EXECUTIVE FEEDBACK REPORT

December 2014	CHANGING CONCEPTIONS OF SOCIAL ENTERPRISE AMONG NONPROFITS, 2000-2013

Jean-Baptiste Litrico, PhD

Assistant Professor, Strategy and Organization

Queen's School of Business

Queen's University

Jlitrico@business.queensu.ca

Marya Besharov, PhD

Assistant Professor, Organizational Behavior

School of Industrial and Labor Relations

Cornell University

Mlb363@cornell.edu

Executive Feedback Report

CHANGING CONCEPTIONS OF SOCIAL ENTERPRISE AMONG NONPROFITS, 2000-2013

Table of Contents

Acknowledgements

SUMMARY

Our goal in this research was to examine how nonprofit organizations engaged in social enterprise projects conceptualize their activities: what organizational models do they favor, and how do they combine social value creation and commercial exchange in in actual social enterprise projects? We investigate what types of organizations draw on what types of models, and how the prevalence of different models has evolved between 2000 and 2013.

Our findings suggest that nonprofits were initially prone to understanding social enterprise in a narrow sense, emphasizing profit generation and financial sustainability, and a logic of commercialism. Yet we observe a trend toward a greater proportion of nonprofits adopting a more truly hybrid conceptualization of social enterprise, in which goals of social change or community building are fused with commercial or market-based mechanisms of exchange.

Additionally, we find that the sector in which nonprofits operate influences the type of social enterprise that they tend to favor: the education sector, which is populated by a mix of for-profit and nonprofit organizations, initially denoted a stronger emphasis on the social welfare logic than in other sectors. Those initial differences start to disappear, however, in the second half of the time period considered. In conclusion, we observed in this study that **nonprofit organizations' conceptions of social enterprise are not uniform, but rather they vary across sectors of social action.**

I.   INTRODUCTION

New organizations that blur the traditional boundaries between non-profit and for-profit sectors have proliferated in recent years. In particular, *social enterprises* have emerged as a form of hybrid organizations that pursue social improvement goals through participation in market-based exchange (Haigh and Hoffman 2012, Smith, Gonin et al. 2013). While isolated cases of social enterprises have existed for centuries, it is only within the past 10 to 20 years that the concept has gained currency among organizations engaged in social action. Today, the term 'social enterprise' is being used by many different types of actors, including business firms that are adopting social missions, nonprofit organizations incorporating commercial practices, and the foundations and governments that support social entrepreneurship in both the for-profit and nonprofit sector (Battilana, Lee et al. 2012).

Yet, **while the concept of 'social enterprise' has become more prevalent over the past several decades, there is considerable variation in what the term actually means.** For example, some social entrepreneurs see themselves as change agents in the social sector, emphasizing innovation and learning, while others understand social enterprise as a way to reach financial sustainability, thus emphasizing revenue-generating approaches to social problems (Lounsbury and Strang 2009). To date, our knowledge of how organizations are engaging in social enterprise is limited. Previous work has examined how the discourse of social enterprise is produced by prominent foundations, consultants, or influential authors, but much less is known about how social enterprise is understood by the organizations that actually engage in social entrepreneurship.

Research Objectives

The present research addresses this gap. Our goal was to examine how nonprofit organizations engaged in social enterprise projects conceptualize their activities: what organizational models do they favor, and how do they combine social value creation and commercial exchange in actual social enterprise projects? We investigate what types of organizations draw on what types of models, and how the prevalence of different models may have evolved between 2000 and 2013.

II.   THE RISE OF SOCIAL ENTERPRISE

Social Enterprise as Emerging Concept

Although the concept of social enterprise is not new (Dart 2004, Nicholls 2010), over the past two decades it has become much more prevalent among organizations engaged in social action (Lounsbury and Strang 2009) and has correspondingly gained prominence in the popular media (see Figure 1). There is considerable evidence suggesting that social enterprise as a new form of social action has been steadily gaining recognition and legitimacy within the private, governmental, and public spheres over the last 15 years.

FIGURE 1: Social Enterprise in the General Media, 1995-2012
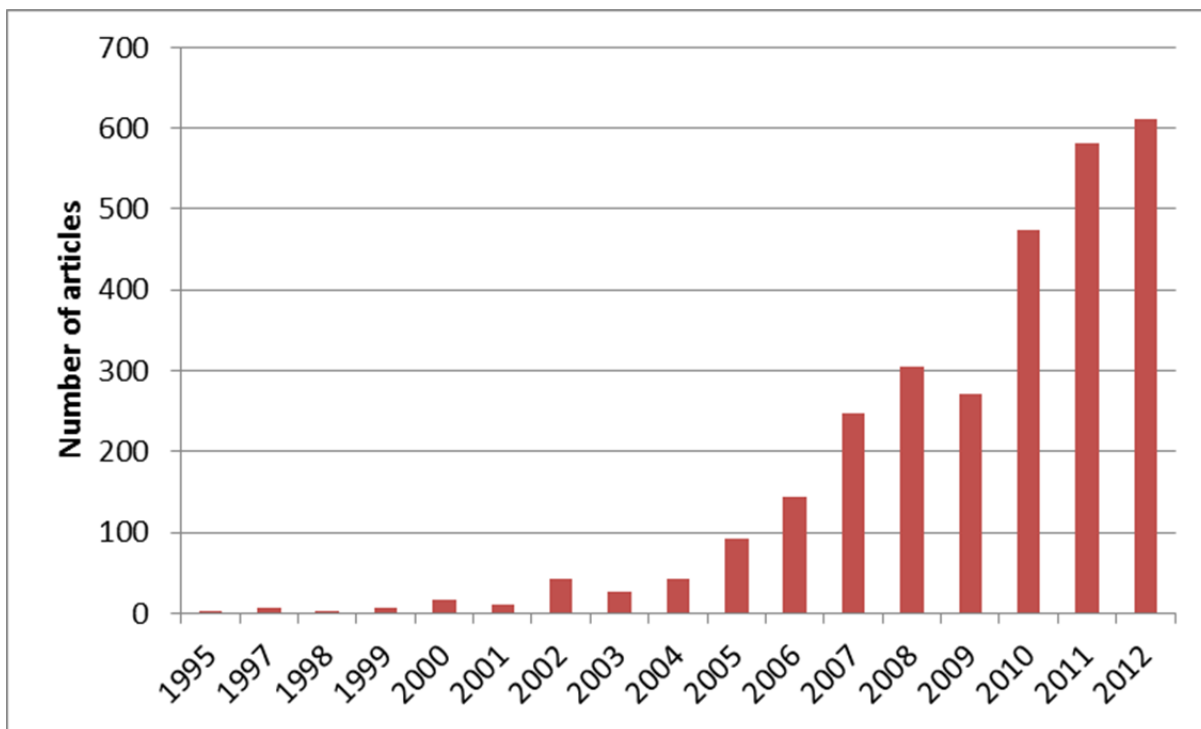
Note: The graph shows the number of articles published in North America that contain the keywords "social enterprise" or "social entrepreneur*" in their headline or first paragraph. The search was performed using the online database Factiva.*

Social Enterprises and the Rationalization of the Nonprofit Sector

Despite acknowledged ambiguity surrounding the meaning of social enterprise (Dees 1998, Dart, Clow et al. 2010, Nicholls 2010), scholars generally agree that social enterprises represent an important departure from the values and ideology historically associated with nonprofit organizations and from conventional approaches to addressing social issues. In particular, social enterprises differ from traditional nonprofits in that they are hybrids that combine in one entity two logics of action that were previously seen as distinct and even antagonistic: the *social welfare* logic, which has long been associated with a nonprofit organizational form and emphasizes addressing social issues through democratic forms of control; and the *commercial* logic traditionally associated with the for-profit organizational form, which emphasizes creating private value and profit through the use of hierarchical forms of control (Smith, Gonin et al. 2013). Table 1 summarizes the key elements of these logics.

