) and Hsu and Hannan (2005) say identity. While research continues on markets and hierarchies, status and networks, there has been an explosion of research on the topic of organizational identity and categorization in the last ten years.

Early work focused on how managers, employees and volunteers "saw themselves" (e.g. Albert and Whetten, 1985). Organizational identities were part of the organizational culture and were important because mission, routines, structures, technology and marketing strategies are the product of sense-making. Peters and Waterman (1982) were among the first to talk about the strategic importance of culture and identity for business firms. The classic paper by Albert and Whetten (1985) described the identity dilemmas faced by institutions of higher education. Are they primarily revenue generating machines (commercial enterprises) or purveyors of truth and producers of public knowledge (moral enterprises)? In truth, these institutions are hybrids which seek to balance these two contradictory "identities." often resulting in indetermination. The contribution of the Albert and Whetten (1985) paper was to show that this indetermination was the product of fundamental identity conflicts within the organization.

Negro *et al.* (2010) traced the origins of the recent research on organizational identity to work done in the open systems tradition.[1] They cited the work by Meyer and Rowan (1977) and DiMaggio and Powell (1983) on the role of cultural systems in shaping organizational behaviors and giving rise to organizational forms and saw current research evolving out of the cultural and cognitive revolution spearheaded by neo-institutional theory (see DiMaggio and Powell, 1991). The various identities which organizations could assume were not constructed by the organizations themselves or even dictated by their core technology. Rather these existed within the cultural domain and organizations adopted these existing templates. Although DiMaggio and Powell (1983, 1991) did not talk about categories directly, DiMaggio (1987) studied classification systems, how they were formed and their importance in the art world. Friedland and Alford (1991) introduced institutional logics into the organizations literature, Stryker (2000) described how competing logics can co-exist in the same organization, and Clemens (1993) showed how organizational strategists could alter others" perceptions and legitimate their own agendas by borrowing cultural templates from other organizations. Other important contributions were Padgett and Ansell's (1993) study of how contemporaries perceived Cosimo de'Medici in Renaissance Florence and Snow *et al.*'s (1986) research on the role of framing in collective action.

Another important development was the work of Hannan and Freeman (1977) on population ecology, which focused on niches, selection and organizational forms (Negro *et al.*, 2010). Forms were an important part of their theory, because forms were analogous to species in plant and animal ecology. To study population dynamics, the population under study had to have a unitary character: "the most salient kind of unitary character for our concerns is *common dependence on the material and social environment*" (Hannan and Freeman, 1989, 45). But they then asserted that to identify these "common dependencies" one should look at structures of organizations and social boundaries. This was the rationale for using stated goals, authority structure, core technology and marketing strategy to identify organizational forms (ibid., 51). But Carroll and Swaminathan's (2000) paper on the role of audiences in explaining births and deaths in breweries and microbreweries was the important breakthrough. It was the judgments of the beer aficionados about the authenticity of these forms that enabled them to prosper.

Negro *et al.* (2010) pointed out that in the 1980s there was also considerable work on the social structure of markets which combined both material and cultural elements (e.g. White, 1981; Porac and Thomas, 1990). We believe the work on reputation and status is especially salient. Who is influential in organizational fields (Laumann and Knoke, 1987); who is philanthropic (Galaskiewicz, 1985); who is capable of producing quality products (Fombrun and Shanley, 1990)? Subsequent empirical work showed that an organization's effectiveness was contingent on others' opinions and evaluations, e.g. one's status, especially under conditions of uncertainty (Podolny, 1993). Fombrun (1996) made the important distinction between the obvious benefits of reputation for marketing, the role of reputation for inter-organizational collaboration and the importance of reputation for organizational legitimacy. The latter point was a fundamental argument of neo-institutional theory, and many studies looked at referents of legitimacy (e.g. being listed as a charity or in a community directory) and the effects on organizational survival (Singh *et al.*, 1991). The argument was that these referents ensured the sociopolitical legitimacy of organizations in the eyes of stakeholders.

At the same time, the real world was changing and presented serious challenges to anyone trying to identify pure types of organizational forms.

For starters, multidivisional firms often had hundreds of products that they were manufacturing, various technologies in development and operation, different markets they were serving, and it was unclear whether the characteristic authority structure was that of the entire firm or only that within a particular division. As companies built strategic alliances with other firms, it became more and more difficult to know where the legal boundaries of one firm began and the other ended. Firms blended into one another, and distinct red, yellow and blue forms blended into shades of orange, violet and green.

Categories as field-level constructs

Negro *et al.*, (2010, 7) argued that "Zuckerman's (1999, 2000) work was the first to explicitly draw attention to category systems as taken-for-granted constructs that influence market behavior and market outcomes." Zuckerman (1999) linked the ideas of category, form and niche together. Consistent with ecological thinking, forms are defined by niches (structural dependencies), but attached to each form is a set of norms, expectations and standards, and stakeholders use these to classify and make judgments about organizations. An important part of the theory is that the audience or stakeholder needs performance standards which are linked to the categories which organizations make claims to in order to evaluate organizations properly. In his empirical work on firms and stock analysts, Zuckerman showed that firms which didn't exhibit traits that matched any category (because of diversification) were simply ignored because audiences (industry analysts) did not know how to evaluate them against peers. As a consequence, their stock price suffered.

