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Critical Success Factors for Nonprofit Organizations Starting Social Enterprises

by

Jill Andres

A THESIS SUBMITTED TO THE FACULTY OF GRADUATE STUDIES

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ABSTRACT

Increasing numbers of nonprofit organizations are launching social enterprises as a way to further their mission and generate revenue, yet there is little understanding of what factors lead some nonprofit organizations to experience social enterprise success while others fail in their efforts. Using a qualitative method and key informant interviews, this study sought to identify patterns of success across social enterprise initiatives from the perspective of five executive directors of nonprofit organizations that were operating or had previously operated one or more social enterprises, seven managers of social enterprises, and four funders of multiple social enterprises.

The findings that emerged from these interviews offer insight into factors that contribute to a nonprofit organization's ability to launch and sustain a successful social enterprise. The implications of the study are discussed with respect to the field of social enterprise, the role of government and funders, as well as nonprofit organizations that are considering the launch of a social enterprise.

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Chapter 1 - Introduction

Social entrepreneurship has captured the attention of governments, philanthropists, nonprofit organizations, and individuals seeking to change the world. Social entrepreneurs like Mohammad Yunus, the Nobel laureate who helped take microfinance from the small villages in Bangladesh into the mainstream, have attained rock-star status. Prestigious academic institutions have begun offering certificate and degree programs in social entrepreneurship, and corporations and governments have started implementing procurement policies oriented towards social and environmental sustainability. Finally, philanthropists like Bill and Melinda Gates and Jeffrey Skoll have established substantial funds to support the efforts of social entrepreneurs. Social entrepreneurship has become part of the common vernacular and has captured the popular imagination.

Cash-strapped nonprofit organizations have increasingly begun to look to social entrepreneurship as a silver bullet; a way to replenish coffers that were hit hard by the recent recession and changing patterns of philanthropy, and to generate undesignated revenue to cover administrative costs, or "overhead", that donors typically shy away from (Dees, 1998; Eikenberry & Kluver, 2004; Hockerts, 2006 as cited in Dorado, 2006; Miller & Wesley, 2010).

Also contributing to the increasing focus on social entrepreneurship is the dialogue that has arisen over the past couple of decades about whether nonprofit organizations ought to operate more like businesses (Pallotta, 2013). The "pro-business zeitgeist" (Dees, 1998, p.56) and the perceived legitimacy of business as an organizing form that has become prevalent within Organization for Economic Co-operation and Development

(OECD) nations over the past few decades has prompted calls from many philanthropists, funders and governments for nonprofits to become more business-like (Dart, 2004; Dees, 1998; Foster & Bradach, 2005; Leadbeater, 1997; Weerawardena & Mort, 2006).

As a result, increasing numbers of nonprofit organizations have begun to adopt business practices, such as generating earned revenue to support their mission-related efforts. These revenue-generating activities undertaken by nonprofit organizations are commonly referred to as 'social enterprise'.

Definition

Social enterprise is a form of social entrepreneurship, which is an ill-defined concept that has been used to describe a broad spectrum of activities (Dees, 1998; Nicholls, 2010; Weerawardena & Mort, 2006). Present across the entire spectrum of social entrepreneurial activities is the emphasis on social value creation; the social mission is central to every social entrepreneurial initiative (Alvord, Brown, & Letts, 2004; Austin, Stevenson, Wei-Skillern, 2006; Boschee, 1995; Leadbeater, 1997; Mair and Marti, 2006; Peredo & McLean, 2006; Weerawardena & Mort, 2006). However, beyond this shared focus on social value, perspectives diverge.

Located at one end of the social entrepreneurship continuum are initiatives that catalyze transformative change to social, economic and political systems where the emphasis on creating social impact supersedes economic returns for the entrepreneur (Alvord, Brown, & Letts, 2004; Drayton, 2002; Dees & Anderson, 2002; Mair & Marti, 2005). An example of transformative social entrepreneurship is Muhammad Yunus' efforts to promote economic and social development in Bangladesh by providing microcredit to

entrepreneurs who were too poor to qualify for loans through traditional banking institutions. At the other end of the spectrum are ventures that focus on revenue generation as a means of furthering a social mission (Boschee, 2001; Dart, 2004; Elson & Hall, 2010; Emerson & Twersky, 1996; Mair & Marti, 2006; Skloot, 1983; Smith, Knapp, Barr, Stevens, & Cannatelli, 2010; Zietlow, 2001). For example, the retail operation 'Me to We' sells clothing and accessories, volunteer trips, leadership training programs and materials, and books to generate revenue to cover the administrative costs of its charitable partner, 'Free The Children'. One half of Me to We's annual profits is donated to Free the Children and the other half is reinvested to sustain the operations of Me to We (Me to We, 2012). It is this latter characterization of social entrepreneurship, described here as social enterprise, which forms the basis of this thesis.

For the purpose of this paper, 'social enterprise' is defined as an initiative of a nonprofit organization[1] established for the dual purposes of generating revenue and advancing the organization's mission. This venture can be integrated within the organization itself or set up as a separate entity. This thesis will focus on "social enterprise: after conception" (Smith, Knapp, Barr, Stevens, & Cannatelli, 2010, p. 116), which describes a situation where the social enterprise is created after the nonprofit organization has existed for some time. This differs from "social enterprise: at conception" (p. 117), where the social enterprise and the nonprofit organization are developed at the same time (Smith et al., 2010). In the case of social enterprise: after conception, the nonprofit organization that developed the social enterprise is commonly referred to as the 'parent organization', a

[1] Outside of the Canadian legal context, the term "nonprofit organization" will be used to describe all types of social service organizations.

term that appears to have originated with Skloot (1986), and continues to be used in the social enterprise literature, as well as in policy and practice (Boschee, 2001; Emerson & Twersky, 1996; Mulholland, Mendelsohn, & Shamshir, 2011).

Social Enterprise in Canada

Social enterprise is not a new phenomenon in Canada; there is a lengthy tradition of Canadian nonprofit organizations turning to the market to earn income that both subsidizes their operations and furthers their mission. For example, the YMCA, the Salvation Army and the Girl Guides have all been operating social enterprises for several decades. Gym membership sales and program fees allow the YMCA to subsidize its numerous social, educational and community programs that further its mission. Salvation Army Thrift Stores offer affordable merchandise, provide jobs and generate revenue to support the organization's many social programs and services. Finally, the sale of Girl Guide Cookies, an initiative that started in 1927 in the kitchen of a Girl Guide leader in Regina, currently represents the organization's largest source of funding (Girl Guides of Canada, 2011).

Although the Girl Guides, the Salvation Army and the YMCA were once within a small minority of nonprofit organizations that were generating a significant portion of their funding through earned revenue, this trend is shifting. As illustrated in Figure 1, in 2008, Canada's core nonprofit sector, which accounts for all nonprofit organizations except hospitals, universities and colleges, earned 45 percent of its overall revenue from the sale of goods and services. Membership fees, another source of earned income for these core nonprofit organizations, accounted for a further 17 percent (Statistics Canada, 2011).

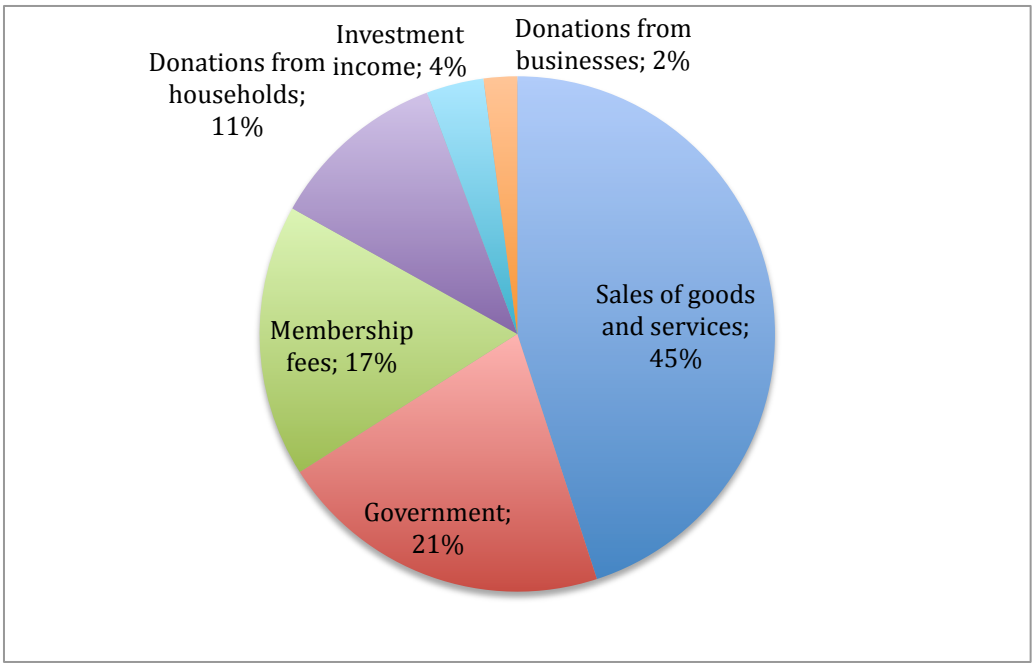

Figure 1: Revenue Generated by Core Nonprofit Organizations in 2008 (Statistics Canada, 2011)

A recent study of the social enterprise landscapes in two Western Canadian provinces identified 231 active social enterprises in British Columbia and 64 in Alberta (Elson & Hall, 2010). In both provinces, the goals of these social enterprises varied from income generation for a parent organization to employment development, training and placement support for the parent organization's clients. In 2009, the total revenue generated by these social enterprises was $113 million, of which $78 million was generated through sales and the remaining $35 million came from other funding sources such as government, individual donors and foundations (Elson & Hall, 2010). Not surprisingly, those social enterprises where the primary goal was to generate income for the parent nonprofit organization earned a greater percentage of their revenue through sales than did those social enterprises that had a social mission-related goal such as training and/or employing people with barriers to employment (Elson & Hall, 2010). This latter group of

social enterprises was more likely to have government contracts for defined services, agreements that subsidized their sales revenues (Elson & Hall, 2010).

The Problem

Starting a business is not without its challenges. With the current five-year survival rate for new businesses hovering around fifty-one percent (Industry Canada, 2012), success is far from guaranteed. Furthermore, most new businesses do not face the kinds of challenges that nonprofit organizations face when starting a social enterprise. For example, nonprofit organizations contemplating the launch of a social enterprise are more often than not contending with risk-averse Boards, limited financing options, and little promise of personal financial gain to offer as incentive to potential leaders. Moreover, some authors have cautioned that 'mission drift' could occur among nonprofit organizations whose efforts become too focused on their business ventures at the expense of their mission-related programs and services (Eikenberry & Kluver, 2004; Weisbrod, 1997). Even more significant than mission drift is the concern that, due to archaic and poorly developed charity law found in sections of Canada's Income Tax Act (1985), limited and inconsistent case law (Bridge & Corriveau, 2009; Canada Revenue Agency, 2003; Manwaring & Valentine, 2011) and confusing Canada Revenue Agency (CRA) policies (2003; 2012), organizations that do engage in social enterprise could be putting at risk the very mission they are trying to further by inadvertently contravening legal restrictions on certain types of commercial activity.

Regulatory Challenges

To explore these regulatory challenges, a distinction must first be made between 'nonprofit organizations' and 'charities' as there are distinct legal guidelines and ramifications for each. In Canada, a nonprofit organization is defined under the Income Tax Act, Section 149.1(*l*) as "a club, society or association that . . . [is] organized and operated exclusively for social welfare, civic improvement, pleasure or recreation or for any other purpose except profit" (Government of Canada, 1985, p. 2145); a registered charity is defined as a "type of nonprofit that has exclusively charitable goals [and] . . . is registered as a charity with the CRA" (Imagine Canada, 2010). In other words, a registered charity is always a nonprofit organization, but a nonprofit organization is not necessarily a charity.

Nonprofit organizations that are operating social enterprises may jeopardize their tax-exempt status if they are found to be in breach of the regulations governing certain types of revenue-generating activities. For example, although nonprofit organizations are permitted to earn revenue, "CRA has taken the position that where an organization operates in a way that demonstrates an intention to generate a surplus from its activities, it will no longer qualify as tax-exempt" (Manwaring & Valentine, 2011, p. 5). Otherwise stated, if a nonprofit organization sets out to earn a profit, it must pay tax.

Charities also have restrictions imposed by CRA on their revenue-generating activities. First, although charities are allowed to charge fees for their services, the purpose of imposing such a fee must be to defray the cost of providing a community benefit rather than to generate a profit. For example, it is acceptable for universities to charge tuition

fees; however, these fees must be set "according to a charitable objective as opposed to a market objective" (CRA, 2003).

Second, the Income Tax Act (1985) states that charities may carry on a "related business"(p. 2174), although it must be noted that what constitutes a related business is undefined. While the Act does state that a charity may operate "a business that is unrelated to the purposes of the charity or association if substantially all persons employed by the charity or association in the carrying on of that business are not remunerated for that employment" (Government of Canada, 1985, p. 2169), it is left to the CRA to interpret what is meant by a related business. Therefore, the CRA has defined a related business as a business that is either (1) "run substantially by volunteers" (where the term "substantially" refers to 90 percent of the related business' workforce) or (2) "linked to a charity's purpose and subordinate to that purpose" (Canada Revenue Agency, 2003). This ambiguity around the definition of a related business is a topic of considerable concern among charities that operate, or are considering the launch of, a social enterprise.

A third set of legal restrictions relevant to the social enterprise discussion is that imposed on employment-related training activities, classified by CRA (2012) as community economic development. Specifically, charities may offer on-the-job training through a related business to enhance the employability of individuals with barriers to employment. These training programs must include supplementary instruction, be limited to a discrete period of time, support individuals to transition into the mainstream labour force, employ 70 percent or more workers from the beneficiary group relative to the total number of employees, and be focused first and foremost on furthering the charitable purpose, as opposed to generating revenue, for the organization (Canada Revenue Agency, 2012).

TurnAround Couriers, for example, is a social enterprise that hires at-risk youth to work as bicycle couriers and office staff. They not only offer these young people employment skills and experience, they also provide, at no additional expense to these employees, an opportunity to further their education and thus increase their likelihood of employment in the mainstream job market.