TABLE 1: Commercial and Social Welfare Logics

Characteristics	Commercial Logic	Social Welfare Logic
Goal	Generate profit	Address social needs
Organizational form	For-profit	Non-profit
Governance mechanism	Hierarchical control	Democratic control
Basis for professional legitimacy	Technical and managerial expertise	Contribution to social mission

Adapted from Pache and Santos (2013)

Furthermore, because they apply a commercial logic to the pursuit of social problems, social enterprises can be understood as part of a broader movement toward the rationalization of nonprofit organizations and the diffusion of managerialism in the nonprofit sector (Roberts, Jones et al. 2005, Hwang and Powell 2009). Indeed, previous research has suggested that the rise of social enterprises, which was concomitant with the decline in prevalence of the welfare state ideology (Dart 2004), represents an extension of neo-liberal ideology. Ultimately, social enterprises promote the generalization of a logic of commerce and profit in sectors that were until recently reserved to non-commercial forms of organization and exchange.

Research also suggests that different actors are using the label of social enterprise to refer to different forms of social action. Back in 1997, Dees highlighted the diversity of social enterprises, ranging from mostly philanthropic organizations to organizations fully engaged in market-based exchange. In his critical examination of social enterprise as rational ideology, Dart (2004) contrasted the broad and encompassing definition of the term used by some foundations and early writers, with the more narrow definition used by many social entrepreneurs who conceive of social enterprise in explicit operational terms

that emphasize business and revenue-generation. In their examination of the origins of social entrepreneurship in the United States, Lounsbury and Strang (2009) contrasted one usage of the term based on innovativeness and bold action to create social value with an alternative usage emphasizing the commercial dimensions of social entrepreneurial action. Nicholls (2010) further developed this distinction by examining more closely the discourses and paradigms used by key institutional actors involved in the creation of the social entrepreneurship field. He contrasted two narrative logics underlying the legitimating discourses of such institutional actors, which supported two ideal-type organizational models: the advocacy/social change model, promoting network organizations engaged in community building and social change, on the one hand; and the business-like model, with a specific focus on earned income and the use of profit-generating activities to support a social purpose, on the other hand.
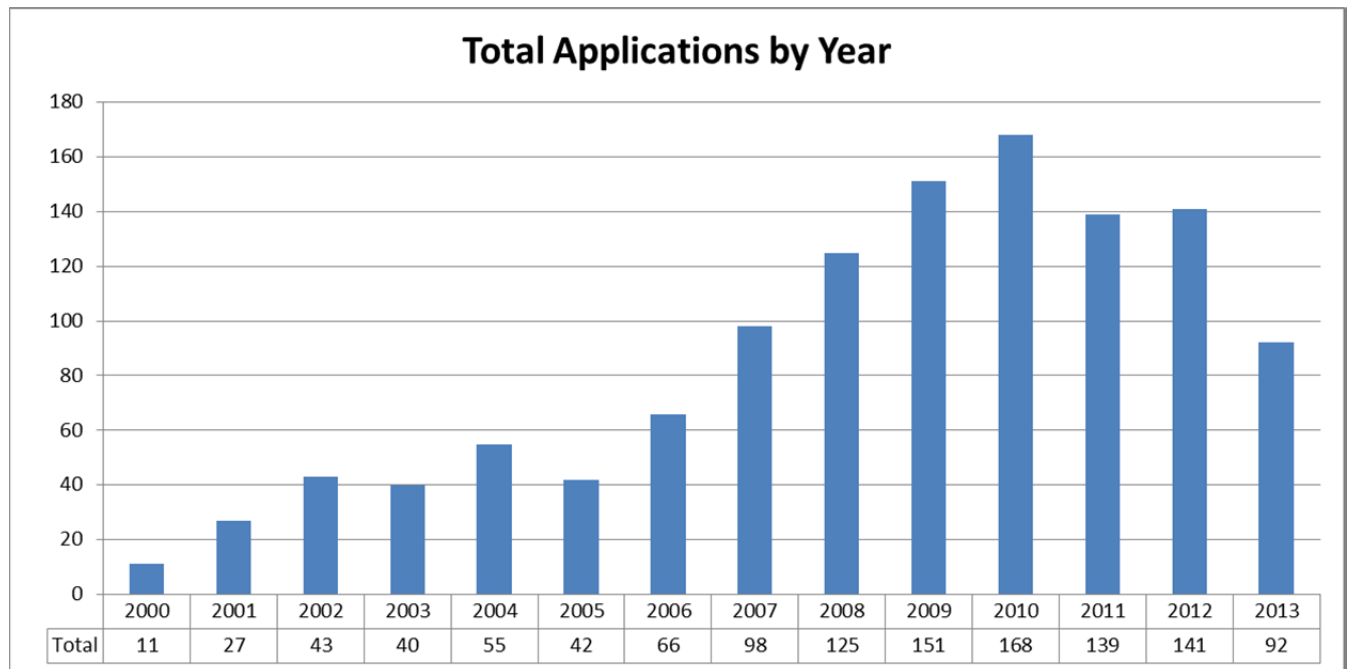
Recognizing this distinction, scholars have proposed two ideal types of social enterprises: organizations emphasizing social change, advocacy, or community-building and organizations emphasizing revenue generation, financial viability and business-like practices (Nicholls 2010). These different types are not just of academic interest. Because each type implies a very different form of value creation, understanding which type of social enterprise is being created and by whom is of significant practical importance.

III. THE ENP DATASET

General Description of the Dataset

We observe in Figure 2 a general increase in the number of applications submitted to ENP between 2000 and 2010, followed by a decline in the years 2011-2013. The rise in applications presents a striking parallel with the rise in salience of the concept of social enterprise in the general media during the same time period, as illustrated in Figure 1. We do note, however, a decline in the number of applications starting in 2011 which is not matched in the general media.

FIGURE 2: Distribution of Grant Applications by Year

Total Applications by Year

|	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Total	11	27	43	40	55	42	66	98	125	151	168	139	141	92

ENP has adopted a bi-annual grant competition structure, and we noted a slightly larger number of applications overall for the Fall competition than for the Spring competition, as shown in Figure 3. There were, however, no other significant differences between the spring and the fall seasons in terms of likelihood of success, type of project, etc., and thus we performed all subsequent analyses at the level of each year rather than each season.