Hsu *et al.* (2009) took us through how the process works (see Figure 2.1). First, the source of identity is not the organization itself but what stakeholders or audiences attribute to the organization. The idea that a restaurant is "really good" may be held by owners and employees, but it is more important that customers have the same idea. Second, audiences do not construct identities but rather they use established category labels to assign identities to organizations. Customers may say "it's a really good Japanese restaurant" using the category "Japanese restaurant" as the benchmark against which they evaluate *this* Japanese restaurant. Third, traits or schemas which are associated with categories are the way audiences assign firms to different categories. If organizations distribute themselves across an elaborate table of cross-classified dimensions, e.g. products (sushi, sake), types of customers (Asians, yuppies), price (expensive), types of workers (Japanese), so that they have enough traits associated with a given category (Japanese restaurant), then audiences assign memberships (or affiliations) to categories. The identity assigned to an organization doesn't necessarily mean that it has all the traits ascribed to an identity (there may be a Caucasian waitress). Just so

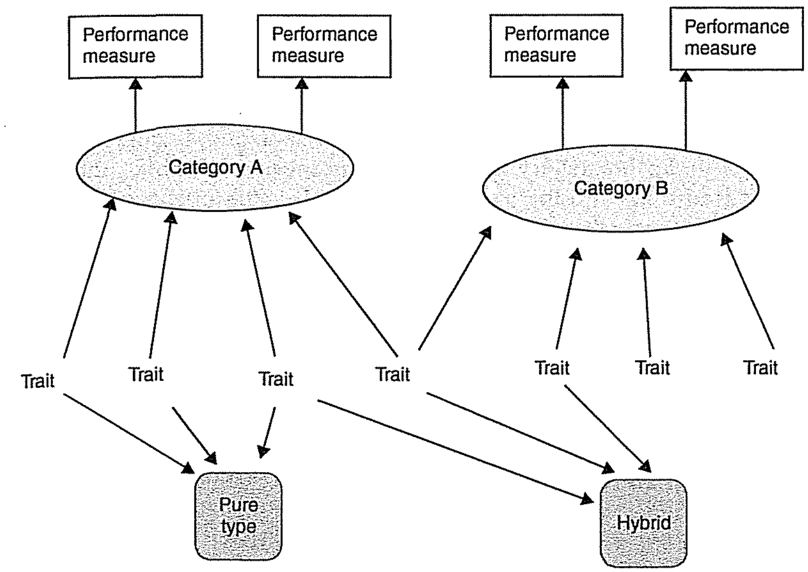

Figure 2.1 Categories, traits, performance measures and organizational forms

long as it doesn't have traits which violate expectations (hot dogs on the menu or reggae music), *audiences assume that it has the other traits.*

Some organizations will easily be categorized – we might call them pure types, while others will have traits that are associated with different forms – we might call these hybrids (pan-Asian cuisine). Categorization is important because a category enables the audience to then draw on rules, standards and measures that can be applied against the organization's performance to evaluate it and hold it accountable. Typically, audiences are uncomfortable with hybrids or boundary spanners, because it challenges the purity of the categories and makes it difficult to hold them accountable. In a pan-Asian restaurant, should the food be evaluated against Japanese, Chinese, Korean or Thai cuisine? As a result, the expectation is that audiences may label them suspect or eat somewhere else.

Finally, the firm is not completely passive in the process. Producers actively try to fit themselves into categories, to make claims, so as to be evaluated "correctly" (Hsu *et al.*, 2009). The goal is to acquire or display enough traits so that your audience perceives you in the right way. Just as organizations will seek to brand themselves, they will also try to impress audiences with external referents of prestige (Perrow, 1961), advertising (Fombrun and Shanley, 1990), affiliations with entities which customers feel positive toward (Cornwell and Coote, 2005) and dissociate from sordid practices and people (e.g. Accenture droppings its sponsorship of Tiger Woods). Thus the process of sorting firms into categories is happening on both sides of the market and should be viewed as a negotiated outcome.

In summary, categorization is good for audiences (it provides them with a coherent way to understand an uncertain world) and good for producers (they do not have to bear the economic burden of carrying all the traits of an identity). Each category has a "story" attached to it which includes its history, traditions and institutional logic(s). Associations, the mass media and industry players both update these stories and embellish them, similar to the way Wikipedia works. Thus these stories both change and remain intact over time. However, audiences need to categorize accurately and with confidence, while firms need to be sure that stakeholders categorize them "correctly." While rooted in cognitive theories, the categorization relies heavily on social processes, institutional memories and market signals.

The peculiar nature of social enterprises

Young (2009, 23) says that a "social enterprise is activity intended to address social goals through the operation of private organizations in the marketplace." Light (2008) says that it is an organization that advances social benefit in a "revolutionary way." though the strategy is to maximize profits through traditional business practices, e.g. selling goods and services. We will not review the many nuances of meaning attached to social enterprises inasmuch as Young (Chapter 1) presents an excellent overview of the theory and research on this topic. However, a good working definition of a social enterprise is a private organization working toward a social welfare goal while participating fully in the marketplace.