The final set of legal restrictions dictates that charities may operate an unrelated business on the condition that this commercial entity is incorporated as a separate taxable enterprise that operates at arm's length from the charity (Canada Revenue Agency, 2003). According to the Income Tax Act, these separate companies can allocate up to 75 percent of their income to charitable donations (Government of Canada, 1985), a practice which provides an avenue for the social enterprise to direct funds to its parent organization (as was described in the case of Me to We directing funds to Free the Children).

Research Objective

Whether the challenge is risk-averse Boards, mission drift, or a lack of regulatory clarity, making sound decisions about whether to engage in social enterprise is a difficult task for many Canadian nonprofit organizations and charities. Funders, social investors and governments also have little to guide their decision-making about whether, how and to what extent they should support social enterprise activity. Given the current inclination to view social enterprise as a panacea, as well as the collective social and financial impact of a failed social enterprise, an imperative currently exists to better understand the factors that contribute to a nonprofit organization's ability to launch and sustain a successful social enterprise.

Therefore, the research objective of this thesis is to identify conditions that underlie the success of social enterprises launched by Canadian nonprofit organizations. In this context, success is defined as

1. The ability of the parent organization to continue to advance its mission; and
2. The achievement of the social and financial goals established by the social enterprise's key stakeholders.

Specifically, this study seeks to address the following two questions:

1. What are the patterns associated with success that emerge across social enterprise initiatives?
2. What steps can be taken to improve the nonprofit organization's likelihood of launching and sustaining a successful social enterprise?

Overview of Thesis

Chapter 1 introduces social enterprise and provides a working definition for this construct that situates it within the context of nonprofit organizations. The problem statement and the importance of the research are outlined, along with the research objective and the research questions. Chapter 2 reviews the social entrepreneurship, social enterprise and entrepreneurship literature, and offers propositions based on a priori themes discovered therein. Methodology is presented in Chapter 3 and introduces the qualitative design chosen for this study, the selection of the sample, data collection and data analysis procedures. Chapter 4 presents significant findings from the analysis of the key informants' accounts relative to a priori themes from the literature. Finally, Chapter 5

includes a discussion of the strengths and limitations of the study, implications for theory, policy and practice, and suggestions for future research.

Chapter 2: Literature Review

As discussed in Chapter 1, the term 'social entrepreneurship' is used to describe a broad range of activities, including initiatives established by nonprofit organizations for the dual purposes of generating revenue and advancing the organization's mission. Dees (1998) proposes what he calls a Social Enterprise Spectrum (p. 60) to illustrate the range of possibilities, from a more traditional philanthropic orientation through to a highly commercial approach, that exist for nonprofit organizations. This spectrum provides an important context for the literature review that follows.

THE SOCIAL ENTERPRISE SPECTRUM				
		Purely Philanthropic	**←→**	**Purely Commercial**
Motives, Methods, and Goals		Appeal to goodwill Mission driven Social value	Mixed motives Mission and market driven Social and economic value	Appeal to self-interest Market driven Economic value
Key Stakeholders	Beneficiaries	Pay nothing	Subsidized rates, or mix of full payers and those who pay nothing	Market-rate prices
	Capital	Donations and grants	Below-market capital, or mix of donations and market-rate capital	Market-rate capital
	Workforces	Volunteers	Below-market wages, or mix of volunteers and fully paid staff	Market-rate compensation
	Suppliers	Make in-kind donations	Special discounts, or mix of in-kind and full-price donations	Market-rate prices

Figure 2: Dees' (1998) Social Enterprise Spectrum

As illustrated in Figure 2, at one end of the continuum are nonprofit organizations that do not pursue sources of earned income. In such "purely philanthropic" organizations,

beneficiaries do not pay directly for the services they receive, funding is obtained through donations and grants, and volunteers comprise the majority of the workforce (Dees, 1998, p. 60).

At the other end of the continuum are nonprofit organizations that are "purely commercial" (Dees, 1998, p. 60). These organizations are described as self-sufficient; they are able to cover all of their operating expenses with income earned through their commercial ventures and, as a result, do not rely on philanthropy. The beneficiaries of purely commercial nonprofit organizations pay market-rate prices for services, staff members earn competitive salaries, and suppliers are paid at market-rates.

At the mid-point of the continuum sits a hybrid nonprofit organization in which a social mission orientation and a commercial market orientation co-exist. Dees (1998) found that these organizations:

> Use earned income to cover out-of-pocket operating expenses, but the costs they incur are lower than market rates because of their ready access to philanthropic investment capital (such as grants and below-market program-related investments made by foundations), volunteers (or below-market wages), and in-kind donations (or discounts). Such organizations are technically self-funding and may even generate excess cash to cover the costs of strapped mission-related activities, but they still depend on noncash philanthropic subsidies (p. 64).

Hybrid Model

It is this hybrid model that Dees (1998) suggests may hold the greatest potential for nonprofit organizations. Dees (1998) gives the example of a museum that runs a profitable catalogue business alongside a research and acquisition operation that is reliant on subsidies from the catalogue business. This type of cross-subsidization allows an organization to retain focus on mission-related activities that are not commercially viable

while earning revenue where opportunities exist. Ultimately, maintaining a mission focus is the most important task of the nonprofit organization, a point Dees (1998) emphasizes:

> Strategic and structural innovation should focus on improving mission-related performance. Caught up in the current wave of commercialization nonprofits risk forgetting that the most important measure of success is the achievement of mission-related objectives, not the financial wealth or stability of the organization (p. 67).

The focus of this thesis is on this middle, hybrid space, where nonprofit organizations are actively engaged in creating both social and economic value. These hybrid organizations' business models contain elements of two forms of entrepreneurship: social and commercial. Therefore, when contemplating the conditions that contribute to the success of nonprofit organizations operating social enterprises, one must consider both social and commercial entrepreneurship.

Austin, Stevenson and Wei-Skillern's (2006) comparative analysis of social and commercial entrepreneurship uses Sahlman's (1996) framework for commercial entrepreneurship as a starting point from which to derive their model for social entrepreneurship. Sahlman's (1996) model focuses on what is required to create economic value, while Austin et al.'s (2006) model focuses on how to create social value. A nonprofit organization seeking to launch a social enterprise would gain insight about what is required for success in the middle, hybrid space by thoroughly examining each of these models.

Commercial Entrepreneurship: People, Opportunity, Context, Deal

In the context of commercial entrepreneurship, Sahlman (1996) contends that the success of a new business venture depends on the strength of four interrelated attributes:

1. People: the managerial team and other active participants providing key services and resources;
2. Opportunity: the venture that the entrepreneur invests resources in, hoping to realize future returns on this investment;
3. Context: the factors in the external environment that are rapidly changing and cannot be controlled by the entrepreneur; and,
4. Deal: the agreements established with others involved in the venture, such as business partners, distributors, and investors (p. 141).

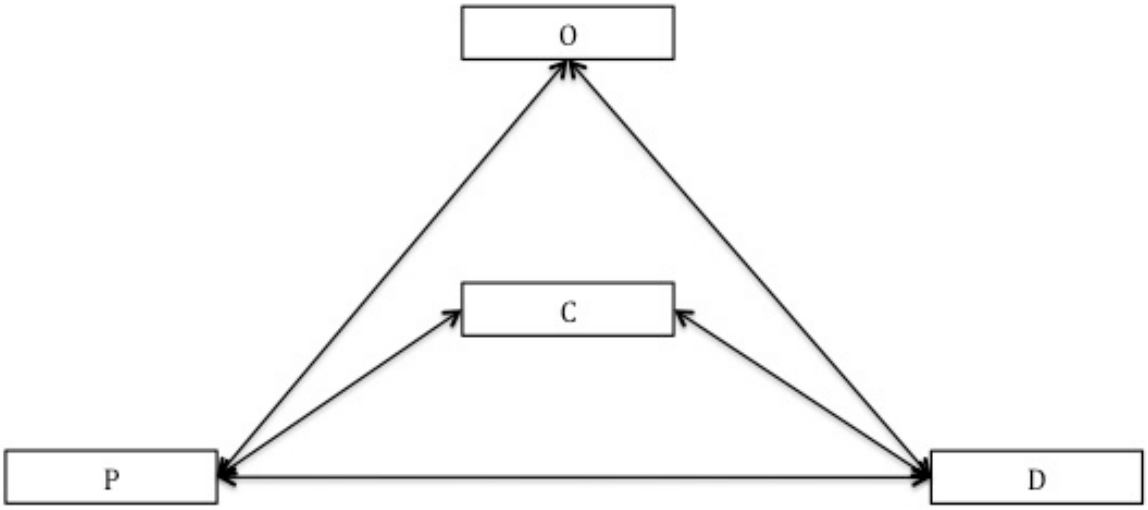

Figure 3: Sahlman's (1996) framework illustrating the relationship between people (P), opportunity (O), context (C), and deal (D).

There must be a "high degree of dynamic fit" between these four attributes (Sahlman, 1996, p. 142). For example, a management team that has "directly relevant skills and experiences for the opportunity they are pursuing" would be a good demonstration of fit between people and opportunity (Sahlman, 1996, p. 141).

Social Entrepreneurship: People, Opportunity, Context, Capital and Social Value Proposition

Referencing Sahlman's (1996) framework, Austin et al. (2006) identify a number of similarities and differences between the experience of a social entrepreneur and that of a commercial entrepreneur. Beginning with people, Austin et al. (2006) echo Sahlman's (1996) emphasis on the importance of attracting and retaining a strong management team. As Sahlman (2008) notes in a later work, "When I receive a business plan, I always read the resume section first. Not because the people part of the new venture is the most important, but because without the right team, none of the other parts really matters" (p. 8-9). However, because social entrepreneurs are unlikely to be able to afford to pay market rates or to offer other equity incentives such as stock options even at some future point in the evolution of the venture, it is more difficult for social entrepreneurs to attract and retain talent (Austin et al., 2006).

Next, social and commercial entrepreneurs must select an appropriate opportunity for their venture. Austin et al. (2006) note significant differences in the type of opportunities pursued by social entrepreneurs. Commercial entrepreneurs seek opportunities in attractive industries with large markets that hold potential for the creation of economic value; social entrepreneurs, conversely, are likely to seek opportunities to address a market failure and serve the social needs created by that gap (Austin et al., 2006, p. 9). In fact, it has been argued that market and/or government failure explains the very emergence of social entrepreneurship (Moizer & Tracey, 2010; Zahra, Gedajlovic, Neubaum, & Shulman, 2009).

Regardless of the type of opportunity pursued, all entrepreneurs should have experience in the industry in which they are launching their venture. (Ardichvili, 2003; Boschee, 1995, 2002; Dorado, 2006; Sahlman, 1996; Shepherd, Ettenson & Crouch, 2000). As stated by Shepherd et al. (2000) with respect to commercial ventures, "Opportunities are likely to be less clear and may not be fully exploited by the uninitiated or may occur too rapidly to be grasped and capitalized on by industry 'outsiders'" (p. 454).

Next, Austin et al. (2006) found that context, or factors in the external environment that are beyond the entrepreneur's control, had a considerably different impact on a social venture as opposed to a commercial venture. As described earlier relative to the opportunity, what appears to be an inhospitable environment in which to launch a commercial venture (a downturn in the economy, for example) is often the very context that calls for a social entrepreneurial solution. Other contextual factors affecting social entrepreneurs include "laws regulating the tax-exempt status or operations of nonprofits, tax policies that influence the amount of giving to the sector, and specific social policies [affecting] the needs or resources for certain types of social issues" (Austin, et al., 2006, p. 8). Even the extent to which social entrepreneurship is perceived as a legitimate organizing model is part of the influence the context has on the social entrepreneurial venture (Dart, 2004; Nicholls, 2010).

The next interrelated element of Sahlman's (1996) framework that Austin et al. (2006) consider is the deal. Austin et al. (2006) posit that there are significant differences between the two forms of entrepreneurship in terms of "kind, consumers, timing, flexibility, and measurability" of value transactions (p. 14). Social entrepreneurs must use nonpecuniary rewards to offset limited financial rewards to recruit, retain and motivate

diverse stakeholders (Austin et al., 2006, p. 14). Moreover, unlike the consumers of the commercial entrepreneur's products and services, the consumer of the social entrepreneur's goods is rarely in a position to pay (Austin et al., 2006, p. 14). In addition, commercial entrepreneurs are able to "use the capital toward those activities that they decide will add the most value to the venture", which creates greater flexibility than exists for social entrepreneurs who spend much time "cobbling together" restrictive, short-term, small grants with high reporting requirements (Austin et al., 2006, p. 14). Finally, commercial entrepreneurs have a clear metric in the form of financial return against which they measure their success. For social entrepreneurs, whose success is judged relative to social impact, measurement is much more complex and there is no single indicator that can quantify this type of impact (Austin et al., 2006).

Austin et al.'s (2006) comparative analysis demonstrates that although the essential elements (people, opportunity, context, deal) of these two forms of entrepreneurship are similar, the substance of these elements can differ in significant ways. Some of the differences noted above include the incentives available to motivate team members and other key stakeholders, the type of opportunity pursued, the effect of the macroeconomic situation on the venture, and the way the performance of the venture is measured.

The most important distinction between these two forms of entrepreneurship relates to the value proposition. The social entrepreneur's focus is the *social* value proposition (SVP), because "the central driver for social entrepreneurship is the social problem being addressed" (Austin et al., 2006, p. 2). Indeed, regardless of how one defines social entrepreneurship, there appears to be consensus that the primary focus of a social entrepreneurial venture is the social mission (Alvord, Brown, & Letts, 2004; Austin,

Stevenson, Wei-Skillern, 2006; Boschee, 1995; Leadbeater, 1997; Mair and Martí, 2006; Peredo & McLean, 2006; Weerawardena & Mort, 2006). This centrality of the SVP is illustrated in Austin et al.'s (2006) Social Entrepreneurship Framework. The other interrelated elements of the framework are people, opportunity, context and capital.