FIGURE 3: Distribution of Grant Applications by Season
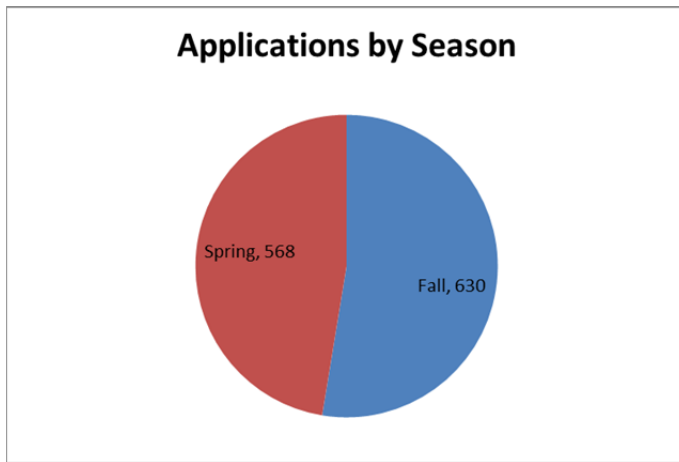
In order to differentiate the type of nonprofit organizations applying for grants, we used the classification system used by the Canadian Revenue Agency (CRA) for charities (see details in the appendix on methodology). Using the data provided by CRA, we were able to classify all nonprofits along the five categories indicated in Figure 4 (Welfare, Health, Education, Religion, and Community Benefit). Nearly half of the grant applications were submitted by community benefit organizations, a proportion that remained stable over the period of study. The proportion of projects submitted by welfare nonprofits occupied the second position, but showed a decrease over time. Applications from nonprofits in the education sector increased slightly, while numbers of the health and religion[1] sectors remained stable.

FIGURE 4: Proportion of Grant Applications by Sector of Activity


---
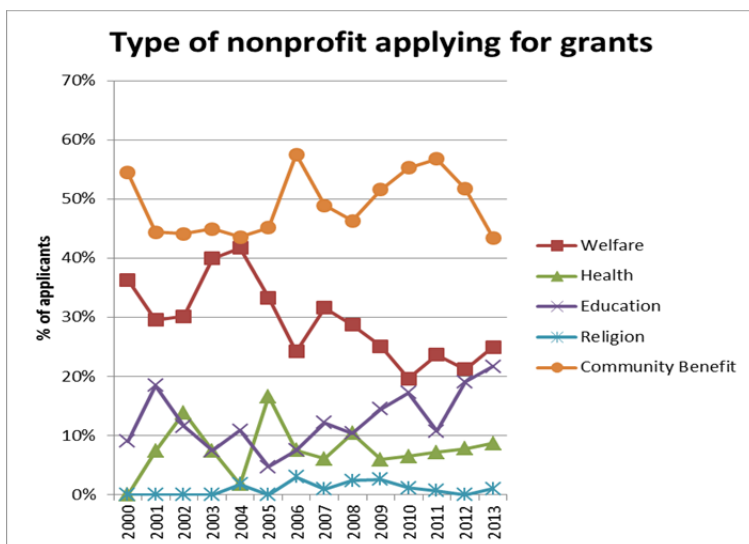
[1] Because of the low number of applications in the religion sector, we ended up dropping them from further analysis.

Repeat Applicants

We note that about two thirds of all applications were submitted by first time applicants, and one third were submitted by repeat applicants, as shown in Figure 5.

**FIGURE 5: Proportion of Applications submitted by First Time Applicants**
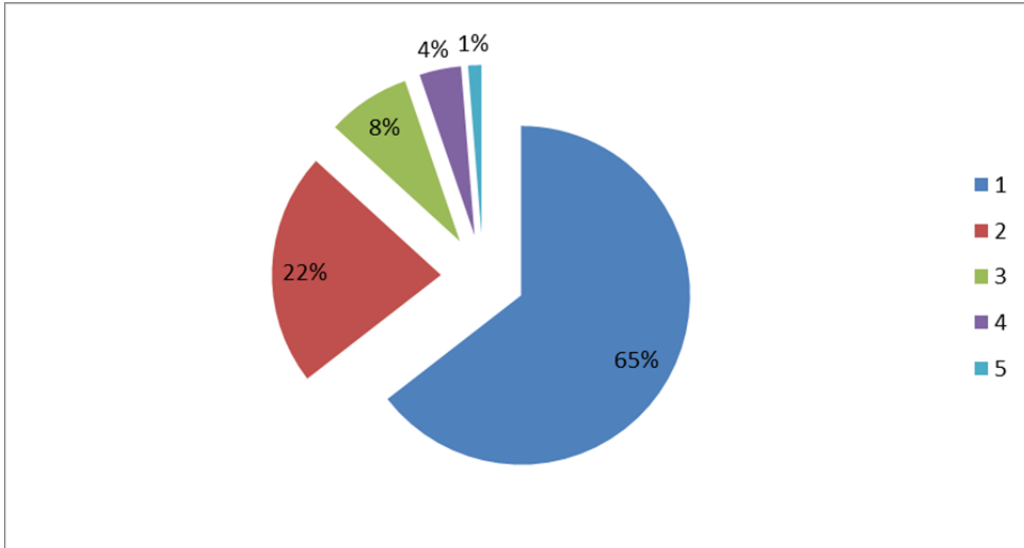
Note: "1" indicates first time applicants; "2" indicates second time applicant, etc. "5" indicates nonprofits that have applied 5 or more times.

IV.   WHICH PROJECTS GET FUNDED?
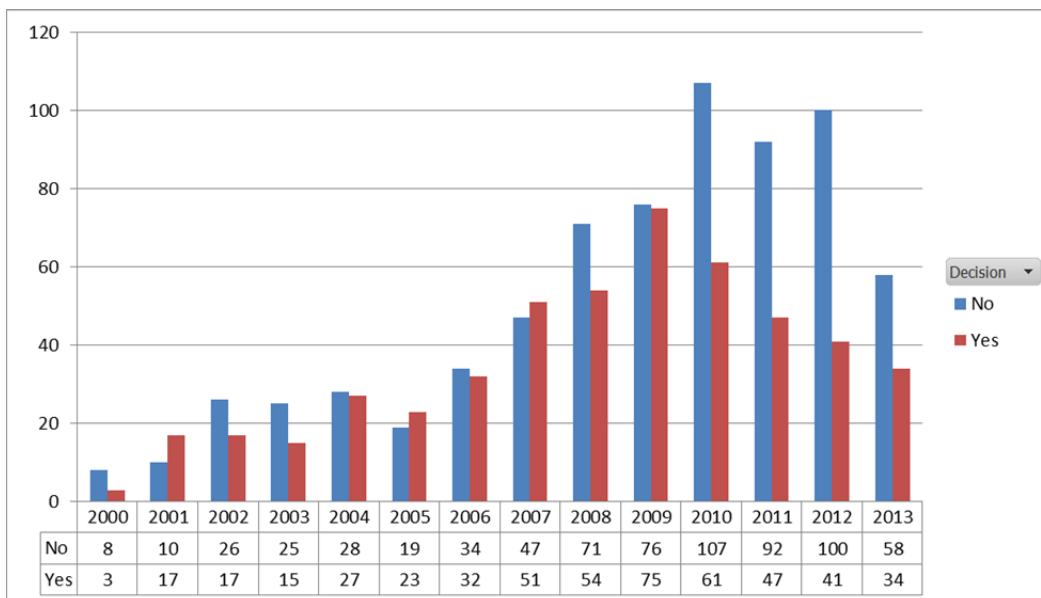
Overall Funding Rate

The overall rate of success between 2000 and 2013 stood at 41%, as represented on Figure 6.