The social enterprise is special, because it incorporates contradictory institutional logics into its mission and operations. Garrow and Hasenfeld (Chapter 5), McInerney (Chapter 7) and Child (Chapter 8) make the same point. For example, Garrow and Hasenfeld describe in detail how four work integration social enterprises (WISEs) employed and trained less advantaged workers to produce and/or provide goods and services in a competitive market context and struggled with the conflict between commodification and service logics. Other examples of this type of organization include Goodwill Industries and the Greyston Bakery (Young and Salamon 2002; Young, Chapter 1 in this book). Another example is a social enterprise that markets and sells goods and services to disadvantaged populations which will provide long term benefits to them, e.g. low interest loans, disinfectants, simple farm technology, sewing machines, and short term profits to the enterprise. The Grameen Bank is the best known example, and nonprofit and for-profit enterprises embracing Prahalad's (2005) "bottom of the pyramid" strategy also exemplify this approach. Young and Salamon (2002, 433) sum up these latter developments well: "these various experiences with

commercial enterprise on the part of nonprofit organizations are beginning to put nonprofit commercial activity into a new light. No longer conceived simply as a revenue generation strategy, these ventures treat market engagement as the most effective way to pursue a nonprofit organizations' mission, to provide marketable skills to the structurally unemployed, or to change behavior in an environmentally sensitive way." These strategies are pursued both by for-profits and by nonprofits alike.

There are many questions surrounding social enterprises. How much is this simply a "left over" from the era when economics and business thought it had all the answers, i.e. nonprofits just need to become more businesslike? Can social enterprises be big, old, bureaucratic organizations as well as small, new organizations run by visionary social entrepreneurs (Light, 2008)? Is goal displacement (or mission drift) a problem (Minkoff and Powell, 2006; Tuckman and Chang, 2006)? Is it possible that disadvantaged workers or the poor will be exploited? At what point does a social enterprise transform into an enterprise or a charity? Who is responsible for ensuring that social enterprises "do the right thing," i.e. are held accountable (Frumkin, 2002)? In the case of for-profits, is it ethical or even legal to expend funds that do not further investors' interests directly (Kahn, 1997)? Can firms really do good and do well (Orlitzky *et al.*, 2003; Galaskiewicz and Colman, 2006)? There are more questions than answers surrounding social enterprises.

Categorization and social enterprises

In this chapter we argue that when evaluating any type of organization, audiences will categorize it based on two sets of traits: organizational inputs and who benefits. On the input side, we are interested in the modality of exchange, e.g. a gift versus an exchange (we label the latter "sales"). On the output side, we are interested in who benefits, e.g. the public, principals or agents. The argument is that audiences figure out the category of the organization by looking at the niche (defined by a multi-dimensional cross-classification of organizational dependencies) in which it is situated (see Hsu *et al.*, 2009).

Figure 2.2 shows what this classification might look like.[2] The horizontal axis describes the input structure ranging from gifts (donations) to exchanges (sales). The vertical axis describes who benefits with the public at large and clients/customers juxtaposed against agents (employees) and principals (owners, investors, donors, etc.). Forms range from traditional charities which produce a high volume of public benefit and are supported by donations and volunteers (United Way, for example) to traditional firms which produce ordinary profits for owners and investors, a livelihood for employees and are funded by sales (Wal-Mart, for example). Each of these organizations is unequivocal, easy for audiences to categorize and has a clear identity. The input and beneficiary traits associated with each are

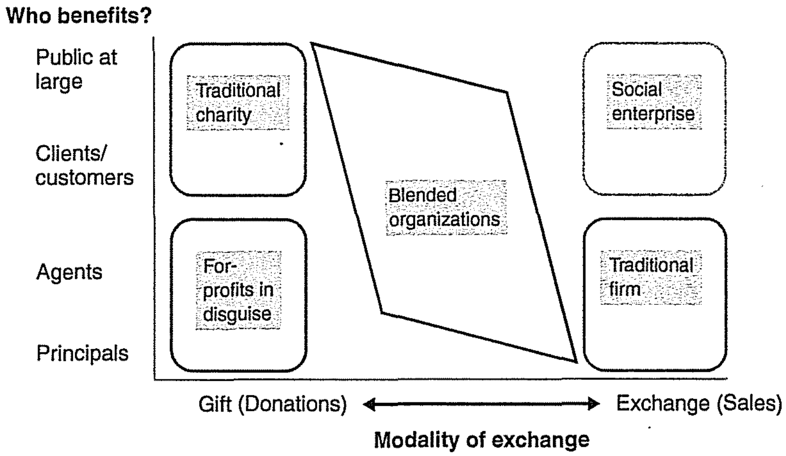

Figure 2.2 The niche defines the criteria for accountability and authenticity
Source: adopted from Blau and Scott (1962).

indisputable and relatively easy to identify. Those in the north-west can claim to be charities and those in the south-east can claim to be firms. Few would challenge these claims.

Hybrid forms include organizations which provide a mix of public and private benefits and are funded by a mix of sales or fees and donations or grants. The pure hybrids, in the center of the graph, might be labeled blended forms, because they encompass a mix of traits. It is common to use profit earned through the sale of goods and services to cross-subsidize unprofitable mission related activity (James, 1983; Weisbrod, 1998a). This strategy is employed both by nonprofits (e.g. using profits from a museum store to keep admission fees low) and for-profits (e.g. corporate philanthropy). However, the former rely on other revenue streams, e.g. contributions and grants, and the latter are still primarily profit oriented. That is, they are blending or blurring the boundaries between the traditional organizational forms.