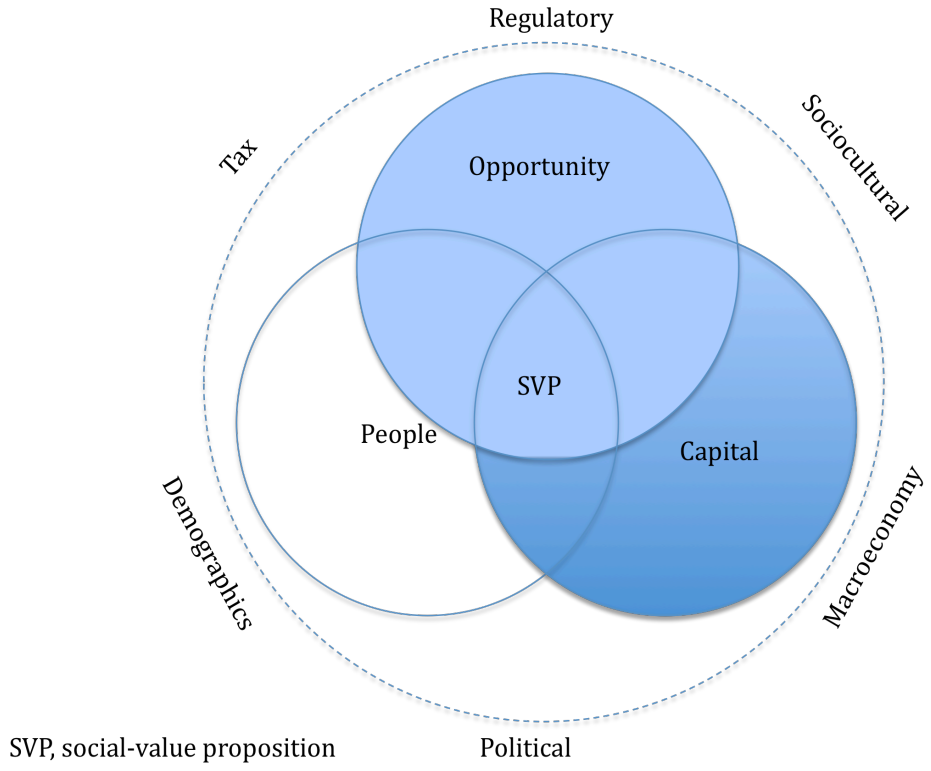

Figure 4: Austin et al.'s (2006) Social Entrepreneurship Framework

Austin et al.'s (2006) framework offers valuable insight into what distinguishes social entrepreneurship from commercial entrepreneurship. In essence, what is being described is the difference between nonprofit organizations (operated by social entrepreneurs) and business ventures (operated by commercial entrepreneurs). Social enterprise, which combines both social entrepreneurship and commercial entrepreneurship, can draw on the learning from each of these fields. However, as Weerawardena and Mort (2006) point out, "conceptualizations that have originated in for-

profit firms, while providing valuable insights into entrepreneurial behavior, do not capture the unique operational characteristics of [not-for-profits], in particular, how NFPs maintain operational efficiency whilst achieving their social mission" (p. 22). Therefore, to better understand this unique hybrid model, an in-depth consideration of the social enterprise literature specifically is required.

Social Enterprise: An Emerging Field of Study

Much of the early literature on the topic of nonprofit organizations launching social enterprises has come from consultants and practitioners such as Edward Skloot (1983), Peter Brinckerhoff (1994), Jerr Boschee (1995) and Jed Emerson (1996). In the early 1980s, Skloot raised the "heretical idea" of nonprofits going into business (1983, p. 20). Skloot (1983) stressed the need for the right product (opportunity) and managerial talent (people). He advised organizations to keep any social objectives out of the business venture and focus solely on the generation of revenue, so as not to "run the risk of compromising the venture and threatening the enterprise" (Skloot, 1983, p.24). Although for many nonprofit organizations the social enterprise is the vehicle for concurrently furthering the mission and earning revenue for the organization, Skloot (1983) raised an important point about the challenges that exist when attempting to merge mission and profit.

Similar to Skloot, Brinckerhoff (1994) also felt that profit need not be a "dirty word" among nonprofit organizations (p.18). He developed how-to guides and checklists aimed at helping nonprofits "create an innovative, self-sufficient organization" (Brinckerhoff, 2001, p. 12).

Based on his experience as a consultant working with nonprofit organizations starting commercial ventures, Jerr Boschee (1995) discussed two categories of ventures: affirmative businesses that create employment for people who are disadvantaged, and direct-service businesses where beneficiaries pay for the services they receive. Boschee (2008), like these other social enterprise thought leaders, drew attention to the "fundamental distrust of the profit motive" that exists among many nonprofit organizations (p.1). "Nonprofit board members, executives, and grant makers give it lip service when they talk about sustainability, self-sufficiency, and social goals, but their comfort level dissipates in direct proportion to how profitable the venture becomes" (Boschee, 2008, p.1). Boschee (1995) also suggested that nonprofit organizations were more likely to experience success if their business ventures emerged "directly from their core competencies and basic strengths—from their missions, the programs they have already perfected, and the assets they have developed in the process" (p. 16).

Finally, Emerson, who had been a practitioner in the nonprofit sector prior to his work with the Homeless Economic Development Fund of The Roberts Foundation, or HEDF, (now known as Roberts Enterprise Development Fund, or REDF), was able to demonstrate that social objectives did not necessarily need to be kept separate from the business venture. He co-authored a report with Faye Twersky (1996) sharing lessons learned through HEDF's experience working with what Boschee (1995) would have categorized as affirmative businesses: social enterprises that employed "homeless and very low-income people" (Emerson & Twersky, 1996, p. 404).

The work of these social enterprise thought leaders has contributed tremendously to a field that, prior to the early-1980s, had been overlooked. The practical tools and

resources that these individuals have developed, drawing on their own experiences as practitioners, funders and consultants, continues to offer relevant guidance that can be easily implemented by nonprofit organizations that are operating social enterprises.

Social Enterprise Frameworks

Attempting to bridge the gap between theory and practice are the social enterprise models proposed by Weerawardena and Mort (2006) and Moizer and Tracey (2010). Weerawardena and Mort's (2006) model offers a comprehensive definition of social enterprise in the nonprofit context, while Moizer and Tracey's (2010) provides strategies to contend with the tension inherent in social enterprise in the nonprofit sector.

Bounded Multidimensional Model

Weerawardena and Mort's (2006) study addresses the fragmentation that exists in the academic literature about social entrepreneurship in the nonprofit domain. These authors define social entrepreneurship as "a behavioral phenomenon expressed in a NFP [not-for-profit] organization context aimed at delivering social value through the exploitation of perceived opportunities" (Weerawardena & Mort, 2006, p. 25). Weerawardena and Mort (2006) propose a bounded multidimensional model that identifies social entrepreneurship "as an overall abstraction of innovativeness, proactiveness, and risk management within the constraints of environment, sustainability and social mission", where the outcome is superior social value (p. 33).

The authors express this relationship as:

$$SVC = f(I,P,RM) \text{ subject to } S, SM, E \quad (1)$$

where SVC: social value creation; I: innovativeness; P: proactiveness; RM: risk management; S: sustainability; SM: social mission; E: environment (Weerawardena & Mort, 2006, p. 32).

The constraints of sustainability and social mission are referred to as static constraints, while the environment is seen as a dynamic constraint that is continually changing (Weerawardena & Mort, 2006, p. 32). This continually changing environment described by Weerawardena and Mort (2006) is the equivalent of Austin et al.'s (2006) and Sahlman's (1996) context. Environmental factors affecting social enterprises, as described by Weerawardena and Mort (2006), include government policy, competition, changing client needs and complex business models.

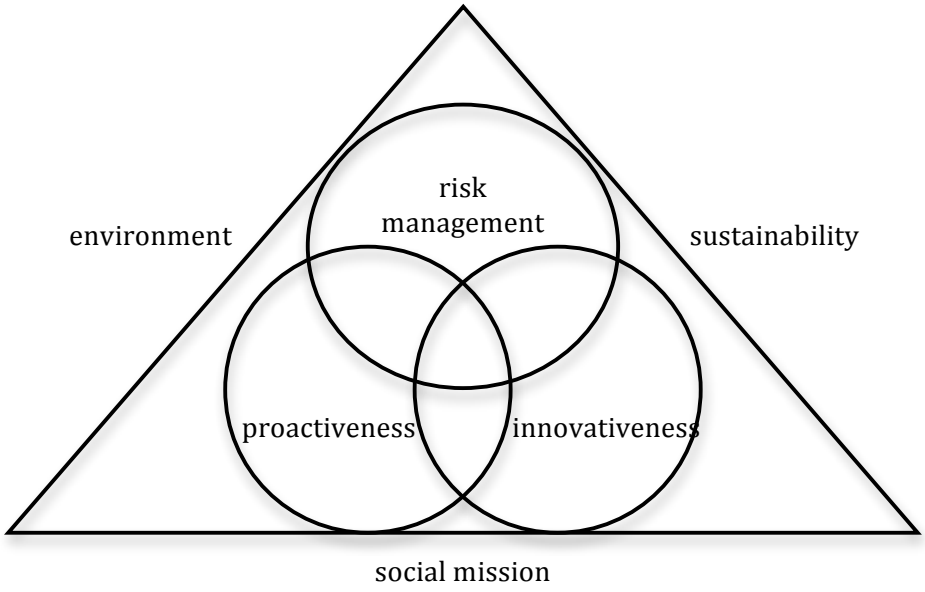

Figure 5: Weerawardena & Mort's (2006) Bounded Multidimensional Model of Social Entrepreneurship

Complexity

The complexity of the social enterprise business model arises not only from the challenge of operating with a double bottom line, as Dees (1998) and Boschee (2008) have pointed out, but also from the challenge of concurrently operating in two very different environmental contexts. The nonprofit organization that launches a social enterprise must continue to contend with the nonprofit context, as well as market forces in the industry in which they have chosen to launch their social enterprise. Moreover, the nonprofit organization must now be vigilant to the regulatory constraints that affect nonprofits operating businesses or risk losing the nonprofit organization's tax exempt and/or charitable status. Ultimately, the nonprofit organization that operates a social enterprise must be responsive to a much wider range of external factors than would a strictly social or commercial entrepreneur (Dart, 2004; Dees, 2007; Dees & Anderson, 2003; Weerawardena & Mort, 2006).

What the current literature does not address is how this complexity impacts profitability, which leads to the first proposition:

> **Proposition 1:** As the complexity that arises as a result of operating in both a commercial context and a nonprofit context increases, the ability of a nonprofit organization to operate a profitable social enterprise decreases.

Sustainability and Social Mission: The Opportunity

While Sahlman's (1996) and Austin et al.'s (2006) models discuss the environment as a factor that will either support or hinder a venture's success, the unique contribution of Weerawardena and Mort's (2006) model is its emphasis on the sustainability of the nonprofit organization as a constraint to any social entrepreneurial venture; if the nonprofit organization does not survive, the social mission cannot be achieved. "Financial

viability is a prerequisite for any project undertaken and social entrepreneurs have appropriate procedures within the organization to systematically assess the financial viability of every proposal [that] comes up within the organization" (Weerawardena & Mort, 2006, p. 30). Therefore, when seeking an opportunity for a social enterprise, nonprofit organizations must give due consideration to the financial viability of the opportunity and its potential impact on the sustainability of the parent organization.

Assessing the potential of a social enterprise opportunity requires a commitment on the part of the nonprofit organization to invest in planning, especially in the area of market research (Emerson & Twersky, 1996; Sharir & Lerner, 2006; Weerawardeena & Mort, 2006; Zietlow, 2001). Nonprofit organizations may choose to access technical advice to support their social enterprise planning, as business practices such as feasibility studies and business plans may not be part of their acumen (Sharir and Lerner, 2006; Thompson, 2002; Thompson, Alvy, & Lees, 2000). However, if a nonprofit organization is to pursue a particular market opportunity, the requisite "business competencies and expertise" must exist within the organization (Weerawardena & Mort, 2006, p. 31). As Dees (1998) states, "without internal staff expertise . . . the advice of board members, consultants, and partners may not be worth much" (p. 66).

Although not discussed as part of Weerawardena and Mort's (2006) model, it is important to note that when considering the social enterprise opportunity, nonprofit organizations must assess whether their offering will stand on its own merits in the marketplace. Despite the fact that nonprofit organizations often effectively raise funds based on the emotional appeal of their cause, connection to a worthy cause is not sufficient motivation for most consumers to purchase the product or service (Emerson & Twersky,

1996; Sharir & Lerner, 2006; Skloot, 2000). This can be difficult for the nonprofit organization's staff and board members to reconcile given their personal commitment to the cause (Skloot, 2000).

Finally, as Foster and Bradach (2005) observed, "sometimes, the pursuit of profit directly conflicts with the pursuit of social good" (p. 99). These authors cite numerous examples of organizations that have had to settle for decreased social or environmental impact in order to achieve revenue targets. Foster and Bradach (2005) suggest that this "may be a trade-off worth making, but it highlights the complex interplay, and the managerial challenge, of balancing mission and income" (p. 99). Related to this tension between the social and financial goals is the issue of subsidization of the social enterprise by the parent organization. Because of the additional costs (which are difficult to quantify) that may be associated with achieving social objectives, such as employing people with barriers to employment, many authors have suggested that subsidization of the social enterprise is acceptable (Dees, 1998; Emerson & Twersky, 1996; Foster & Bradach, 2005). However, there is little to guide a nonprofit organization in determining when subsidization is appropriate and by how much.

Ultimately, because the pursuit of profit and social good are sometimes at odds, leaders of nonprofit organizations need to gain clarity about the objectives of the social enterprise so that they are equipped to make sound decisions about potential opportunities and trade-offs. Therefore, the second proposition is:

> **Proposition 2:** The greater clarity an organization has about the purpose of the social enterprise, the greater their ability to make sound decisions when considering potential opportunities and when weighing trade-offs.

Innovativeness, Proactiveness and Risk Management

To overcome challenges presented by the constraints of the changing environment and the need for nonprofit organizations to remain viable so as to achieve their social mission, Weerawardena and Mort (2006) contend that nonprofit organizations must display innovativeness, proactiveness and risk management. Innovativeness in this model is about innovation in every area of the organization, from service delivery to fundraising. Proactiveness refers to using tools such as strategic planning, forecasting and predictive modeling to survive and grow. Finally, risk management relates to the mandate of the nonprofit organization to ensure its own sustainability.