FIGURE 6: Percentage of Successful Applications, All Years Combined
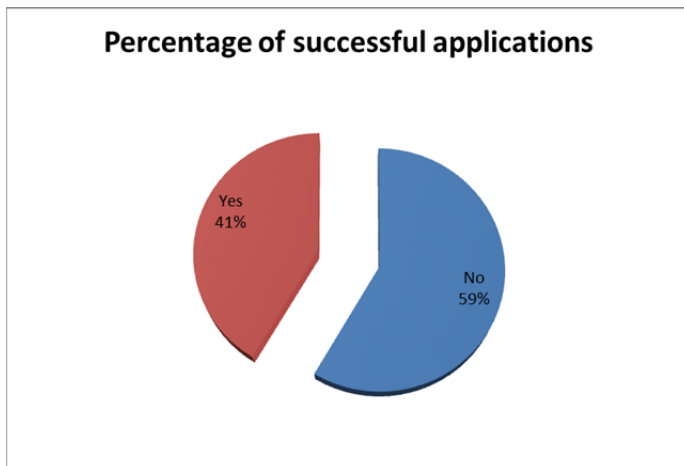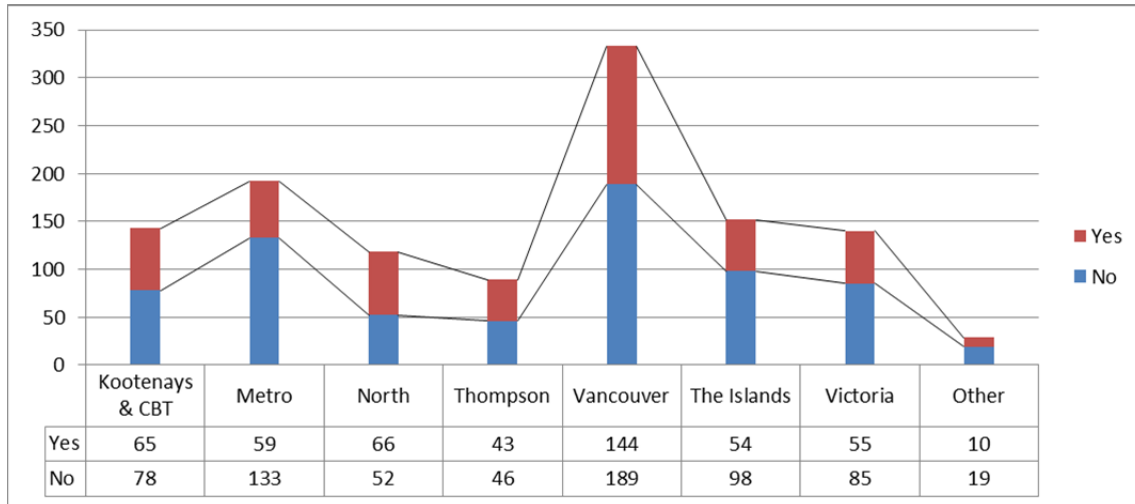

However, if we examine the distribution of successful applications by year (see Figure 7), we find several significant trends. First, the number of funded projects grew more or less parallel to the number of submitted applications during the period 2000-2009. Starting in 2010, the number of funded projects decreased steadily until 2013. The rate of funding decreased significantly over the last four years of the dataset.

FIGURE 7: Distribution of Successful Applications, by Year

|	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
No	8	10	26	25	28	19	34	47	71	76	107	92	100	58
Yes	3	17	17	15	27	23	32	51	54	75	61	47	41	34

An examination of the rate of success by region did not surface any systematic differences (see Figure 8). One should also note that the overall rate of success evolved over the years, as indicated on the previous figure, and that regions were not represented in the same proportion over the years.

FIGURE 8: Distribution of Successful Applications, by Region

	Kootenays & CBT	Metro	North	Thompson	Vancouver	The Islands	Victoria	Other
Yes	65	59	66	43	144	54	55	10
No	78	133	52	46	189	98	85	19

We also observe on Figure 9 that repeat applicants were not more likely to get funded than first time applicants, and were in fact less likely to receive funding.

FIGURE 9: Distribution of Successful Applications, by Number of Times the Nonprofit has Applied

	1	2	3	4	5
Yes	320	105	40	18	8
No	440	157	54	29	7

Number of times applied
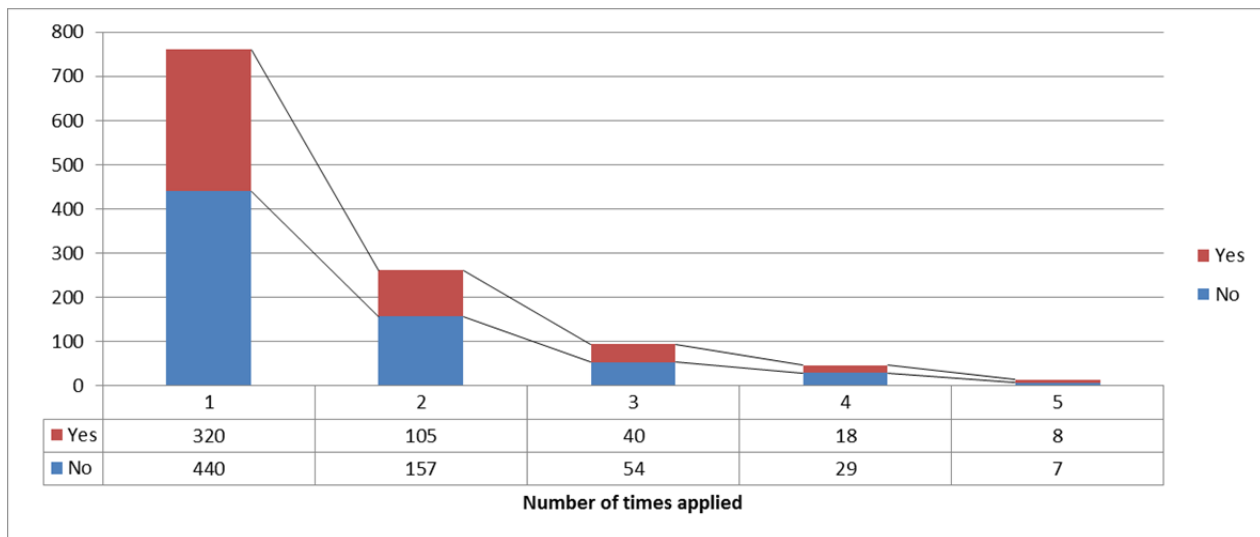
V. CHANGING CONCEPTIONS OF SOCIAL ENTERPRISE

Comparing Use of Institutional Logics

In order to understand how nonprofits conceptualized their social enterprise projects, we coded the grant applications in several ways.