Because blended organizations are so mixed up, audiences come to expect almost anything from them (but nothing consistent). They are unambiguously ambiguous. Higher education is perhaps the best example. On the one hand, we know that approximately 69.2 percent of the revenue of private nonprofit doctoral and research universities was "earned"[3] on average in 2009 and that 10.5 percent[4] was in the form of gifts, contributions and grants.[5] On the other hand, it is common knowledge that university presidents are paid very handsomely and endowments are flush (Fuller, 2010). For example, the average endowment in 2009 for private nonprofit doctoral and research universities was approximately $1.4 billion according to the National Endowment Study

(NACUBO, 2010). We also know that donors' children often get preferential treatment when applying to college, the so-called legacy admissions (Farrell, 2007). However, on average, 74.9 percent of full-time first-time undergraduate students in four-year private nonprofit colleges and universities received institutional grant aid in the 2008–09 academic year with the average amount being $9,879[6] which is a form of social welfare. Thus the schools bring in funding from a range of sources and provide benefits to principals (donors), agents (university presidents and faculty) and the public (disadvantaged students). Audiences become accustomed to such contradictions, but it is difficult to know exactly what are the universities' agendas.

In the upper right quartile of Figure 2.2, we find our first extreme hybrid, social enterprises. They provide substantial social welfare benefits, do not (or only minimally) distribute residual earnings to owners or investors, but are supported almost exclusively by sales or fees. Based on input traits, they would be categorized as firms, but based on beneficiaries they would be categorized as charities. We have already mentioned nonprofit WISEs and the Grameen Bank. There are also the early incarnations of The Body Shop, Ben & Jerry's, the Kiva Bank and Newman's Own (Frumkin, 2002; Vogel, 2005).

In the lower left quartile, we find our second extreme hybrid, for-profits in disguise (Weisbrod, 1988). They receive donations which are often tax-deductible as charitable contributions, but these are used to produce private, not public, benefits. Based on inputs, they would be categorized as charities, but based on beneficiaries they would be categorized as businesses. That is, while principals make donations or give gifts to the organization, they and/or administrators and staff derive significant benefits, thus raising the question whether the third parties benefited at all. Examples in the charitable sector are donations to sports booster clubs (in exchange for preferential seating), to arts and museum fund-raisers (in exchange for invitations to receptions and access to artists/performers) and universities (in exchange for naming rights and "legacy admissions"). This also applies to charitables which pay their administrators and staff exorbitant salaries or provide excessive perquisites.[7]

Among these two extreme hybrids, both claims about who benefits and organizational actions are important, because they signal to stakeholders what criteria should be used to evaluate them. If the charity receives donations and claims to be a public benefit organization but provides significant benefits to donors and administrators or staff, it will pass muster on one criterion, being the recipient of tax deductible contributions, but an attorney general may question whether it deserves its public charity status and the privileges that go with it. On the other hand, investors will be content if the social enterprise claims to be a business and sells goods and services in the marketplace, but they will wonder about the motivation of managers who want to "save the world." Again, doubts are raised about the credibility of the organization.

The problem of accountability

Traditional businesses and charities are easy to categorize (based on their revenue streams and the distribution of benefits) and relatively easy to evaluate with metrics that are accessible to audiences. For example, for charities one can calculate the size and number of gifts and grants, executive compensation and fund-raising costs. For businesses one can calculate sales, market share, dividends and stock price. Claims that organizations make about their identities as charities or firms are tested against agreed upon performance measures.

Organizations that operate outside these two, secure niches face problems of credibility and legitimacy. As hybrids they have need to respond to two (or more) different institutional logics working, quite often, at cross purposes to please their audiences. Numerous authors have pointed this out (e.g. Weisbrod, 1998b; Young and Salamon, 2002; Eikenberry and Kluver, 2004; Tuckman and Chang, 2006; Battilana and Dorado, 2010). Illustrations in this book are to be found in: Chapter 7 in McInerney's study of the nonprofit technology assistance provider, NPower NY; Chapter 8 in Child's study of a fair trade for-profit, Coastal Coffees; and Chapter 5 in Garrow and Hasenfeld's study of 11 WISEs and in-depth presentation of four cases. Table 2.1 describes two different institutional logics.

First, in charities a concern about social welfare drives one to address first societal not investor needs. Expenditures expand as the mission expands. Profit-making activities increase to provide subsidies for ever more needy, but unprofitable, mission related activities (James, 1983). In businesses profits drive expenditures. Investments in research and development, marketing and technology are made so as to meet and stimulate demand. If the traditional firm does anything to advance social welfare, it is rationalized in terms of the bottom line, e.g. cause-related marketing (Galaskiewicz and Coleman, 2006).

Second, charities procure revenues by cajoling donors to give to their cause. They must convince them of the value of their mission, their honesty

Table 2.1 Contradictory institutional logics

The charity logic	The business logic
Maximize profits to meet societal needs	Maximize profits to meet owner/investor needs
Providers procure revenues by cajoling donors to help further their mission	Providers procure revenues by competing on the basis of price and quality
Success based on organizational goal attainment, e.g., furthering the public good	Success based on the ability to maximize the spread between revenues and costs, i.e., profit

and trustworthiness, and their ability to "deliver the goods' (Galaskiewicz *et al.*, 2006). Since donors will not benefit directly, it is difficult for them to know if the organization is trustworthy, and nonprofit entrepreneurs will use both informal (referents of prestige and endorsements) and formal (tax status) signals to assure them. In contrast, "the hallmark of commercial transactions is that providers procure revenues by competing on the basis of price and quality, selling goods and services that are excludable and rival" (ibid). Customers have a fairly good idea of what they want and the quality of what's being sold, thus information asymmetry – and the mistrust which accompanies it – is not as serious a problem.