Leadership

Finding the right leader who has the skills and experience required to operate an organization with both social and financial goals can be challenging. Weerawardena and Mort (2006) suggest, "The types of people joining such organizations are a 'different breed of people'" (p. 31); they are individuals who have "business skills and a pragmatic social purpose with a special passion for their work" (Weerawardena & Mort, 2006, p. 33). This claim that there are few individuals with this particular combination of skills and experience is strongly supported in the literature.

Authors point to the need for leaders who are totally dedicated to the venture's success (Christie & Honig, 2006; Sharir & Lerner, 2006), who are motivated by incentives other than personal financial gain (Austin, Stevenson, & Wei-Skillern, 2006), who possess a combination of entrepreneurial passion and passion for the social issue they are working fervently to address (Emerson & Twersky, 1996; Miller & Wesley, 2010; Thompson, Alvy, & Lees, 2000), and who are able to effectively bridge and build trust among diverse

stakeholders groups (Alvord, Brown, & Letts, 2004; Austin, Stevenson, & Wei-Skillern, 2006; Catford, 1998; Emerson & Twersky, 1996).

In effect, it seems unlikely that an organization would find all of these skills and attributes in a single person. This leads to the third proposition:

> **Proposition 3:** Given the unique combination of skills and experience required to operate simultaneously in a nonprofit and a commercial context, leadership in a social enterprise is likely to be shared.
>
> **a.** Where shared leadership does not occur, the result is likely to be either an exception or a failure.
> **b.** The support team, whether in the form of a management team, a board or an advisory team with complementary skills and experience, therefore becomes critical.

Causal Feedback Loop

The second social enterprise model is Moizer and Tracey's (2010) causal-feedback loop. The focus of Moizer and Tracey's (2010) model is the tension that exists between commercial activity and social action. Moizer and Tracey (2010) define social enterprises as "non-profit ventures designed to achieve both social and commercial objectives" (p. 252). As others have done, these authors refer to the complexity of a business model that concurrently emphasizes social and economic outcomes (Dees, 1998; Boschee, 2008; Rubin & Stankiewicz, 2001; Weerawardena & Mort, 2006). Failing to strike an appropriate balance between these two objectives poses a threat to organizational sustainability.

According to Moizer and Tracey (2010), organizational sustainability for a nonprofit operating a social enterprise depends on two critical elements: (1) revenue generation, and (2) organizational legitimacy. The organization must be able to generate revenue through commercial activity while at the same time gaining and maintaining legitimacy among diverse stakeholders, some of whom are primarily interested in the creation of economic

value and others who are more concerned with the creation of social value (Moizer & Tracey, 2010). Therefore, Moizer and Tracey's (2010) key question is "what proportion of effort (time and resources) should the enterprise spend on fulfilling its social purpose, and to what extent should it concentrate on building and maintaining a robust and commercially viable business model?" (Moizer & Tracey, 2010, p. 256). To highlight the consequences of different resource allocation strategies, Moizer and Tracey (2010) propose the following causal loop diagram.

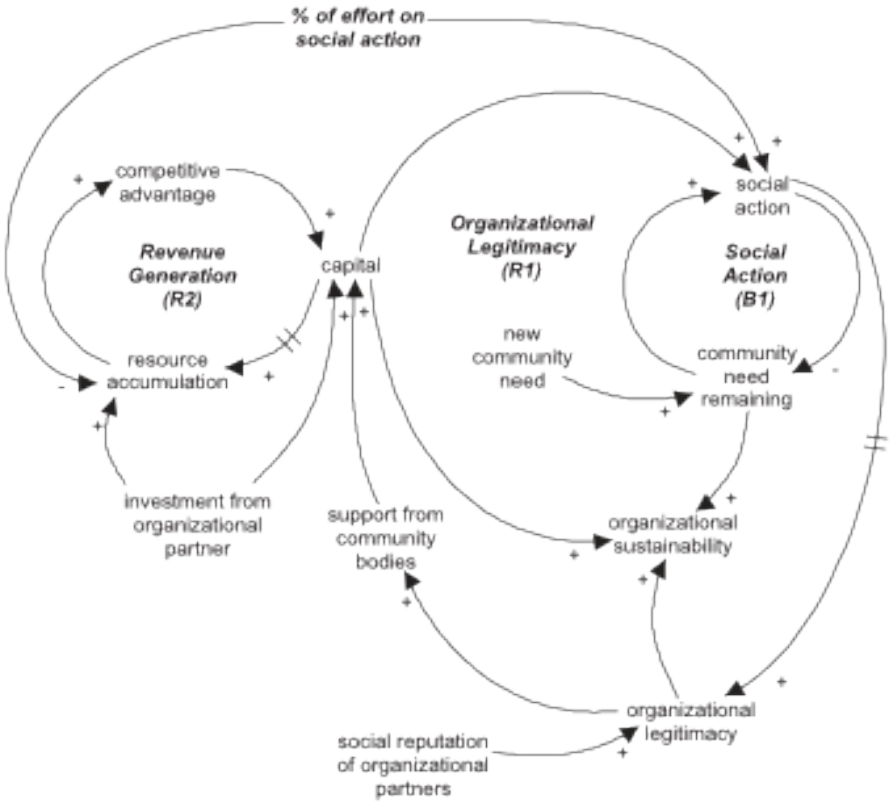

Figure 6: Moizer & Tracey's (2010) Causal-Feedback Loop Representing the Tensions Between Business Activity and Social Action

The first feedback loop within this diagram, Social Action (B1), demonstrates the interaction between the social action that the social enterprise undertakes relative to

community need. The second loop, Organizational Legitimacy (R1), describes the virtuous circle of increased social action, which leads to increased legitimacy for the social enterprise, which leads to increased support from the community, which leads to increased capital, which can then be invested into more social action.[2] The social reputation of organizational partners, the driver that feeds into the R1 loop, illustrates the effect the external partner's reputation has on the social enterprise's organizational legitimacy. The final loop, Revenue Generation (R2), demonstrates the relationships that exist between competitive advantage, resource accumulation and capital.

What is important to highlight in this diagram is that the "most significant pressure point in this system [is] the proportion of effort that can be directed to social action" (Moizer & Tracey, 2010, p. 259). In other words, if the nonprofit organization expends a large proportion of its effort on social action it will deplete the resources it has available to spend on the commercial venture, which will decrease its competitive advantage and thereby decrease revenues and the capital available to invest. In the end, this leads to a decrease in social action. However, if the nonprofit expends a large proportion of its effort on revenue generation, it will decrease its ability to meet community needs, which will ultimately lead to a decrease in organizational legitimacy (mission drift). Organizational sustainability, then, is "a function of three causal influences: the accumulation of capital, a recognizable community need and perceived organizational legitimacy. If any of [these] causal factors deplete to zero, then the enterprise becomes unsustainable" (Moizer & Tracey, 2010, p. 258). This represents a difficult balance to achieve.

[2] Following the loop in the opposite direction illustrates the vicious circle scenario.

Three Social Enterprise Strategies

Moizer and Tracey (2010) propose three strategies to manage the tension that exists between the social and commercial objectives, and discuss the advantages and pitfalls of each strategy. These three strategic options include:

1. Separating the social and commercial missions into a charity and a commercial operation, where the business transfers a portion of any surpluses earned to the charity;
2. Integrating the social and commercial missions within the same organization; or,
3. Partnering with a for-profit business.

The first strategy yields the least amount of tension, as the social and commercial activities are contained within two separate organizations. As described in Chapter 1, Me to We is an example of a separate commercial venture that directs surpluses to its charitable partner, Feed the Children.

In the second strategy, which integrates the social and the commercial within the same organization, "legitimacy and capital are key variables, and need equal attention if this strategy is to be successful" (Moizer & Tracey, 2010, p. 262). As Skloot cautioned in his early writings (1983), this strategy is difficult to execute successfully without significant trade-offs. Moizer and Tracey (2010) also acknowledge the challenges inherent in this option, maintaining that "the integration of the social and commercial dimensions of the enterprise can lead to deep-rooted tensions, which can threaten organizational survival" (Moizer & Tracey, 2010, p. 262).

The third strategic option involves forming partnerships with for-profit businesses. Although this final strategy is beyond the scope of this thesis, it is important to note that in this scenario, the reputation of the partner corporation takes on critical significance as a driver influencing organizational legitimacy. "This may result in the destiny of the [social enterprise] becoming closely aligned with the actions and reputation of the corporation, and less influenced by their own actions" (Moizer & Tracey, 2010, p. 262).

Moizer and Tracey's (2010) model as outlined above highlights the impact of resource allocation decisions on the organization's perceived legitimacy and its subsequent ability to access philanthropic support from these same community stakeholders. Perceived legitimacy, as Dart (2004) and Nicholls (2010) have also pointed out, is an essential consideration for nonprofits that are generating revenue, whether through social enterprise or more traditional means (Moizer & Tracey, 2010).

Culture

In describing their second strategy, Moizer and Tracey (2010) draw attention to the potentially divisive issue of organizational culture. Many authors have discussed the cultural differences between nonprofit organizations and traditional businesses (Boschee, 2001, 2008; Dart, 2004; Dees, 1998, 2007; Eikenberry & Kluver, 2004; Emerson & Twersky, 1996; Mort, et al., 2002; Pitta & Kucher, 2009; Weerawardena and Mort, 2006). These differences include community participation versus industry competition, mission-related bottom line versus profit-focused bottom line, grants orientation versus market orientation, failure as final versus failure as essential learning, philanthropic principles versus commercial values, and differing levels of tolerance for risk. Dees (1998) discussed

the challenges that exist when bringing someone from a business background into a nonprofit organization:

> Hiring people with business skills and market focus is not enough. An organization must be receptive to and supportive of new activities; it also must be able to integrate the skills and values of the new staff. Many MBAs who go to work in nonprofit organizations find themselves ostracized by their colleagues (Dees, 1998, p. 58).

To further aggravate the already challenging cultural environment brought about when bringing people with business skills into a nonprofit context, there are also issues related to compensation. "New hires from the business world may require higher compensation than internal staff members with comparable levels of education and years of experience. Pay equity has to be dealt with explicitly, or it will fester" (Dees, 1998, p. 66).

These differences in culture are noteworthy because failing to balance them may be the biggest threat to a social enterprise's survival (Rubin & Stankiewicz, 2001). Some nonprofit organizations are better prepared than others to effectively deal with the tension that can arise when social and commercial values collide. Therefore, the final proposition posits:

> **Proposition 4:** Nonprofit organizations that have an existing culture of entrepreneurship and innovation are more likely to experience social enterprise success.

Chapter 3: Methodology

Social enterprise is an emerging field of study and, consequently, there is a limited body of research available to draw upon. To date, there are few studies exploring social enterprise as a means to advance the mission and generate income for nonprofit organizations. While increasing numbers of nonprofit organizations are launching social enterprises in response to pressure from funders and/or their own pursuit of greater independence and flexibility, there has not yet been a study of the success factors associated with this endeavour. Therefore, a qualitative research design was chosen to explore this phenomenon of social enterprise in nonprofit organizations that has been observed and reported on for the most part by consultants and practitioners.

Moreover, much of the extant literature is based on the perspective of the nonprofit organization's leadership team, i.e. executive director and Board members of the nonprofit organization, with few studies providing the perspective of social enterprise funders. Therefore, this study drew upon a tripartite sample of executive directors, leaders of social enterprises, and funders, each of whom view social enterprise through a particular lens; these viewpoints were explored in depth in this study.

Ultimately, the goal of this exploratory study was to identify key issues associated with social enterprise in nonprofit organizations so as to develop a coherent picture of why some ventures are successful while others struggle or fail, and also to determine whether there are opportunities to increase a nonprofit organization's likelihood of experiencing social enterprise success.

Key Informants

Given the exploratory nature of this research, participants are referred to as key informants. Key informants for this study were selected through theoretical sampling, which is "concerned with the refinement of an idea, rather than boosting sample size" (Bryman & Teevan, 2005, p. 232), and "proceeds not in terms of drawing samples of specific groups of individuals, units of time, and so on, but in terms of concepts, their properties, dimensions, and variations" (Strauss & Corbin, 1990, p. 8). Consequently, the selection of key informants was an ongoing process that occurred throughout the study and was informed by the emerging theory, which was being refined as data was collected.

Because little research exists on the topic of social enterprise in nonprofit organizations, this study employed maximum variation sampling, an approach that is built on the premise that "any common patterns that emerge from great variation are of particular interest and value in capturing the core experiences and central, shared aspects or impacts of a program" (Patton, 1990, p. 172). In the case of this study, there were three groups of key informants representing distinct perspectives.

First, executive directors of nonprofit organizations that operate one or several social enterprises are accountable for the ongoing viability of the parent organization that birthed the social enterprise(s) and, in many cases, the effective operation of the social enterprise. Next, managers of social enterprises are responsible, at a minimum, for the day-to-day operations of the social enterprise(s) and the relationship of the venture(s) to the parent organization. Finally, funders offer financial and, in some cases, technical support to multiple social enterprises.

By including these three diverse perspectives, this study sought to provide a more comprehensive understanding of the issues related to social enterprise in nonprofit organizations than could be obtained by considering any one of these perspectives on its own. Further, by cross verifying information gleaned from each one of these groups it was possible to identify areas of agreement and divergence. This triangulation of the information shared by each of these sources served to increase confidence in the validity of the results and also to challenge pre-existing assumptions and biases on the part of the researcher.

Thus far, the social enterprise and social entrepreneurship literature has been limited by a focus on success stories. This gap may be partly due to the fact that it is more difficult to find examples of failures because they have simply ceased to exist. Moreover, it is natural that individuals and organizations would be more forthcoming with their successes than with their failures. However, as Alvord et al. (2004) pointed out, "focusing on successes rather than on a mixed group of successes and failures limits [the] capacity for comparison"(p. 264). Therefore, this study deliberately identified not only successful social enterprises, but also those that failed or were underperforming based on the social and financial goals of their stakeholders. Funders play a particularly important role in this regard, as they are presumably able to offer objective accounts of their experiences with social enterprise successes *and* failures.