First, we manually coded the detailed descriptions of each organization's social enterprise project, in which the organization detailed the nature of the service or product offered, its intended market, potential competition with existing organizations, and the desired social outcomes for users or customers. We distinguished three types of project. Projects labeled "primarily revenue generation" contained great detail regarding the way the social enterprise would produce revenues, but the social mission was not explicitly articulated. Projects labeled "primarily social mission," on the other hand, provided a clear and explicit statement of the social mission, but little or no explanation of how revenues would be generated. Most projects were coded as "mixed" and contained both a description of the social mission and of the mode of revenue generation. Figure 10 provides a graphical illustration of these three types of projects, and Figure 11 shows the frequency of types over time. We observe that, as expected, projects mixing social mission with revenue generation were the majority, and their proportion rose over the 2000-2013 period.

Whenever a social mission was articulated, we also coded for the way it was realized. We found that projects tended to realize their social mission in three common ways: by servicing a specific beneficiary population ("Who is served"), by providing employment opportunities for a specific group of people ("Who is employed"), and/or by selling a product or service that delivered a social mission ("What is sold"). These categories were not mutually exclusive: projects could realize their social mission through one, two, or even three of these ways at the same time. Figure 12 depicts changes in the proportion of projects with 1, 2, or 3 types of social mission. Projects realizing their social mission in one dominant way were the majority, but were also declining in numbers. Projects combining 3 types of social mission were rising slightly over the last 5 years of the time period considered. Arguably, those projects depicted the highest form of integration between the social and commercial logics.

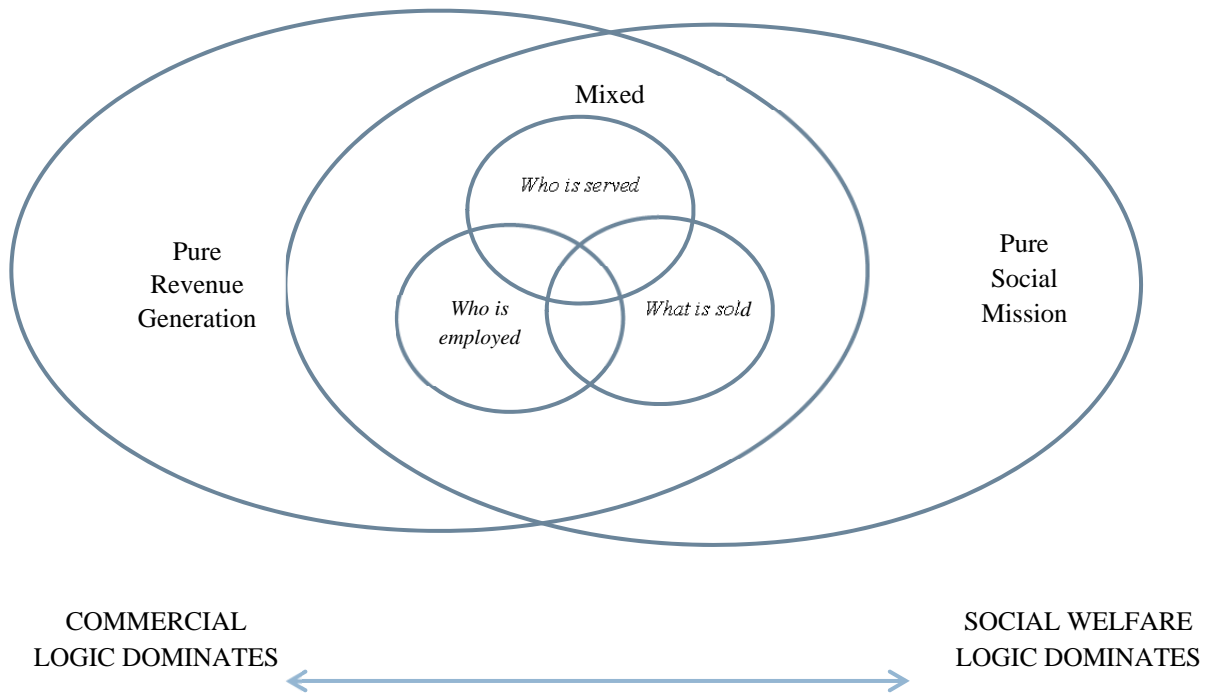**FIGURE 10: Types of Projects and Methods of Realizing Social Mission**

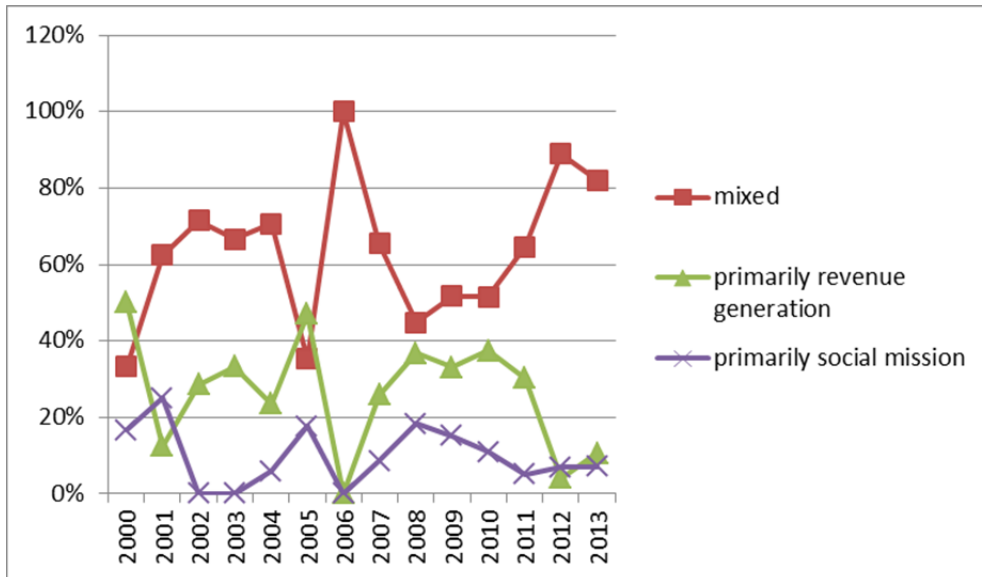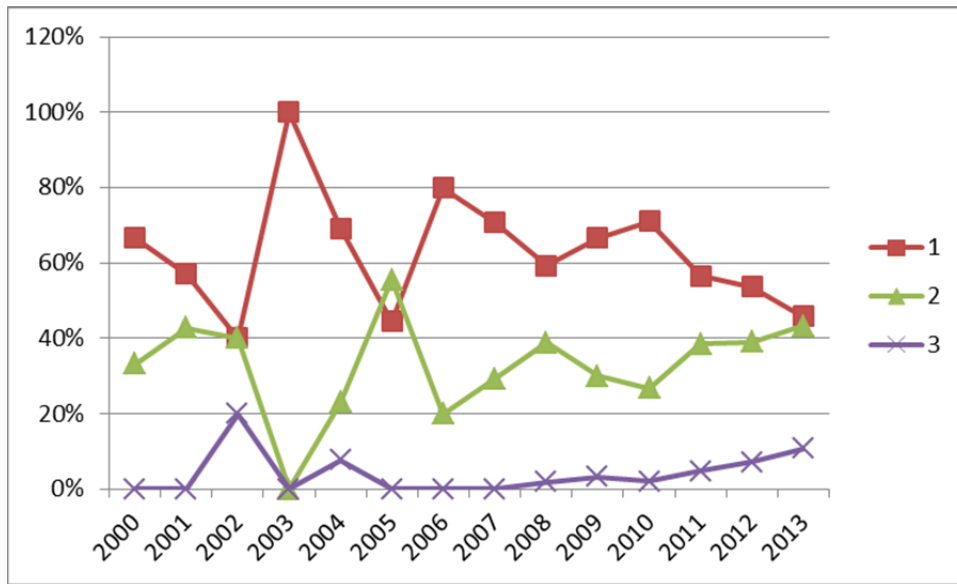**FIGURE 11: Project Types over Time**