Finally, the criteria for success are different. As a provider of social welfare outputs, the charity must demonstrate that it has achieved its goals and that somehow social welfare has improved. That is, the criteria are the number of students who graduate from college within six years, the reduction in syphilis, cancer or obesity within a population, or the incidence of crime. If these are not available, analysts look at growth in expenditures or donations (Galaskiewicz and Bielefeld, 1998). For-profits have different criteria in mind. Richard *et al.* (2009) describe the criteria most used in business management journals. They include financial performance (profits, return on assets, return on investment, etc.), product market performance (sales, market share, etc.) and shareholder return (total shareholder return, economic value added, etc.). While they mention other criteria, e.g. innovation, efficiency, corporate social responsibility, they are not the principal measures used. Striving to achieve one set of criteria may mean failing on the other.

Since hybrid organizations embody both logics, they are held accountable to performance measures associated with both institutional logics. This sends mixed signals and makes them appear inauthentic. In higher education, there are many examples of stakeholders filing suit or authorities taking action to clarify what these organizations are truly about. For example, nonprofit colleges and universities are facing increased scrutiny regarding their tax exempt status in light of the rising endowment values of some of these institutions and their rising tuition prices (Fain and Wolverton, 2006; Wolverton, 2007; Blumenstyk, 2010a). For-profit colleges and universities provide another useful illustration. A number of these schools are publicly traded for-profit firms; however, they receive heavy government subsidies in the form of federal financial aid and, for this, are expected to provide a public benefit: quality education for the disadvantaged. In effect they are blended organizations which are subject to the constraints of traditional firms (are they profitable?) but also traditional charities (are they providing a quality education to the disadvantaged?). Because of their ambiguous position and their lack of a clear identity they have been subject to additional scrutiny from Congress and have been accused of misusing government funds that were intended to provide a social benefit: education (Blumenstyk, 2010b;

Field, 2010a, 2010b). Some of these organizations such as Kaplan University and the University of Phoenix among others are facing, or in the case of the University of Phoenix faced, federal lawsuits charging that they have defrauded the federal government of billions of dollars (Blumenstyk, 2005, 2008, 2009). Another nonprofit example is the case of hospitals. The nonprofit hospital exists to benefit the public but they rely heavily on sales and fees. Recently a number of these hospitals have had their tax exemption status called into question, and in some cases revoked, because they are seen as not providing enough of a public or social benefit, specifically they are not providing enough charity care (Schwinn, 2004, 2006a, 2006b, 2006c; Williams, 2009).

A for-profit illustration is found in recent shareholder sanctions against Costco, a for-profit retailer. Costco suffered a 4 percent drop in its share price despite reporting better than expected earnings in 2004. This drop was a result of Wall Street and shareholder dissatisfaction at the way Costco treats its employees (Homes and Zellner, 2004; Vogel, 2005). Costco pays substantially higher wages and covers a larger portion of employee healthcare and retirement plans than its major competitor Wal-Mart (Homes and Zellner, 2004; Vogel, 2005). In essence Costco faced challenges because analysts and stockholders saw its employee policies as inconsistent with the business logic, and the nonprofit hospitals faced challenges by government regulators because they were not conforming to the charitable logic of meeting societal needs.

Audiences' responses have been negative to for-profits in disguise, i.e. nonprofits that receive donations and gifts and then use the funds to benefit private individuals. If the organization claims to be a charity, there is the assumption that donations will benefit the general public or clients. When the funds or benefits are instead distributed to principals or agents, there is a contradiction. This can happen because executives appropriate the funds for salaries and/or perquisites, e.g. in the case of Aramony at the United Way (Arenson, 1995) and the American Parkinson Disease Association (Richardson, 1996), or executives receive excessive compensation, e.g. Harvard's Fund Managers (Walsh, 2004; Strout, 2007; Hechinger, 2008). In both situations there are doubts about the credibility of the organization being a charity, and, in the extreme, agents are subject to criminal prosecution such as in the Aramony case.

The appearance of being a for-profit in disguise is an issue for most charities. The question is, how much of one's donations should go to benefit the public at large or clients and how much should benefit those providing the service? In the case of natural disasters, what percentage of donations is siphoned off for relief organizations and how much actually benefits the disaster victims? In the wake of 9/11 the Red Cross faced significant scrutiny for its "banking" donations (Brody, 2006), and there were also accusations of misusing flood relief funds in the Red River Valley Flood of 1997 and Hurricane Katrina in 2005 (Belluck, 1998; Strom, 2002, 2005, 2008). There is also the case of veterans' groups and other charity organizations which pretend to raise money for the disadvantaged but in fact take almost all of the donations as "operating expenses" and use only a small amount for charitable activities (Fernandez, 2009; Rivera, 2010; Rothfeld, 2011). But the same can be said about donations to universities (students versus faculty), hospitals (patients versus staff) and athletic programs (athletes versus coaches). Assuming that donors would prefer to aid disaster victims, veterans, students, patients and athletes and not nonprofit executives, fund raisers, faculties, staff or coaches, they can legitimately question the benefits accruing to service providers.