A list of potential key informants was initially compiled for this study through conversations with Enterprising Non-Profits British Columbia, a nonprofit organization that has been providing funding and technical assistance to support the development of social enterprises since 1997 and has connections to social enterprises across Canada. A

further source of participants was the Canadian Social Enterprise Marketplace, curated by the Social Enterprise Council of Canada. The initial list included nonprofit executive directors, social enterprise managers from large and small urban centres in Western Canada and funders from across the country. The social enterprises themselves represented a number of different industries such as food services, retail, construction, and business support.

A preliminary round of recruitment invitations were sent by email. The objective was to focus first on funders in order to take advantage of this group's global perspective and then to move on to executive directors and social enterprise managers to further explore emerging themes. The interview request was made of the individual who was best positioned to tell the story of the organization's experience with social enterprise(s), whether this was a current or past executive director of the parent nonprofit organization or a current or past manager of the social enterprise.

Because research has demonstrated that "if a researcher gives people a choice about participating in a survey study, certain types would decline" (Berg, 2009, p. 79) and because this study sought voluntary consent, there was some question as to whether individuals would willingly share their experiences of social enterprise failure. However, all of the people who were asked to participate in the study consented to do so.

Data Collection

Key informants participated in exploratory interviews following the approach defined by McCracken (1988). Interviews were conducted either in person or over the telephone between June 2012 and September 2012. Two interview guides (one for funders

and one for executive directors and social enterprise managers) were developed based on a priori themes from the literature. (Please see Appendix A for the complete interview guides.) While these guides provided direction and scope for the interview, participants nonetheless had the opportunity to offer "exploratory, unstructured responses" (McCracken, 1988, p. 25) and "to tell their own story in their own terms" (p. 34). As new concepts began to emerge through the interviews, these early findings were incorporated into subsequent interviews in order to explore and test them more fully. This iterative approach to interviewing provided an opportunity to develop a deeper understanding of extant themes, as well as to explore emergent themes further in each subsequent interview. Interviews continued until themes were exhausted.

The interviews, which lasted between one and two hours, were taped and subsequently transcribed verbatim by a third party, resulting in 332 double-spaced pages of transcripts. To enhance validity, this study utilized member checking, which offered key informants the option to modify their transcribed comments to ensure that their transcripts accurately reflected their views on the concepts being discussed. Member checking not only served to increase validity and to confirm themes, but also served to reduce the effect of researcher bias.

Data Analysis

Data analysis was conducted according to a constant comparative method wherein analysis was begun on a small part of the complete data set and, as provisional hypotheses emerged, these were tested out by expanding the data set (Silverman & Marvasti, 2008, p. 263). Beginning with a preliminary coding scheme based on a priori themes, initial

transcripts were reviewed to identify and label concepts that could then be further explored in subsequent interviews. Through this process of coding, it was possible to compare and conceptualize events, actions and interactions within social enterprises to reveal similarities and differences (Corbin & Strauss, 1990). Where two or more concepts appeared to describe the same phenomenon, these were combined to form categories. Through this ongoing analysis of the data, emergent categories were identified and tested, and the coding framework revised. The categories that appeared most frequently in the data were assumed to have "explanatory power" (Strauss, 1987, p. 35) and theoretical sampling continued until these categories eventually became saturated and "new data [were] no longer illuminating (Bryman & Teevan, 2005, p. 284). From that point forward, the categories were examined to identify overarching patterns and themes.

Ethics

This study adhered to the ethical guidelines established by the University of Calgary. Ethical considerations in this study relate primarily to issues of consent and the confidentiality of data. Informed consent "implies that prospective participants should be given as much information as needed to make an informed decision about whether to participate in a study" (Bryman & Teevan, 2005, p. 383). In this study, the recruitment letter that was sent to all prospective key informants also served as the informed consent letter. This letter described the purpose and objectives of the study and also informed individuals of their right to withdraw from the study at any time. So that individuals did not feel pressured to take part in the study, the letter stated that their decision to participate or not would be kept private from the person who initially referred them. Those who did

agree to participate provided their verbal consent to participate at the outset of the interview.

Confidentiality was a further ethical consideration. Because social enterprise is still a relatively limited phenomenon in Canada, there are a limited number of easily recognizable, long-standing social enterprises that have attained archetypal status. This relatively small pool of social enterprises posed a risk that the unsuccessful social enterprises could also be easily identified within these pages. Therefore, steps were taken to ensure confidentiality, such as restricting access of the data strictly to the researcher, the researcher's supervisor and the transcriptionist (who signed a confidentiality agreement), protecting electronic data with passwords, and locking paper files in a secure cabinet. To further protect confidentiality and prevent identification of key informants, data is reported in aggregate and organizations and individuals are referred to using pseudonyms.

Chapter 4 - Results

Semi-structured key informant interviews were conducted with five executive directors of nonprofit organizations that were either operating or had previously operated one or more social enterprises, seven leaders (president/director/manager) of social enterprises (both groups depicted in Table 1), and four funders of multiple social enterprises (depicted in Table 2). Because all of the key informants spoke on the basis of confidentiality, they and the organizations they work for are referred to using pseudonyms.

As mentioned in Chapter 3, each individual who was asked for an interview agreed to it. Whether the interview was conducted in-person or over the telephone, every key informant was remarkably candid and eager to share his or her stories of social enterprise success and failure. Key informants, who varied in age from their thirties to their sixties, spoke of the rewards and the challenges of social enterprise, and were also very forthcoming with insights and learning that they believed would be useful to other nonprofit organizations considering social enterprise.

At the time of interview, the nonprofit organizations in this study had been in operation anywhere from just over 10 years to almost 50 years, and had operating budgets ranging from less than $1 million to more than $10 million. (There was no apparent correlation between the age of the nonprofit or its operating budget and social enterprise success.) The table that follows illustrates the professional background of the key informant(s) according to sector, the social enterprise industry and the primary goal of the social enterprise.

Table 1: Characteristics of Key Informants and Social Enterprises (SE)

Nonprofit	**Key Informant**	**Role**	**Background (By Sector)**	**SE Industry**	**Primary Goal of SE**
Willow	Stella Nelson	CEO of Nonprofit and SE	Nonprofit	Real Estate	Revenue Generating
				Retail	Employment
				Trades	Training and Employment
Alder	Frank Mandela	General Manager of SE	Private and Academic	Trades	Training and Employment
Quince	Joseph Swartz	CEO of Nonprofit	Nonprofit	Restaurant and Food Services	Training and Employment
				Accounting	Mission - Services to other nonprofits
Juniper	Gabriela Vasquez	President of SE	Nonprofit and Private	Consulting	Mission - Environmental
Magnolia	Ida Lee	President/ CEO of Nonprofit	Nonprofit	Retail	Revenue Generating
Poplar	Noreen Dallaire	Executive Director of Nonprofit (following closure of SE)	Private	Restaurant and Food Services	Training and Employment (Discontinued)
Larch	Dorothy Smith	Manager of SE	Private	Retail	Revenue Generating
				Restaurant and Food Services	Revenue Generating (Discontinued)
Tamarack	Sally Gupta	Director of SE	Private	Grocery	Revenue Generating
				Restaurant and Food	Revenue Generating

Nonprofit	Key Informant	Role	Background (By Sector)	SE Industry	Primary Goal of SE
				Services	
Oak	Susan Bornstein	Executive Director of Nonprofit	Nonprofit	Restaurant and Food Services	Training and Employment
Tupelo	Georgia Townsend	Director of SE	Private	Recreation	Mission - Community integration
				Travel	Employment
				Recycling	Employment
Laurel	Henry Johnson and Arthur Jones	Managers of SE	Private and Nonprofit (For Each)	Trades	Not clearly identified (Discontinued)

Social enterprise funders offer financial support in the form of grants or low-interest loans to social enterprises at various stages of operation. Two of the four funders interviewed provide support exclusively to social enterprises that train or employ people with barriers to employment, while the remaining two fund other types of social enterprise including those initiated for the sole purpose of generating revenue for a parent nonprofit organization. Each of these key informants is the most senior person responsible for social enterprise funding within their respective organizations. Table 2 depicts the funding organization, the key informant and the organization's social enterprise funding priorities.

Table 2: Social Enterprise (SE) Funders

Funding Organization	**Key Informant**	**Type of SE Funded**
Begonia	Seth Avett	Training and Employment
Marigold	Dave Grohl	Any
Dandelion	Amy Millan	Training and Employment
Geranium	Melissa McClelland	Any

Theme 1: Complexity

The findings of this research study support the proposition that as complexity increases, the profitability of the social enterprise decreases. Ultimately, social enterprises must compete with every other business in their industry while also ensuring that they achieve their social mandate. In addition, they must expertly navigate a nonprofit landscape that constrains their ability to generate revenue, yet encourages these same nonprofit organizations to be self-sufficient.

The Business Environment

When it comes to building a social enterprise, nonprofit organizations "are undertaking the development of a business just as you would if you were to start a small business. [Social enterprise] comes with all the same challenges and risks and a massive amount of work and investment" (Sally Gupta, Tamarack). However, unlike a typical small business, a nonprofit operating a social enterprise is seeking not only to create economic value, but to amplify its social value as well.

The complexity that this dual mandate creates is particularly evident in social enterprises that provide training and/or employment to a target population. These social

enterprises generally provide added-value services to their employees often including such services as more comprehensive, relevant training, access to a social worker to help the employee contend with personal issues, and second and third chances for offences that would likely merit dismissal in other workplaces. Frank Mandela runs a construction social enterprise that trains and employs people living in poverty. He states:

> Our job is to take a working business model and screw it up; find a working business model and then introduce a social cost related to it . . . In the simplest sense, [maintaining a defined percentage of employees from the target population] chews up profitability . . . It costs me 20 percent more to do anything than it [costs]my competition. I'll get a group of employees here that begin to do well, and my job is to screw it up by hiring more people who can't do the work. Even now, where we've got a group that is doing quite well, we've more than doubled our workforce, almost tripled our workforce in the past couple of years. Even though we're kind of doing well with this crowd, they are still less efficient than our competition, and I compete head-to-head with every other [business in this industry].

Frank's account would resonate with Amy Millan, whose organization, Dandelion, provides funding to social enterprises that offer training and employment opportunities. The profitability statistics of the social enterprises that Dandelion funds are grim, as indicated in the following statement:

> Only one out of the 42 social enterprises that we funded has made a profit. And a second one has broken even . . . [This is] because I think their social costs are very high and their capacity to expand, to become big enough, to scale their operations enough to make money, is too limited, and that's partly because of their social mission.

Even social enterprises that are set up for the sole purpose of generating revenue for the parent nonprofit organization can take years to become profitable - if they ever do. If a social enterprise is not breaking even and must be subsidized by the nonprofit, then its scarce resources are being diverted from critical mission-related initiatives. Stella Nelson of Willow, a nonprofit organization that operates three successful social enterprises,

cautions organizations to consider the true costs associated with operating a social enterprise:

> Look at how much your nonprofit is subsidizing your for-profit, and is that the best use of your nonprofit's money - whether that's through staff resources or actual paying for positions or loaning bodies or actual cash transfers sometimes. So when you think about that, is it better to set up a business that may fail or may take ten or fifteen years to be meaningfully successful, or is it better to put that into programs that further your mission?

The Nonprofit Environment

Key informants brought to attention a number of factors that increases the complexity of operating a social enterprise in the current nonprofit environment. In particular, individuals cited the regulatory and tax environment, sociocultural perceptions, and the funding landscape.

First, the lack of a clear regulatory framework for social enterprise in Canada adds complexity and limits the potential profitability of social enterprises. Ida Lee, who is the President & CEO of Magnolia, a nonprofit organization that operates a large retail social enterprise, described having to create a separate corporation for its social enterprise, at considerable cost to Magnolia, in response to a directive their organization received from the CRA. As described in Chapter 1, the Income Tax Act allows charities to operate a 'related business', but it's left to the CRA to interpret exactly what this means. The CRA has deemed 'related business' to mean a business wherein 90 percent of the workforce is volunteers or a business that is linked to the charity's mission and thus subordinate to that mission.

Unfortunately, CRA's vague definition only creates confusion. According to Ida, "The confusion came from how you are defining '90 percent'. Ninety percent of hours? Days?

Shifts? We've never really got it defined [by the CRA]." Moreover, Ida questioned why the CRA imposed these regulations at all when the tax gains are negligible and the inconvenience and cost to the nonprofit organization are considerable:

> We have a management services agreement between the two organizations, so the [social enterprise] gets charged a management services fee from [Magnolia], which reduces their profits. And then whatever is left over is a donation. I think we ended up paying taxes on a couple thousand dollars last year. So, really, the point again is, what?

In the midst of confusing policies and constraints imposed on social enterprises, key informants shared their sense that there is growing interest on the part of the federal government, as well as some provincial governments, to promote the social enterprise model as a way to offset government costs related to the delivery of social programs. Specifically, key informants spoke of consultations that the federal government held across the country on the topic of social enterprise and social finance, and provincial governments' support of social enterprise through designated funding for these initiatives. Sally Gupta's organization, Tamarack, operates two social enterprises and has a third in development:

> The provincial [government] provided funding for us to complete the balance of our feasibility study and the completion of the business plan and the legal and tax evaluation of the structure of the social enterprise. We're really, really excited about that, and I think it's because they just recognized that the opportunity to apply social enterprise as a concept to the delivery of health and social services for seniors has huge potential [again] because the costs are astronomical and they're going to increase as the demographics increase.

Key informants speculated that this interest in social enterprise at the provincial and federal levels could prompt revisions to the current regulatory and tax framework. In the

meantime, these key informants are doing their best to understand how to navigate the current structures.

Despite this complicated regulatory framework, there continues to be increased interest in social enterprise as a way for nonprofit organizations to decrease their reliance on traditional forms of funding. Social enterprise has become 'trendy'. Seth Avett, the senior social investor from Begonia, shared his concerns about the increasingly common perception of social enterprise as a panacea in the following:

> I think that social entrepreneurship is a bit of a façade . . . To think that [people working in the nonprofit sector] are going to conceptualize a business that no one has thought about or a niche that is unfilled at the present, and to have the business acumen, and the marketing skill to acquire the investors for start up, and to have a sound business plan and so forth, and then reap amazing returns of profitability in order to subsidize the social good that the organization does seem to me like chasing ghosts.