FIGURE 12: Methods of Realizing Social Mission over Time

Scope of the Target Customer and Beneficiary Groups

We also coded for the breadth of the customer and beneficiary groups targeted by the social enterprise project. Interestingly, we found that broad customer targets were increasingly common during the second half of the time period considered (after 2006; see Figure 13). In contrast, narrow (i.e., specific) beneficiary groups became more common at the same time (see Figure 14). Thus, nonprofits were attempting to tap into an increasingly broader market in order to help specific and targeted beneficiary groups. In the last three years of our time period, narrow and broad beneficiary groups were roughly equally represented, thus suggesting that nonprofits trying to bring benefits to a broader audience were also becoming more common.

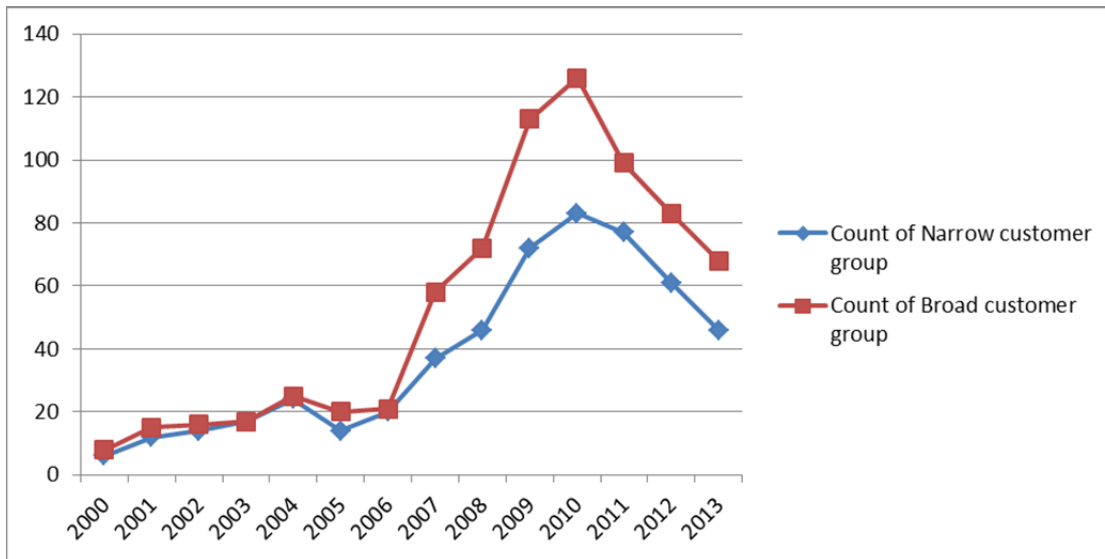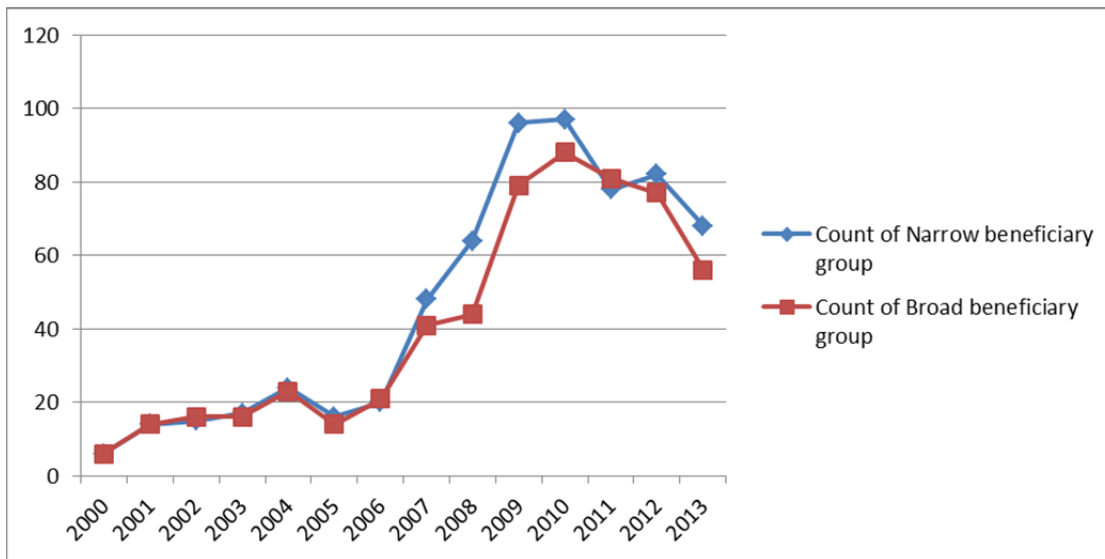**FIGURE 13: Breadth of Target Customer Group**

**FIGURE 14: Breadth of Target Beneficiary Group**

Social Enterprises and the Institutional Environment

Next, we turned our attention to the impact that a nonprofit's environment might have on its understanding of social enterprise. How a nonprofit conceives of appropriate forms of social action may differ depending whether the organization operates in a mixed downtown neighborhood or in isolated rural areas, in education or in health services. For example, pressures to pursue community building may be stronger in a rural setting composed of geographically isolated communities than in a dense urban neighborhood. Similarly, social sectors such as healthcare, which already harbor a mix of for-profit and charitable organizations, might be more receptive to models of social action that rely on a logic of revenue generation.