The situation of social enterprises is more complicated. If a nonprofit cross-subsidizes unprofitable, social welfare activities with revenues from profitable commercial transactions, audiences may be wary of mission drift, i.e. giving priority to commercial rather than mission activities. In the 2006 edition of *The Nonprofit Sector: A Research Handbook* (Powell and Steinberg, 2006), Tuckman and Chang (2006) and Minkoff and Powell (2006) described the potential for goal displacement when nonprofit organizations embraced commercial activities, but interestingly they did not present many case studies illustrating this. In a review in the same volume, Galaskiewicz and Colman (2006) cited research by Bowie (1994) on the ethical issues universities faced as they entered into commercial partnerships with industry and Hall's (1990) study of conflict between board members and staff over becoming more businesslike. Yet in neither case did organizations abandon their charitable mission. Thus while most scholars would agree that with commercialization there is the potential for mission drift, research documenting this is surprisingly thin (Froelich, 1999). Efforts to show that "earned income" can result in the better provision of mission-related activities may be more common and an effective way to meet audiences' conflicting expectations (McInerney, Chapter 7).

The situation of social enterprises which make business strategies integral to their mission related activities have faced more criticism. As we noted earlier, the two prototypes are nonprofits which employ and train hard-to-employ disadvantaged workers to produce and/or sell goods and services to boutique markets and for-profits which seek out business opportunities among previously ignored disadvantaged populations. Mannan (2009) described the various challenges which Building Resources Across Community has faced during its nearly 40-year history but particularly since it has achieved prominence as a key player in microfinance. Mannan (2009) described how: the organization has failed to produce evidence that it has moved people out of poverty; the constant need for capital drives it into all sorts of unrelated activities; Islamic society has challenged it for making loans and charging interest. Its bank has attracted scrutiny since the organization is a voluntary association, and the Bangladesh government has issued rulings against its operations. It is an enormously complex organization, and this has exposed it to many attacks on many fronts.

Rangan *et al.* (2011) also described the pitfalls of those working "at the base of the pyramid." Microfinance in India has come under attack because microlending had not resulted in people escaping poverty. They cite Equitas as a company which has responded by earmarking 5 percent of its profits for clients' health care, skill development and education and capping its profits. However, this makes it all the more difficult to make a profit serving this clientele. The authors also described how Proctor & Gamble and Microsoft had to pass off their initiatives of selling water purification packets and scaled down versions of Windows to their corporate social responsibility groups after they failed to make a profit in these impoverished markets. Certainly, there have been many successes in poorer countries, but Rangan *et al.* (2011) also point out that companies have to know when the local people are capable of being customers and coproducers as opposed to clients who need to be helped.

Aneel Karnani (2011) describes how a host of governments and politicians have begun attacking microfinance in places such as Bangladesh, Cambodia, India, Pakistan and Sri Lanka. He also pointed out that microfinance has not proven to be a panacea for alleviating poverty and called for more regulation of the industry. The interest rates being charged are too high and there is a lack of transparency, hidden charges and plenty of abusive loan recovery. But, most importantly, companies are making too much money! He concludes (ibid., 52), "commercial organizations given opportunities for increasing profits usually act in their self-interest... appeals for self-restraint on the grounds of ethics and values have not been effective in the business world, and there is no reason to believe commercial microcredit organizations will be any different." Indeed, if there was not the claim that these organizations had a mission to alleviate poverty, it would be simply "business as usual." but that ethnics or morality is somehow part of the business plan makes them vulnerable to criticism.

Hypotheses

After presenting our arguments and reviewing selected cases to illustrate our points, it is important now to formulate hypotheses that researchers could test. We assume that an organization's survival and persistence is dependent upon the perceptions of stakeholders in its environment, since they are the ones upon whom the organization is dependent for resources. We also assume that stakeholder support is a function of stakeholder knowledge of and confidence in the organization. This returns us to our initial argument that categorization within organizational fields is relevant for stakeholder decision-making under conditions of uncertainty.

The ecologists hypothesize that under conditions of environmental uncertainty, pure types (firms and traditional charities) should out-compete blended forms (Hsu *et al.*, 2009). The argument is that audiences (investors, donors, customers, regulators, etc.) are better able to understand pure types because they have traits which provide lots of information on the organization. Also claims made by the organization are verifiable. If audiences are able to identify category membership easily, they can easily hold the organization accountable and accountability ensures survival (Hannan and Freeman, 1989). If they are unable to categorize them easily, donors and investors are less likely to support them, regulators are less likely to attest to their legitimacy, and public opinion is more likely to overlook them. As Zukerman (1999) showed, being ignored should hinder their performance.

Furthermore, hybrids that are blended are more likely to outcompete hybrid forms whose traits evoke contradictory logics. The argument is that audiences are harsher on organizations which signal conflicting expectations than organizations where expectations are unclear or ambiguous. Those organizations that are blended are never altogether deviant even though they straddle niches. One has commercial ventures, but one is also receiving donations; one is providing collective goods, but investors and donors are also benefiting. Blended forms are difficult to categorize but they are also difficult to demonize. In contrast, for-profits in disguise and social enterprises are clearly in niches where the logics surrounding their inputs and their beneficiaries contradict one another. Rather than indifference, stakeholder response will be aggressive. Unless the deviant forms "convert" to more legitimate forms or become blended organizations, their survival chances should be lessened.