Sally Gupta of Tamarack shared similar concerns to Seth's:

> It's not for everybody, and not every organization has the capacity to do it. And it really concerns me when I see people seeing it as the solution; because the government is cutting funding we're just going to start a business. The reality is, what are the stats on new start-ups? One in ten succeeds, and that's by business people! It's not the solution. And I don't mean to sound snobbish about it, but it's not for everybody. It's a huge undertaking and you have to hire people who know what they're doing. And I've just seen so many charities flounder because of a not very well thought-out plan . . . They underestimate it; seriously underestimate it.

Finally, in terms of funding, key informants spoke of social enterprises being caught between traditional nonprofit funding vehicles such as grants and donations, and for-profit instruments such as equity capital and debt financing. Melissa McClelland, the senior social investor from Geranium, shared her views on this topic:

> As soon as you show up at the doors [of a bank] with, oh, we're a nonprofit structure, it's, "Well, that's nice. Goodbye". [The nonprofit organization] can't scale

> the business. Not only do they have the challenges of perhaps their mission meaning they're going to hire certain kinds of people, or they've created themselves extra problems in their day-to-day operating, now they can't even get at the investment they need to move their company up to the next level.

Therefore, traditional funding vehicles such as grants and donations are often used to get social enterprises off the ground and to subsidize ongoing operations and growth. The challenges in applying a traditional funding model to social enterprise have to do with the constraints that are often associated with these funds. Key informants spoke of a desire for flexibility in their funding arrangements; the flexibility to modify the business plan and adjust the course of the social enterprise as new information becomes available, to explore contractual arrangements instead of grants where appropriate, and to align reporting requirements with social enterprises' existing performance measurement processes. Frank Mandela described the challenges related to reporting:

> We have two social funders that we report to, and as best as possible I make sure that our reporting to them is consistent with my reporting to the Board so that you don't create a whole bunch of additional reporting structures. And if we look for social funding and they ask for a whole bunch of gunk or crap, I just won't – it's going to cost you more than $40,000 to do the report, for heaven's sake!

Throughout the interview process it became clear that nonprofit organizations operating social enterprises exist simultaneously in two different spheres: the 'social' or nonprofit context and the 'enterprise' or business context. This duality increases the complexity that nonprofit organizations must manage and decreases the amount of revenue that social enterprises are able to contribute to the mission of their nonprofit parent organization.

Theme 2: Clarity of Purpose

There was also support for the second proposition that when nonprofit organizations are clear about the purpose of the social enterprise, they are better able to make sound decisions concerning potential opportunities and trade-offs. For a social enterprise to be considered successful, it must create both social and economic value. However there is no established benchmark or standard that outlines how the social and economic performance of a social enterprise should be measured, thus leaving room for considerable variation in expectations within organizations.

Social and Financial Goals

Generally speaking, it is a nonprofit organization's stakeholders - Board members, staff, clients, funders and the community - who formally or informally evaluate the success of the nonprofit's social enterprise. This calls for a shared understanding of the purpose of the social enterprise and an alignment of expectations. In the absence of shared, clearly articulated economic and social goals and expectations, this diverse range of stakeholders will each use their own criteria to evaluate the success of the social enterprise. The managers of a failed social enterprise operated by the nonprofit organization, Laurel, described this phenomenon:

> There was a lot of confusion about what a social enterprise is . . . Some executives wanted to get money from us and others wanted us to employ [clients] . . . There wasn't a clear understanding of the relationship between profitability and the social deliverable and how they impacted one another. . . . You talked to some directors of the Board and they were pushing really hard for that social deliverable. They wanted to see [clients] employed and helped along. They had been like, 'you had better be employing [the] majority of [clients] because that's what you're about', without a real good understanding of the cost to do something like that. So, there was no clear understanding of how those two concepts related.

To avoid this unhelpful situation, key informants emphasized the importance of first defining and then communicating the relative importance of the social and financial goals for the social enterprise, and then seeking agreement among key stakeholders. Funder, Melissa McClelland, described the importance of having aligned expectations:

> There are different ambitions and different goals for each [social enterprise] and I don't think we can imply one is better than [the] other, unless the group that is hiring two people says their goal is to hire fifty people . . . If [the social enterprise's goals are] not defined, then you can't measure success either. If you don't know where you are going, how can you get there? And that's where you end up with the total complete arguments over, we hire five people and one person says that's a great success and the Board says it's a total failure because for one person the goal was three and for the other person the goal was thirty.

Joseph Swartz from Quince stressed the importance of aligning social goals with organizational values and then communicating them appropriately, as is reflected in his comments below:

> Our social goals are primary, but we are not out here to lose money. There is a dynamic tension and it requires diligence because people have different values and beliefs and part of our work with our staff and participants and supporters is to work on those values and their application in the real world. We have had situations where people have thought profit is our primary goal and anything that might diminish that should be overcome, but that means either it's not a good fit in our organization or we need to do some additional education, training, and orientation.

While goals may shift over time, maintaining a shared understanding amongst key stakeholders regarding the relative importance of the social versus the financial goals will enhance decision-making.

Understanding the social goals and the financial goals also enables the parent organization to determine to what extent, if any, subsidization of the social enterprise is acceptable. On this topic, Seth Avett from Begonia suggested the following:

> There is no generic right answer - you should be profitable or else don't do it. But we think for every organization there is a right place on that continuum once they think hard about their financial situation and the target population they're servicing and where they want to get them to, and the size of their employment barriers. We think there is a right answer, but it has to be thought through consciously. There's no macro right answer. It's different for every organization.

When nonprofit organizations recognize that success is defined differently for each social enterprise and that this success is based on the relative weight the organization's stakeholders assign to the social and financial goals, they can then determine what trade-offs they are willing to make. If the organization is focused on achieving significant social goals, it may be necessary to lower profit expectations, as in the example described below by Melissa McClelland.

> When [the leader of one social enterprise] was hired, the non-profit organization that hired him told him that in six months this [social enterprise] will be making a profit. Fifteen years later it's still not making a profit. They've had to adjust their expectations, and mission trumps profit in this case. What they're doing is absolutely fabulous work. But if they're going to do the work, they have to focus on the mission because the compromises you have to make [in order] to make the business side work are not ones they're willing to make. So, if you can have a clear-eyed view of which one is more important to you, [then] that will help focus which decisions you should be making . . . If you're being a hard businessperson, you get rid of the employee who is not helping you reach your bottom line. If your mission is helping those people, then maybe you hold your nose and you hurt your bottom line. Which side is going to win in the equation is something I don't think a lot of groups think through carefully enough.

Theme 3: Leadership

The third proposition speaks to the unique combination of skills and experience required to operate in both a nonprofit and a commercial context, and suggests that because of this, leadership in a social enterprise is likely to be shared. It goes on to suggest that where leadership is not shared, the result is likely to be either an exception or a failure; therefore, the support team of people with complementary skills and experience

plays a critical role. The findings of this study suggest that there is a need for (1) a champion with a strong vision and the persistence and positional authority to ensure that social enterprise stays front and centre in the minds of key stakeholders; (2) 'entrepreneurial DNA'; (3) a passion for the cause; and (4) industry-specific experience.

While there are a few examples of people who possess all of skills and traits across the country, it is rare. Seth Avett from Begonia states:

> They must believe so strongly in what they're doing. And [they] must have a huge passion for the people they see themselves serving. But they've also got to have a strong business focus. They have to realize that sometimes they're going to have to make decisions that are going to be painful from a social standpoint because the business health is going to depend on it. They . . . have to be bilingual, they have to have a very good business sense, and they have to have a really strong empathetic understanding of the population they're serving. But that can't get in the way of making tough decisions too. It's such a unique combination for an individual. They're a higher life form than the rest of us in some ways, I think.

The reality with "higher life forms" is that they are simply not that common. Those individuals who possess the whole package of skills and traits become archetypes in the social enterprise field and are held up as the gold standard.

While the majority of key informants described the need for each of the four elements listed above, most were clear that these need not rest solely with one person.

Champion

A number of key informants, including Amy Millan from Dandelion, shared a belief that a senior-level champion was vital to the success of the social enterprise:

> A social enterprise that is being started within an organization needs a champion, kind of like a business needs an entrepreneur to be successful. Well, a social enterprise needs a champion within the organization who is going to fight for the start up and survival of that social enterprise; and, the champion has to be somebody who people in the organization are going to listen to. So it can't just be

> someone who is at a junior level within an organization. It has to be someone who is respected and [who] the staff and the executive and the Board will listen. From what I have observed, that is the biggest key. Not the only one, but one of the most important.

While, as Amy points out, this champion should be at a senior level within the nonprofit organization, this person does not necessarily have to be the nonprofit's executive director, particularly once the social enterprise is up and running. At Tupelo, a nonprofit organization that runs three successful social enterprises, the champion is Georgia Townsend, Director of Social Enterprise. As Georgia shared, "Our CEO is definitely supportive as well, but I think I'm probably the big champion." In the case of Larch, the executive director is the clear champion. Dorothy Smith, who manages Larch's social enterprise, describes this key role:

> The executive director is so incredible . . . she really turned some heads with the Board and a few of them left. She was a go-getter and they were like, whoa, whoa, whoa. In a way, she had already paved the way for me when I was hired [two years later to manage the social enterprise]. She had already done all the convincing.

Entrepreneurial DNA

Key informants also shared stories of leaders who demonstrated innovativeness, an ability to perceive opportunities, and a willingness to push beyond traditional boundaries. According to Sally Gupta the entrepreneurial characteristics that she has observed in the executive director of Tamarack have permeated their entire organization:

> Our executive director is entrepreneurial by nature. That might be financially or in terms of the way we deliver programming. It doesn't have to be financially, right? There are several programs . . . that are either the first or the second of their kind in the entire country. So, it's sort of a spirit of innovation and risk-taking that is supported by the Board.

Passion

The key informants' passion for the cause and for their work resonated in all of the interviews. Gabriela Vasquez from Juniper is inspired not only by the environmental cause that her social enterprise furthers, but also by other social enterprise practitioners whom she believes are similarly fueled by a passion for doing good:

> I'll go into the room where there are ten or fifteen people and they're sharing their best challenges and ideas about what they're doing with their businesses from print shops to coffee shops to food manufacturers, and I just get jazzed, just really, really jazzed. The headlines aren't tapping into what's happening; people want to create products and services that are beneficial and not harmful and people want to help each other out and share and be generous, and that part really feeds my soul.

Industry-Specific Experience

Because a social enterprise must compete with other businesses in the same industry, a solid understanding of the industry in which it operates is critical to a social enterprise's success. Noreen Dallaire, Executive Director of Poplar, described what happened after this nonprofit organization sold its struggling restaurant to someone who had experience in the restaurant industry.

> The restaurant went from night to day with the right manager in there. Look at it. It's thrived . . . And the regret, of course with the 20/20 [vision], to look back and go, okay, why did we sell it? Really, it would have just been a matter of hiring a really good manager. And that's the regret looking back.

Susan Bornstein, Executive Director of Oak, described how their organization was fortunate to have recognized this need to bring in industry expertise before it was too late. "We hired a consultant who came in to do a feasibility study . . . [and the advice was] get someone in who knows the business." Susan and Oak's Board took the consultant's advice and hired an individual with significant experience in the industry. Together, Susan and this new social enterprise manager were able to shift the social enterprise from a money-

losing venture into a moderately profitable business that provides work experience for Oak's clients.

Melissa McClelland has also observed the turnaround that Poplar and Oak described when organizations brought in industry-specific knowledge and experience:

> We have about five or six enterprises that have been consistently successful for the last three to four years, and the turning point seems to be when they have brought in someone, and again it's not universal, but for most of them the turning point is when they bring in someone who has the business background . . . They've either run their own business in that sector or managed a business in that sector. They come with both the business knowledge and the industry knowledge.

However, hiring someone with this knowledge and experience is not without its challenges. Particularly in social enterprises that provide training and employment for people with barriers to employment, leaders require an ability to empathize with the people they are serving and an understanding of how to work with them effectively. As Amy Millan described:

> Not everyone with a business background is going to know how to deal with hard-to-serve people. That's why they're hard-to-serve. If everyone knew how to work with them they wouldn't be so hard-to-serve . . . It's [about] understanding that the people you're dealing with have other challenges that you wouldn't find in a regular business.

Georgia Townsend of Tupelo offered a similar comment:

> It's having the tolerance for people who maybe don't have the same capability as others. Modifying the work if need be and being willing to do that and to make sure the work doesn't take precedent over the people, if you will. We modify the work to suit the people.

The findings of this study support the third proposition of building a strong leadership team with complementary skills and experience. The findings also suggest that while the skills of the nonprofit organization's Board and/or a social enterprise advisory

team can offer valuable supplementary support and resources, it is important that the requisite skills, knowledge and experience reside within the organization as part of the management team responsible for overseeing the social enterprise.

The findings suggest that these four elements (champion, entrepreneurial DNA, passion, industry-specific experience) should be present within the leadership team of a nonprofit organization that operates a social enterprise. Figure 7 proposes a framework for organizing these elements in terms of 'social mission effectiveness' and 'enterprise effectiveness'. Ultimately, organizations are seeking effectiveness in furthering their social mission as well as in managing their business. When organizations have leadership teams that are less effective in one area or the other, organizational achievement is sacrificed.

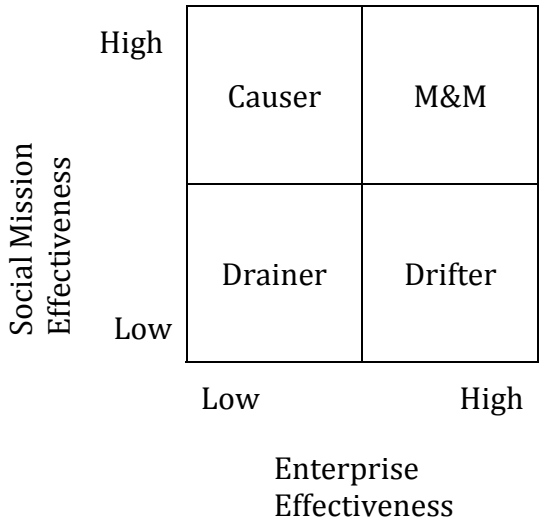

Figure 7: Leadership Team Composition in a Nonprofit Organization with a Social Enterprise

In Figure 7, 'Causer' teams are very effective at furthering the mission, but lack the skills and experience required to manage the business venture; 'Drainer' teams are neither able to accomplish their social mission objectives, nor their enterprise objectives; 'Drifter' teams have become focused on the enterprise at the expense of the social mission; and

'M&M' teams have been able to strike an appropriate balance between mission and money, moving their organizations towards the achievement of their social mission and effectively managing their business operations.