We developed a computer-aided content analysis procedure in order to compare project descriptions in an objective manner, and to supplement the manual coding described above. Our approach was to count the number of words associated with each institutional logic (social welfare vs commercial logics). Comparing the use of words associated with each logic, we found that words associated with the commercial logic are more prevalent than those associated with the social welfare logic during most of our time period (i.e., the ratio of social welfare to commercial words is smaller than 1; see Figure 15). As shown in Figure 15, however, we observe a gradual increase in the ratio of social welfare to commercial words, which rises above 1 in the last two years – thus, an equal distribution of words from both logics, indicative of a more balanced combination of logics.

FIGURE 15: Ratio of Social Welfare/Commercial Words in Project Descriptions, All Sectors
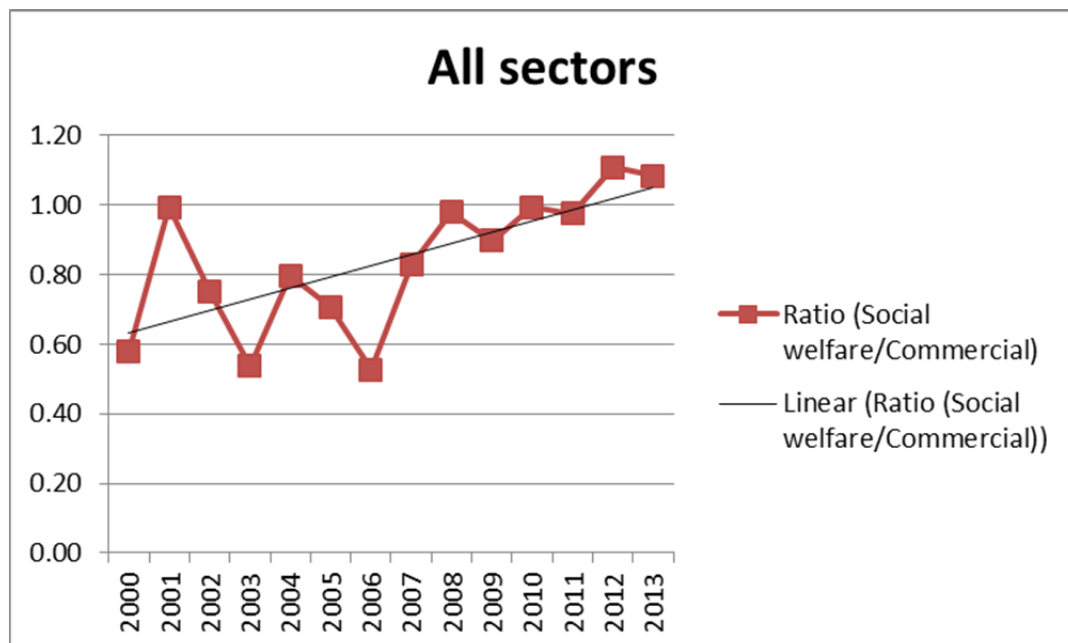
While no significant differences were observable in patterns of logic use between organizations located in various geographical regions, we did find differences based on the social sector in which the nonprofit is primarily active, as depicted on the various panels of Figure 16. The initial over-emphasis on the commercial logic noted above was not observed for nonprofits in the education sector. Instead of a gradual increase in the prevalence of social welfare words, nonprofits in education showed a gradual decrease. The welfare and community benefit sectors, on the other hand, both depicted a strong initial dominance of the commercial logic, although this diminished over time as the ratio of social welfare to commercial words approached 1. In the health sector, this ration kept increasing above 1, indicating a growing dominance of social welfare words.

FIGURE 16: Ratio of Social Welfare/Commercial Words in Project Descriptions, by Sector
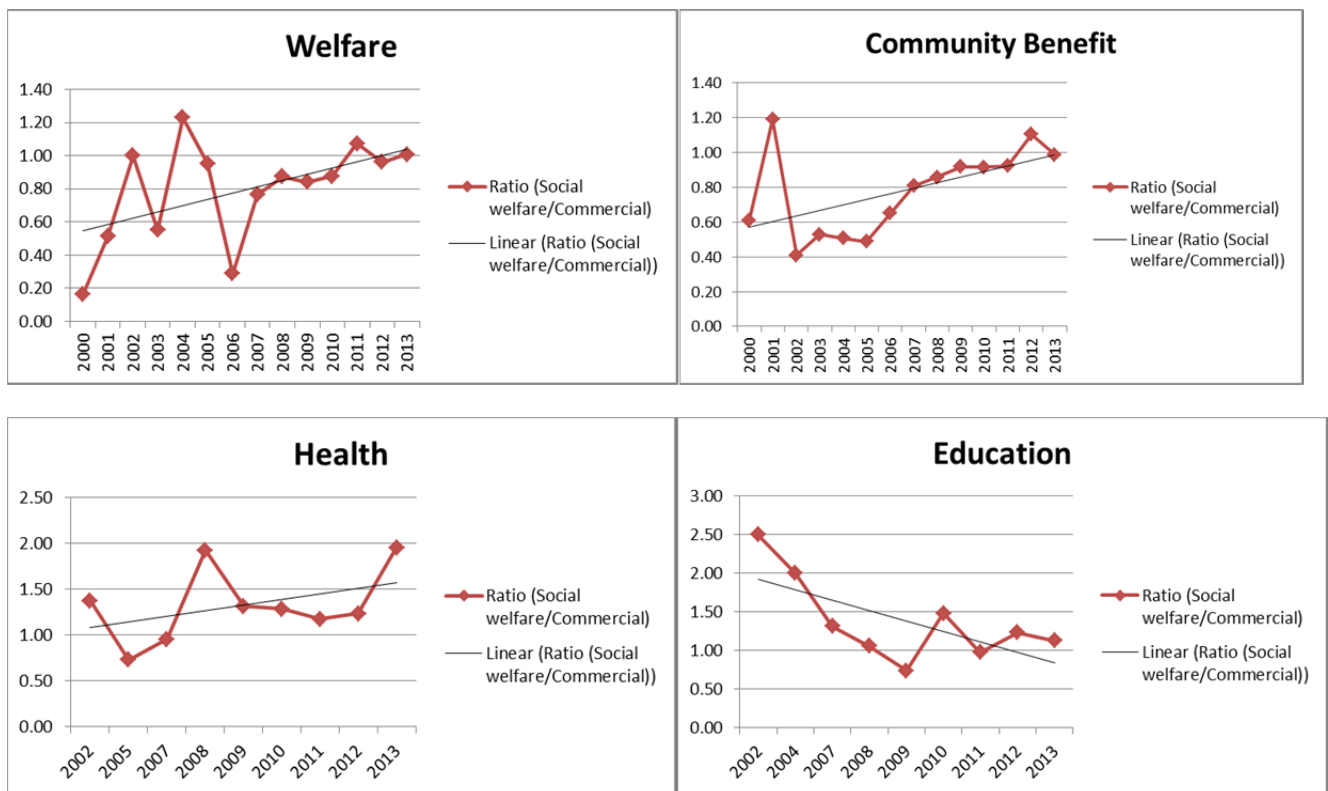
VI. CONCLUSION

In summary, the grant application data provided by ENP allowed us to analyze changing conceptions of social enterprise held by nonprofits during the emergence of this new organizational form. We found several interesting trends over time. From 2000 to about 2006, when the social enterprise form was still emerging, we see a greater emphasis on the commercial logic relative to the social welfare logic across all sectors except education. In contrast, in the subsequent period (2006-2013), during which there was substantial growth in the number of social enterprises and in applications to ENP, the gap between use of the commercial versus social welfare logics narrows considerably, reflecting a greater diversity of models and logics used by nonprofits to describe their social enterprise projects.