If, however hybrids are able to signal their "true" identities employing various organizational masques, they will be able to compete as effectively as organizations which are "purer." Indeed, there have evolved a number of organizational strategies to ensure that both nonprofits and for-profits which venture into this territory avoid criticism and controversy. Blended charities have several ways to signal their immunization from the corrupting influence of "profits." For instance, there is considerable attention paid to the leaders', the board members' and the staff's commitment to organizational values. Charities often decouple for-profit subsidiaries and corporate partnerships from the charity organization, building a firewall between the two (Tuckman, 2009). In Chapter 5 Garrow and Hasenfeld describe how the WISEs they studied decoupled social service and business units from each other. Blended charities identify unrelated business income, donors are represented on the board of directors, and charities submit to external monitoring by charitable watchdog groups. Among firms that become involved in social welfare (blended firms), there are comparable efforts to ensure that the firm is not perceived as overly charitable. Executive compensation is linked to company performance through: the issuance of stock options;

corporate foundations and partnerships with nonprofits that are separate legal entities apart from the firm itself; limits on charitable tax deductions; investors sitting on the board of directors; and firms succumbing to external monitoring by shareholder watchdog groups. Unfortunately, there is scant research on the impact of these strategies on shareholders' perceptions and judgments.

Finally, the tactics which an organization pursues are going to be successful or not, depending on the arena or context in which they are pursued. Categories are themselves embedded in larger political and cultural contexts. Distinguishing between organizational types (hospitals, universities, social service agencies) and forms (for-profit and nonprofit) is useful. What may be acceptable commercial activity among one type of organization (recreational centers charging fees) may seem extremely deviant in another (pew fees in churches). Similarly in retail it is common to sponsor neighborhood schools, local nonprofits and the United Way (e.g. Target's pledge to support community causes), but this type of outreach would be odd for hardware companies which typically give support to universities (Galaskiewicz and Coleman, 2006). In addition to being judged as charities or firms, organizations will be judged as universities, churches, day care centers, social service agencies, development agencies, retailers and manufacturers.

The socio-cultural context also needs to be taken into account. This is particularly a problem for NGOs which are trying to reach out to the needy in non-Western countries. Indeed, in some countries commercial activities are less objectionable than in others, while in other cultural contexts, e.g. the Far East, any civic activity that is divorced from government coordination is viewed as risky or even suspect (Ma, 2006; Pekkanen, 2006). More comparative analyses, like Kerlin's (Chapter 4) and Defourny and Nyssens's (Chapter 3), are needed.[8]

Conclusion

The fact that social enterprises exist suggests that the boundaries separating the sectors are becoming blurred. This is not a criticism or a call to return to early times – social enterprises are just a "different" kind of firm and a different kind of charitable organization. Maybe companies need to be a bit more committed to social welfare. Maybe charities need to be more enterprising and self-reliant. Our position is that being a socially responsible firm is desirable even if it means that profits are reduced. It is not a matter of ethics but a matter of social justice where companies pay for externalities they create. If they do not, others will. We also believe that charities need to learn how to sustain themselves, so that they can respond to societal needs during periods when private and/or government funders are unable to subsidize their activities or find them unattractive. Given that nonprofit services are often needed in more difficult times, this seems obvious. However, as a consequence, we should not be surprised if companies find themselves being evaluated like charities and charities find themselves being evaluated like businesses. As the category memberships become blurred, this should be commonplace.

But living up to contradictory performance criteria can be problematic. Accountability is an important issue for any organization (Hannan and Freeman, 1989). Hard and fast categorical distinctions between the sectors allow stakeholders to set clearly the criteria for performance. The traits associated with each sector conjure up a set of expectations. As the categorical distinctions get "fuzzy" it may humanize companies and make nonprofits more efficient. But the cost is audiences' lessened ability to evaluate these organizations and hold them accountable, which calls into question their authenticity and jeopardizes audience support.

What does the future hold? First, classification systems are only one solution to the problem of decision-making under conditions of uncertainty. Networks are equally (if not more) effective if audiences have the time and money to verify authenticity personally. For example, venture philanthropists are famous for their personal involvement in social enterprises (Moody, 2008). Alternatively, a strong hierarchy or a strong culture can also ensure audiences that the organization is "true" to its mission – whether it be social welfare or profit-making. The Catholic Church is an example of this (although not an entirely successful one). Thus to clarify matters audiences may rely on other ways to verify the authenticity of organizations and to make judgments on their legitimacy claims besides traits and categories.

Second, Young (Chapter 1, p. 30) says that social enterprises are always tempted to "follow the money" especially if the governing board has an inclination to maximize profits. But even if the board is public-regarding, Frumkin (2010) suggests that since it is easier to measure the performance and evaluate the authenticity of some forms ("for-profits") than others ("nonprofits"), it is likely that social enterprises will gravitate toward the category where performance is easier to measure. Business performance is easily and quickly quantifiable. Social performance often cannot be evaluated until far into the future and then it is difficult to know the exact contribution of any one organization. Thus if social enterprises find themselves in limbo, they are likely to embrace the for-profit form regardless of the preferences of the governing board. This is an interesting and important prediction but one which does not bode well for the nonprofit sector. It also suggests that more work on nonprofit performance measures is needed.