Theme 4: Culture

A final proposition supported by the findings of this study is that nonprofit organizations that have an existing culture of entrepreneurship and innovation are more likely to experience social enterprise success. Sally Gupta from Tamarack suggested,

> I think it would be looking at whether or not the culture of the organization, and I don't just mean on paper, their mission/vision statement, but the actual culture of the organization was well suited to social enterprise. So all those pieces that I mentioned previously would be indicators of potential success; a history of collaboration and partnership, a history of risk taking and innovation . . . a history of taking creative steps to address emerging needs in your sector. . . . And it doesn't have to be a for-profit business, but like I said, examples of taking on projects that are unique, that are complex, that are not just socially driven, that have multiple different outcomes . . . The capacity to try something new, to be open to risk.

Funder Melissa McClelland also described "a culture of entrepreneurship and flexibility and willingness to try new things within the organization" as common to nonprofit organizations that experienced social enterprise success.

Some key informants spoke passionately about the need to shift away from what Melissa McClelland described as a "cap-in-hand" approach. Ida Lee from Magnolia provided her perspective on the need to effect this shift:

> I get kind of sick of charities who don't think at all like businesses. The only way to survive as a charity is to have your hand out all of the time. Yes, we have something different that we can sell, but more people have to think about what they have to offer.

Not only do nonprofit organizations often undervalue their offerings, they also generally underpay their people. Amy Millan stated, "There's also the whole problem - and this does relate to the nonprofit culture - about understanding what you have to pay to get people and keep good people. That is a huge problem." Organizations that operated successful social enterprises identified how critical it is to provide compensation as close to market rates as possible in order to be able to compete in the industry and to attract and retain the talent required to operate effectively. As Ida Lee described:

> If you're hiring a CMA or whatever, if you are looking for those credentials, you've got to get at least close to industry standard. So, we're probably a little light, but we do extras that we can offer in the nonprofit world. We just hired a land person to help us get land. I need someone who has been from the development world. I'm not going to get that for half the market value, not here.

Finally, there is a market-orientation that has historically been different in the nonprofit sector compared to the business sector. Amy Millan articulates the dilemma as follows:

> As opposed to a business that goes out to find the customers, in most nonprofits the customers come to them, so they don't have to go and do anything more than put an ad in a newspaper and say we are offering this program or here's some free class or here's where you go to access these services, and people come. In a business you have to go out and convince people to participate . . . A lot of nonprofits don't understand customers. They understand clients. Clients come to them for support and they provide it. Customers have all kinds of choices.

Frank Mandela from Alder in discussing the construction industry and pointed out:

> If my wall does not go up as well as the next guy's wall, my being a social enterprise is not going to provide me with any advantage. I need to be the equal of my competition and then maybe, and this is a big maybe, being a social enterprise will provide me with a competitive advantage.

Starting a business is a significant leap for most nonprofit organizations. However, those nonprofit organizations that already have a culture of entrepreneurialism and innovativeness wherein staff and Board members are open to learning and willing to take calculated risks are more likely to seamlessly integrate the launch of a social enterprise into their existing nonprofit operation.

Chapter 5 - Discussion

The purpose of this study was to identify conditions that underlie the success of social enterprises launched by nonprofit organizations. Specifically, this study sought to identify the patterns associated with success that emerge across social enterprise initiatives and steps that nonprofit organizations can take to increase their likelihood of launching and sustaining a successful social enterprise.

This chapter begins with a discussion of this study's findings with respect to the propositions developed in the literature review, followed by a detailed discussion of each of these a priori themes: complexity, purpose, leadership and culture. The chapter then moves into a discussion of the limitations of the study, implications for theory, policy and practice, and suggestions for future research.

A Priori Themes

Starting a social enterprise has significant implications for a nonprofit organization. Not only must the organization continue to further its social mission and serve its core constituents, it must also generate revenue in the marketplace through the sale of a product or service. Moreover, the nonprofit organization must ensure that this entrepreneurial venture does not put the viability of the nonprofit organization and thereby its ability to achieve its mission at risk. This section compares the four major a priori themes of this study – complexity, purpose, leadership, and culture - with the current research literature.

Complexity

Nonprofit organizations are established to fulfill a social mission, not to meet commercial objectives. When commercial objectives are added, this increases the complexity of the nonprofit's business model. The complexity of the social enterprise business model arises not only from the challenge of operating with a double bottom line, as Dees (1998) and Boschee (2008) have pointed out, but also from the challenge of concurrently operating in two very different environmental contexts.

Operating simultaneously in the nonprofit environment and the commercial environment requires that the leadership of the nonprofit organization respond effectively to a much wider range of challenges than if the nonprofit were operating solely in one realm or the other (Dart, 2004; Dees, 2007; Dees & Anderson, 2003; Moizer & Tracey, 2010; Skloot, 1983; Weerawardena & Mort, 2006). While the current social enterprise literature identifies complexity as an issue, there is no discussion of what the effect of this complexity is on the profitability of a social enterprise, nor is there mention of how a nonprofit organization could mitigate this complexity.

Key informants in this study discussed the challenge of trying to find a place for a nonprofit organization's commercial operations within the context of a tax and regulatory environment that penalizes profitability. They also spoke of the difficulties involved with finding an effective funding vehicle for a business model that does not fit well within either the nonprofit context or the business context. Finally, they spoke of social goals that add considerable cost to their business model without providing a competitive advantage relative to other businesses in their industry. All of these issues that lead to increased complexity, also serve to decrease the profitability of social enterprises.

The greatest opportunities to manage this complexity that are within the control of the nonprofit organization appear to be in relation to clarity of purpose and the composition of leadership team, two of this study's emergent themes that will be discussed in a subsequent section. Also important, but beyond the direct control of the individual nonprofit organization, are contextual factors such as CRA regulations and funding constraints.

Purpose

While social enterprise has a dual mandate to create both social and economic value (Boschee, 2008; Dees, 1998), the primary driver of social enterprise is the social mission (Alvord, Brown, & Letts, 2004; Austin, Stevenson, Wei-Skillern, 2006; Boschee, 1995; Leadbeater, 1997; Mair and Martí, 2006; Peredo & McLean, 2006; Weerawardena & Mort, 2006). Boschee (1995) suggested two categories for ventures started by nonprofit organizations: affirmative businesses that provide employment for people with barriers to employment and direct-service businesses where a beneficiary of a nonprofit's services pays for the services he or she receives. Dees' (1998) 'Social Enterprise Spectrum' proposed a continuum of strategic options for leaders of nonprofit organizations considering the extent to which they will engage in commercialization; options that ranged from purely philanthropic to purely commercial (p. 60).

This study builds on these early descriptions and proposes a continuum (see Figure 8) based on the purpose for which the social enterprise is created. The findings of this study suggest that there is a relationship between the success of the social enterprise and the level of shared understanding that exists among key stakeholders about the purpose of the social enterprise. This continuum demonstrates to leaders of nonprofit organizations

how the purpose they have articulated for their social enterprise, whether weighted more towards social ends or economic ends, will affect (1) their choice of social enterprise opportunity; (2) potential trade-offs; (3) the way in which success will be measured; and (4) the extent to which subsidization by the parent nonprofit organization will be appropriate.

At one end of the continuum are situated 'direct mission' social enterprises. Direct mission social enterprises are most clearly depicted by training and employment social enterprises, wherein the venture itself is the vehicle for furthering the social mission. Social goals are the primary focus of direct mission social enterprises and success therefore is measured according to the social impact of the venture. The literature suggests that it may acceptable for the parent nonprofit organization to subsidize social enterprises (Dees, 1998; Emerson & Twersky, 1996; Foster & Bradach, 2005). Certainly, in the case of a direct mission social enterprise, some level of subsidization may be altogether reasonable if the social enterprise is successful in furthering the mission of the nonprofit organization.

'Indirect mission' social enterprises, which fall at the other end of the continuum, are established so as to generate revenue to support the operations of the parent nonprofit organization, thereby indirectly furthering the mission of the nonprofit. Economic goals are the primary driver of indirect mission social enterprises and profitability is a key indicator of success. Consequently, a nonprofit organization would need to give serious consideration to the extent to which it would be willing to have funds from the parent organization support a business that has been established to do the reverse.

Direct Mission ← → **Indirect Mission**

Social enterprise is a vehicle for furthering the mission of the parent nonprofit organization	Social enterprise generates revenue to support the operations of the parent nonprofit organization, thereby furthering the mission
Opportunity selected is appropriate to achieve social goals	Opportunity selected is appropriate to achieve economic goals
Trade-offs favour social goals	Trade-offs favour economic goals
Success is weighted towards the achievement of social outcomes	Success is weighted towards the achievement of financial outcomes
Subsidization of the social enterprise by the parent nonprofit organization may be acceptable in order further the social mission	Subsidization of the social enterprise by the parent nonprofit organization could divert resources away from the achievement of the social mission

Figure 8: Direct and Indirect Mission Continuum

Leadership

In Chapter 1, social enterprise was distinguished from social entrepreneurship. Whereas social entrepreneurship was described as the creation of an initiative that seeks to transform social, economic and political systems, as in the case of Muhammad Yunus and microcredit, social enterprise was described as an initiative of a nonprofit organization that is established for the dual purpose of generating revenue and advancing the organization's mission. There is relevance in revisiting this earlier comparison, as there are some striking similarities in the way in which leadership is described.

Bill Drayton, who, in 1980, founded an organization called Ashoka to provide start-up financing, professional support and connections to a global network for social entrepreneurs, has actively promoted the concept of social entrepreneur as "social hero

with entrepreneurial talent" (Seelos & Mair, 2005, p. 244). According to Drayton, "there is no entrepreneur without a *powerful, new, system change idea* [*sic*]. The entrepreneur exists to make his or her vision society's new pattern. He or she is married to that vision, in sickness or in health until it has swept the field" (Drayton, 2002, p. 123). This passion and steadfastness also describe "industry-creating, business entrepreneur[s]" (Drayton, 2002, p. 123), such as Internet entrepreneur and first president of eBay, Jeffrey Skoll, and co-founder of Microsoft, Bill Gates. Drayton (2002) discusses the importance of not only the vision and the passion, but also an entrepreneurial quality that "exceedingly few people have" that pushes these individuals not to stop until they have transformed the whole society (p. 124).

Many current social entrepreneurship and social enterprise authors, and indeed a few of this study's key informants, have been captivated by this concept of the hero social entrepreneur who characterizes a "different breed of people" (Weerawardena and Mort, 2006). Key informant, Seth Avett, talked about "higher life forms", who are visionary and tenacious, entrepreneurial and passionate. Avett also acknowledged, however, that there are a small number of individuals who possess these characteristics. In the five years that his organization was funding social enterprises, he found fewer than ten such leaders nation-wide. If nonprofit organizations that are starting social enterprises are only likely to find success with a 'higher life form' at the helm, then the scale and scope of social enterprise in nonprofit organizations will be severely limited.

However, social enterprise is established as a means to an end rather than as an end in itself. In reality, the enterprises described by key informants in this study do not represent systems changing ideas. Rather, they describe known business models, such as

construction companies, food services businesses, consulting firms, and second-hand stores. These enterprises tend not to be started because people within the nonprofit organization have a passion for the business. They are started because people within the nonprofit organization are passionate about the social mission of the nonprofit organization and want to further this cause.

Therefore, in most cases it is unrealistic to expect that the leader of the nonprofit organization, who is oriented towards achieving the organization's social mission, will have in-depth knowledge and experience in the industry into which the social enterprise is being launched. This is particularly true because, as Porter and Kramer (2011) contend:

> [Given] the traditional divide between economic concerns and social ones, people in the public and private sectors have often followed very different educational and career paths. As a result, few managers have the understanding of social and environmental issues required to move beyond today's CSR approaches, and few social sector leaders have the managerial training and entrepreneurial mind-set needed to design and implement shared value models (Porter & Kramer, 2011, p. 77).

Therefore, while engaging the right talent is essential for the success of any enterprise, this does not need to reside exclusively within one individual, nor is it likely that it will.

The findings of this study, the commercial entrepreneurship literature and, to a much lesser extent, the social enterprise literature, suggest that rather than focusing on finding one exceptional leader, a nonprofit organization starting a social enterprise is better advised to focus on building an outstanding management team with complementary skill sets and experience that can then be supported by an effective social enterprise advisory team. This finding reflects Austin, et al.'s (2006) and Sahlman's (1996) 'people' in

their description of effective social entrepreneurship and commercial entrepreneurship, respectively. In the social enterprise literature, Dees (1998) recognized the need for internal staff expertise, as did Boschee (1998) who emphasized the importance of building "the right team" (p. 11). There is an old adage among venture capitalists that says investors would 'rather back an A-team with a B-idea, than a B-team with an A-idea'. This concept applies equally well in the context of social enterprise.

Shared leadership in social enterprise is important for at least two reasons that are supported by the findings of this study. First, if the success of a social enterprise relies on a scarce supply of exceptional individuals then, as mentioned above, the scale and scope of social enterprise will be limited. However, if the nonprofit organization has an effective executive director and senior leadership team with the passion and ability to further the nonprofit organization's mission, the organization can seek to complement this expertise with one or more additional team members who have the passion and ability to build the business.

Second, by building a team rather than focusing on finding a single leader who has it all, the nonprofit organization is also helping to infuse social enterprise into the broader organizational context and culture. In doing so, it becomes more likely that the social enterprise will endure beyond the tenure of one particular leader. This study found, for example, that successful social enterprises have a champion; someone who is willing to keep the social enterprise on the organizational agenda. While this individual needs to have sufficient authority within the organization, she or he does not necessarily need to be the organization's executive director or CEO.