The sector differences we found may be due in part to differences in dominant logics and institutional arrangements within each sector. For example, it seems intuitive that nonprofits in the welfare and community benefit sectors would find a model of social enterprise emphasizing social change increasingly attractive. In contrast, the education sector is populated by a mix of for-profit and nonprofit organizations, and has been characterized by an emphasis on managerialism, which may explain the growing dominance of the commercial logic. Further research is needed to clarify why such differences between sectors were observed.

Finally, the shift in the dominance of the commercial logic over time indicates that **before nonprofits started to think of social enterprise as a truly integrated form of action merging the social and commercial logics, their conceptions were more heavily tilted toward the revenue-generation side of the spectrum.** In other words, it took a swing into a different logic of action before nonprofits could conceive of ways to integrate seemingly incompatible logics, and before a truly integrated hybrid form could emerge. Whether those increasingly integrated hybrid forms can endure and continue to thrive is an important question for future research.

VII. APPENDIX: RESEARCH METHODOLOGY

In order to examine how nonprofit organizations understand and engage in social enterprise, we analyzed grant applications submitted to ENP by nonprofits seeking to initiate or obtain additional support for a social enterprise. Grant applications are self-produced texts submitted by organizations wishing to initiate a new social enterprise project, or wishing to receive support for an already existing social enterprise. Thus, grant application data provide a unique opportunity to study, in their own words, how nonprofits understand the concept of social enterprise. The funding made available by ENP was explicitly targeted at supporting social enterprise projects developed by nonprofit organizations. Our dataset for this study consisted of 1,198 grant applications submitted by nonprofits between 2000 and 2010. All applicant organizations were located in British Columbia, although some were based in large urban centers while others were from rural areas. Grants ranged in value from $1,500 to $10,000, with an average grant amount of $6,155. The grant funds were used by organizations to conduct market studies, feasibility studies, pilot projects, or other activities aimed at developing a social enterprise project.

We used content analysis techniques to capture how nonprofits conceptualized social enterprise in their grant applications. Content analysis is a method used to analyze various sorts of text (Krippendorff 1980, Duriau, Reger et al. 2007). Within each grant application, we focused on two important sections: the grant summary, capturing in 50 words the goal of the grant application; and the project description, which presented the social enterprise project in greater detail (up to 2,000 words). In this subsection, nonprofits described their social enterprise project, detailing the nature of the service or product offered, its intended market, potential competition with existing organizations, and the desired social outcomes for users or customers. Grant applications were coded by a research assistant trained in content analysis methods. To ensure the reliability of the coding, each of the authors independently coded a randomly selected 10% of the applications. We then resolved any discrepancies through discussion.

Projects coded as "Revenue Generation" emphasized profit making with little or no mention of any specific community building or social change mission that would be pursued by the social enterprise. For example, one project proposed to provide food services and catering, with the goal of "creating spin-off standalone businesses that would be self-supportive and contribute to [nonprofit name]." Projects coded as "Social Change," on the other hand, emphasized social change or community building missions with little or no emphasis on profit or revenue generation. For example, one project involved developing educational tours designed to "reconnect people with nature, create a sense of place, foster community building and encourage conscientious living."

In addition to coding the type of project, we coded whether the applying organization was located in a rural or urban setting, and in which of the following four social sectors it was primarily active: Welfare, Health, Education, or Community Benefit. This coding of sector is based on the classification scheme employed by the Canadian Revenue Agency (CRA) to categorize tax-exempt charities.[2] Whenever the organization was listed and categorized on the CRA website, we used this information to classify the nonprofit. We classified the remaining nonprofits based on the grant application sub-section in which each applicant provided a brief presentation of the organization, including its mission and plans for future development.

---

[2] The CRA classification also includes Religion, but only a very small number of organizations fell under that category therefore we decided not to include their data in the analysis.

For the computer-aided content analysis, we developed a dictionary of words associated with the social welfare and commercial logics by coding each word used in the grant summaries, and words that were used more than 10 times in the project descriptions. Each word was coded separately by two coders as reflecting: (a) the commercial logic, (b) the social welfare logic, or (c) neither logic. Coding disagreements were resolved through discussion. We then used computer-aided content analysis to measure in the project descriptions the ratio of social welfare words vs commercial words.

Finally, we identified inductively important dimensions along which the social enterprise projects varied in our dataset. To do so, we started with open coding on a randomly selected sample of 100 applications. Dimensions were identified iteratively, whereby the authors coded separately a subset of 50 applications, and then discussed emerging themes. The dimensions were then validated through another round of independent coding of 50 applications and further refined through discussion.

VIII. REFERENCES

Battilana, J., M. Lee, J. Walker and C. Dorsey. 2012. In search of the hybrid ideal. Stanford Social Innovation Review, 10(3): 50-55.

Dart, R. 2004. The legitimacy of social enterprise. Non-profit Management & Leadership, 14(4): 411-424.

Dart, R., E. Clow and A. Armstrong. 2010. Meaningful difficulties in the mapping of social enterprises. Social Enterprise Journal, 6(3): 186-193.

Dees, J. G. 1998. Enterprising nonprofits. Harvard Business Review, 76(1): 5-15.

Duriau, V. J., R. K. Reger and M. D. Pfaffer. 2007. A content analysis of the content analysis literature in organization studies - Research themes, data sources, and methodological refinements. Organizational Research Methods, 10(1): 5-34.

Haigh, N. and A. J. Hoffman. 2012. Hybrid organizations: The next chapter of sustainable business. Organizational Dynamics, 41(2): 126-134.

Hwang, H. and W. W. Powell. 2009. The Rationalization of Charity: The Influences of Professionalism in the Nonprofit Sector. Administrative Science Quarterly, 54(2): 268-298.

Krippendorff, K. 1980. Content analysis : an introduction to its methodology. Beverly Hills,, Sage Publishers.

Lounsbury, M. and D. Strang. 2009. Social enterpreneurship: Success stories and logic construction. Globalization, philanthropy, and civil society : projecting institutional logics abroad. D. C. Hammack and S. Heydemann. Bloomington, Indiana University Press: 71-94.

Nicholls, A. 2010. The Legitimacy of Social Entrepreneurship: Reflexive Isomorphism in a Pre-Paradigmatic Field. Entrepreneurship Theory and Practice, 34(4): 611-633.

Roberts, S. M., J. P. Jones and O. Frohling. 2005. NGOs and the globalization of managerialism: A research framework. World Development, 33(11): 1845-1864.

Smith, W. K., M. Gonin and M. L. Besharov. 2013. Managing Social-Business Tensions: A Review and Research Agenda for Social Enterprise. Business Ethics Quarterly, 23(3): 407-442.