Third, new categories/forms will emerge and become institutionalized, e.g. L3Cs (the low profit limited liability company), B Corps (a certification that management is committed to social and environmental values and practices), benefit corporations (a business corporation that is formed to pursue some social purpose), SPBs (social purpose businesses) and CICs (community interest companies).[9] That is, entrepreneurs will dream up new categories with their own distinct set of traits, standards and benchmarks to fit the new organizational realities. For example, there are now institutional criteria which audiences can use if they suspect a nonprofit is a proprietary nonprofit, e.g. is there self-dealing or conflicts of interest? Is executive compensation excessive? Is the organization exceeding ceilings on the percentage of donated funds spent on fund-raising? Eventually, the same sort of standards and benchmarks may be put into place for social enterprises. However, we do not expect that these will come about without rancor, and intellectuals, ideologues, foundations, social movement activists, professional schools and governments will all play a role in the process of change and institutionalization (Smith, 2010).

Finally, the sustainability of the social enterprise form depends on the next generation of entrepreneurs and the choices they make. Unfortunately, much that has been written glamorizes social entrepreneurs (e.g. Bornstein, 2007), and there is little social science research on how social enterprises actually operate (for an exception, see Light, 2008). Rubin (1999) showed that often the choice of form is driven by resource needs and resource availability. The mission is not important when choosing the form. Fruchterman (2011) argues that in addition to market and capital concerns an entrepreneur's personal motivations and desired level of control should also be key concerns for those choosing between for-profit, nonprofit and hybrid organizational forms. Tschirhart *et al.* (2008) showed that the experience of the entrepreneur was important. Results from their study of MPA and MBA graduates indicate that an individual's perceived competence within a sector significantly influences their likelihood of working in that sector and that prior experience in a sector was a significant predictor for those working in the nonprofit sector (ibid.). With more research on the benefits and drawbacks of social enterprises, people thinking about starting a social enterprise will be much better equipped to select strategies to overcome the problems which pioneering social entrepreneurs have had to endure.[10]

Notes

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1. The research presented in the next three paragraphs draws heavily from Negro *et al.* (2010) to whom we are indebted.

2. We are indebted to Weisbrod (1988, ch. 4) for direction.
3. Earned income includes tuition and fees, sales and services of educational activities, investment income, hospital revenues, other revenues, and revenues from independent observations. Additional information about the revenues included in each of the categories can be found at http//nces.gov/ipeds/glossary/index.
4. Author's calculations using data from NCES (2010).
5. This includes income from private gifts, grants and contracts and contributions from affiliated groups. Private gifts, grants and contracts includes "revenues from private (non-governmental) entities including revenue from research or training projects and similar activities and all contributions (including contributed services) except those from affiliated entities, which are included in contributions from affiliated entities" (NCES, 2010).
6. Author's calculations using data from NCES (2010).
7. These though are not to be confused with membership nonprofits. In membership nonprofits dues, which are not tax-deductible as charitable contributions, are paid to professional associations, sports and recreation clubs, fraternal associations, and homeowners' associations among others to benefit members. Like Weisbrod (1988), we would categorize them as nonprofit proprietary organizations and place them with firms. They receive fees and they provide member benefits.
8. We would like to thank Dennis Young and Benjamin Gidron for pointing out the importance of other factors which constituents take into account when making judgments about the performance of organizations that operate in different contexts.
9. See Cooney (Chapter 9) for a discussion of their differences and the collective action that led to their establishment.
10. We would like to thank Benjamin Gidron for pointing this out to us.

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3

Conceptions of Social Enterprise in Europe: A Comparative Perspective with the United States

Jacques Defourny and Marthe Nyssens

The concepts of "social enterprise", "social entrepreneurship" and "social entrepreneur" were almost unknown or at least unused some 20 or even ten years ago. In the last decade, however, they have become much more discussed on both sides of the Atlantic, especially in EU countries and the United States. They are also attracting increasing interest in other regions, such as east Asia (Defourny and Kim, 2011) and Latin America.

In Europe, the concept of social enterprise made its first appearance in the very early 1990s, at the very heart of the third sector. According to European tradition (Evers and Laville, 2004), the third sector brings together cooperatives, associations, mutual societies and increasingly foundations, or in other words, all not-for-profit private organizations – such a third sector being labeled the "social economy" in some European countries. More precisely, the impetus was first an Italian one and was closely linked with the cooperative movement: in 1991, the Italian Parliament passed a law creating a specific legal form for "social cooperatives" and the latter went on to experience an extraordinary growth. The concept of social enterprise, which includes social cooperatives as one model among others, doesn't compete at all with the concept of social economy. It rather helps to identify entrepreneurial dynamics at the very heart of the third sector within the various European socio-economic contexts.

In the United States, the concepts of social entrepreneurship and social enterprise also met with a very positive response in the early 1990s. In 1993, for instance, the Harvard Business School launched the "Social Enterprise Initiative", one of the milestones of the period.

Since this early period, the debate has expanded in various types of institutions. Major universities have developed research and training programs. International research networks have been set up, like the EMES European Research Network,[1] which has gathered, since 1996, research centers from most countries of the EU-15, and the Social Enterprise Knowledge Network,