When considering who should manage the social enterprise, Emerson and Twersky (1996) caution nonprofit organizations to ensure that:

> The person charged with managing the enterprise process [has] a solid grounding in business fundamentals. Too frequently, a board or planning committee will endorse the appointment of a key staff person who expresses an interest, but does not necessarily have the necessary skills to ask the right questions or steer the planning and implementation process. It is not necessary that the staff person have an MBA, but if he is not strong in the basics, the board should assure that adequate resources are committed to providing him with the training he will require to succeed at the job. Ideally, this comes in the form of formal business training which might then be supplemented with "community development training"; however, one should not assume that since a staff person has done a good job managing a housing or service department, he already has the requisite skills in finance and accounting to take on business development. Nor should the board assume these skills may be "picked up as we go." The skills and talent of staff should be frankly evaluated and then buttressed if the enterprise is going to achieve its goal of adequate managerial capacity (p. 398).

Emerson and Twersky's (1996) contention that 'business fundamentals' (yet not necessarily MBAs) are important to the successful operation of a social enterprise is supported by this study. However, the findings of this study strongly contend that business skills alone are not sufficient; more critical are industry-specific skills and experience.

The organizations in this study that were able to effect a turnaround from an underperforming enterprise to one that was successful in meeting its goals (or became a successful enterprise after it was sold) were only able to do so after hiring individuals with the required industry experience and expertise to manage the business. This was the case for Alder, Poplar, Larch and Oak, as well as for the turnaround social enterprises described by funder, Melissa McClelland of Geranium. Others, like Willow, Juniper and Tamarack already had this experience in-house and bolstered their internal knowledge and expertise

by bringing in additional skills and support through external consultants and members of an advisory team.

Boschee (2001) shared the following perspective about the need for individual and organizational competencies in the area in which the social enterprise is being launched in an essay he wrote for Board members of nonprofit organizations considering social enterprise:

> Attempting to start an unrelated business venture means [nonprofit organizations] were hit with a double whammy. They were trying to start a business (which they probably didn't know how to do), and they were trying to start it in an arena they knew nothing about! At least by eliminating the second aspect, they could improve their odds.
>
> The business ventures being started by nonprofits today are therefore emerging directly from their core competencies and basic strengths—from their missions, the programs they have already perfected, and the assets they have developed in the process (p. 11).

Boschee's (2001) observations are based on the anecdotal accounts of only two nonprofit organizations, one from the late-1970s and another from the mid-1980s, that failed when attempting to run businesses that were unrelated to their respective organizations' missions and areas of practice. While Boschee's (2001) first argument for the need for business fundamentals and related experience is supported by this study, his second contention, those social enterprises that build on existing core competencies and strengths related to the nonprofit organization's *mission* are more likely to experience success, is supported only partially by this study's findings.

A study by Dorado (2006) suggests that while there is "mounting evidence that shows a connection between the background of [commercial] entrepreneurs and the opportunities they identify and exploit" (Dorado, 2006, p. 336), there is not yet any

empirical evidence to suggest that this also holds true for nonprofit organizations launching social enterprises. Dorado (2006) makes the point that much of the knowledge that resides in nonprofit organizations is oriented towards a specific social problem or issue, yet "non-profit managers who are being 'encouraged' to identify income-generating ventures, building on their knowledge of a social problem" (p. 336).

Only one of the social enterprises in this study built upon a mission-related skill: Juniper, an environmental organization that runs a consulting business. Other successful social enterprises looked to the tangible and intangible assets that existed within their nonprofit organization as a starting point from which to launch a business; however, in all of these cases the ventures were not directly related to the parent organization's mission or program areas. Willow, for example, operates a property management company; Tamarack runs a catering company and sells a line of frozen food; Magnolia runs a retail operation; and Tupelo operates a recreation centre, a recycling venture and a venture that supports the travel industry. Although none of these social enterprises is directly related to the organization's mission, there is an indirect connection that is best illustrated by revisiting the case of Tamarack.

Tamarack's café (not their social enterprise) was set up to provide meals for clients attending programs onsite and for staff of the nonprofit organization, and to provide meals for clients residing at an offsite safe house. Because the café was only open on weekdays, the café's chef would prepare frozen meals to be consumed by residents of the safe house over the weekend. Sally Gupta described the conception of the social enterprise:

> The chef started to get requests from the clients in the café to take home food because he offers a couple of daily specials every day. So, he realized that there was

> maybe some demand there so, since [Tamarack] is by nature entrepreneurial and our Board is very supportive of the concept of social enterprise and taking risks and moving into unchartered territory, the Board and the management team, particularly our chef and executive director, came forward with a proposal to create a line of frozen meals that would serve both the safe house as well as our clients and members and be available to the public, and we would do it as a social enterprise.

Willow, Magnolia and Tupelo's social enterprises also arose from the recognition of an opportunity to build on an existing asset that was tangential to the parent organization's mission. Each of these nonprofit organizations was 'strategically opportunistic'; they spotted an opportunity that they could exploit and assembled the right team to execute.

The major contribution of this study is the identification of the importance of shared leadership. Nonprofit organizations considering social enterprise need to be prepared to assemble strong, complementary teams that have a foundation of mission-related expertise and past industry successes that they can build upon. This leadership team should comprise the following four elements: (1) 'entrepreneurial DNA'; (2) a champion with a strong vision and the persistence and positional authority to ensure that social enterprise stays front and centre in the minds of key stakeholders; (3) industry-specific experience; and (4) a passion for, and an understanding of how to effectively address, the social cause. When these four elements are present within the leadership team, organizations are better positioned to achieve social mission effectiveness and enterprise effectiveness, as was illustrated in Figure 7 in the previous chapter.

Culture

The literature is replete with references to the challenges that arise in nonprofit organizations that start social enterprises, due to the differences between nonprofit culture and business culture (Boschee, 2001, 2008; Dart, 2004; Dees, 1998, 2007; Eikenberry &

Klaver, 2004; Emerson & Twersky, 1996; Moizer & Tracey, 2010; Mort, Weerawardena, & Carnegie, 2002; Pitta & Kucher, 2009; Weerawardena and Mort, 2006). Rubin and Stankiewicz (2001) go so far as to say that failing to balance these differences in culture may be the largest threat to a social enterprise's survival. However, few outline the type of culture that is most conducive to social enterprise success.

Emerson and Twersky's (1996) report asserts that the nonprofit organizations that are most likely to be successful at incorporating a social enterprise culture are those that already possess entrepreneurial management, a participatory culture, and openness to individual and organizational change (p. 333). Emerson and Twersky (1996) stated:

> An organization which has an entrepreneurial orientation, a comfort with risk, and a participatory culture will fail if it does not also reflect a clear openness and commitment to personal and organizational change. Again, on the face of it, many non-profits would easily think of themselves as providing a "change-friendly" culture—after all, "that's what we do, we help people change for the better." However, many of the social service and economic development field's best individuals and organizations are change-adverse. They are locked in comfortable conceptual and practice frameworks, supportive professional networks which reinforce our place in the world, and a political environment in which "we are under attack" and should therefore not change, but fight back to keep what is ours. In this period of intense social, political, and economic pressure, many of those at the forefront of social change are, paradoxically, locked in the past and fearful of tomorrow (p. 337).

Key informants in this study confirmed the importance of a pre-existing culture of entrepreneurship and innovation, as well as a culture that supports learning and calculated risk-taking. Some key informants also spoke passionately about the need for nonprofit organizations to value their offerings and shift away from a 'cap-in-hand' paradigm.

Limitations

While the findings provide support for this study's four propositions: 1) complexity and profitability, 2) clarity of purpose, 3) shared leadership, and 4) entrepreneurial culture,

it is important to acknowledge the limitations of this work. First, this study is based on anecdotal accounts from a relatively small sample of key informants. While the funders included in this sample and the nonprofit organizations they fund were from across the country, the social enterprise practitioners interviewed were all from Western Canada. As a result, the findings are not necessarily generalizable to other nonprofit organizations and to other settings.

Next, successes are likely overrepresented in this sample. Although the key informants from the three nonprofit organizations that operated social enterprises that failed were candid and shared openly about their respective organization's experiences, most of the interviews were with organizations that ultimately experienced success according to their organization's social enterprise objectives. The nonprofit organizations that operated social enterprises that underperforming and were able to turn these around provided good insight into what is required for social enterprise success; however, further exploration of failed social enterprises may have provided additional insight.

Finally, the researcher conducting this study brought a background in the nonprofit sector, as a manager, a consultant, a funder, and a social enterprise practitioner. All of these roles, to varying degrees, influenced the lens through which the student viewed this topic. According to McCracken (1988), there are disadvantages as well as advantages to this:

> Deep and long-lived familiarity with the culture under study has, potentially, the grave effect of dulling the investigator's power of observation and analysis. But it also has the advantage of giving the investigator and extraordinarily intimate acquaintance with the object of study. (p. 32)

As mentioned in Chapter 3, to control for this bias, data triangulation and member checking were employed.

Implications for Theory

This exploratory study offers a contribution to the emerging field of social enterprise literature. First, the findings suggest a relationship between the complexity that results from operating concurrently in a nonprofit and commercial context and the profitability of the social enterprise. It appears that as complexity increases, social enterprise profitability decreases.

Next, a continuum is proposed that demonstrates how the clarity that a nonprofit organization's key stakeholders have about the purpose of the social enterprise will affect their ability to make sound decisions that are aligned with this purpose. The findings of this study suggest that the relative weighting assigned by key stakeholders to social and financial goals will affect 1) choice of social enterprise opportunity; 2) potential trade-offs; 3) performance measurement; and 4) decisions about subsidization.

Finally, a model that depicts the importance of a leadership team that possesses the knowledge, skills and experience required to effectively further the social mission and also operate a business in the chosen industry is proposed.

Implications for Policy

According to Imagine Canada (2013), there are approximately 165,000 nonprofit organizations and charities in Canada. Increasing numbers of these are starting social enterprises. Therefore, one of the most significant implications of this study is the importance of clarifying CRA regulations so that nonprofit organizations and charities that do choose to launch a social enterprise, as many are feeling pressured to do by government

and other funders, will not be at risk of losing their tax or charitable status in the event that the social enterprise is profitable.

Additionally, funders, whether government, foundations, corporations, or social investors, will need to consider the constraints and reporting requirements that they attach to funds for social enterprise to ensure that these are reasonable and that they augment, rather than hamper, the work of nonprofit organizations, including social enterprise.

Implications for Practice

Authors have written about the blurring of boundaries between the nonprofit and the for-profit sectors (Dees & Anderson, 2003; Porter & Kramer, 2011). Certainly, there appears to be a shift occurring. From increasing numbers of business students taking courses in social entrepreneurship and social work students taking business courses, to the introduction of social procurement policies in some corporate and government settings, to conversations among venture capitalists about the merits of social investing, there are a number of indications that the divide between business and nonprofit will continue to narrow. This holds tremendous potential for initiatives, such as social enterprise, that require the collaboration of people with diverse backgrounds, skills and experience.

Future Research

This study reveals several opportunities for future research and exploration. First, if the pressure on nonprofit organizations to move away from their reliance on traditional sources of funding continues and social enterprise continues to be regarded as a panacea, there will be greater numbers of nonprofits launching social enterprises. However, there have been no studies to date that have quantified success such that it is possible to truly

understand the impact of social enterprise on nonprofit organizations. A consideration of the social and financial impact of an enterprise on the parent organization, as well as any other tangential benefits or drawbacks would offer an important contribution to this field. Again, learning from both successes and failures would be essential. Although nonprofit organizational culture may not have fully embraced the concept of failure as a source of learning yet, openness about both positive and negative experiences with social enterprise and the impact of these experiences offers the most promise for the sustainability of this burgeoning field.

Next, there is a need for additional research into the extent of the relationship between complexity and profitability, as well as ways in which to mitigate or reduce this complexity. There would also be considerable benefit in research into how to create organizational cultures that nurture entrepreneurship and innovation, and openness to learning and change.

Finally, the social enterprise opportunity also presents many opportunities for further research. In particular, research to determine the market potential of opportunities originating from specialized, mission-related knowledge and would be useful.

Conclusions

In this post-recession climate of funding cut backs and calls for nonprofit organizations to become more self-sufficient, nonprofits face a choice either to continue doing 'business as usual' or to explore other options. Social enterprise represents one of these other options - full of promise, yet rife with pitfalls.

As has been stated time and again throughout this thesis, the raison d'être of a nonprofit organization is the achievement of its social mission. A social enterprise failure can have significant ramifications for the parent organization and for the individuals and cause it serves. Therefore, social enterprise is not something to be entered into lightly.

While starting a social enterprise is not for everyone, nonprofit organizations can all consider how they value their current offerings and create the conditions for learning and innovation. In this way, nonprofit organizations position themselves as essential partners in the creation of social, environmental, cultural, and economic value.

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Appendix A – Interview Guides

Guide for Nonprofit Organizations and Social Enterprises

About the Research Project

I am an MBA student at the Haskayne School of Business in Calgary. After completing the majority of my coursework, I decided that I wanted to reconnect with what motivated me to do my MBA in the first place, which was to better understand how individuals and organizations could use the tools of business to effect positive social change, particularly through social enterprise (SE). Therefore, I am now in the process of conducting research for a thesis that is exploring the predictors of success for social enterprises launched by Canadian charities.

I will be speaking with people at organizations that have started social enterprises, as well as with investors and funders who will be asked to share their learnings related to social enterprise. The goal of these conversations will be to begin to better understand the factors that are related to the success of social enterprise in Canadian charitable organizations.

My hope is that a better understanding of the critical success factors will:

1. Facilitate the development of practical methodologies, i.e. tools and frameworks, to inform and assist charities that are contemplating the launch of a social enterprise; and
2. Provide direction to communities and governments that are evaluating the resources and infrastructure needed to encourage and sustain social enterprise.

Definition of Social Enterprise

Social enterprise is defined for the purpose of this project as a business started by a charity, whether it is housed within the charity as a related business or set up as a separate entity, where fifty percent or more of the profits generated by this business are reinvested to support the charity's programs and operations.

Interview Questions

If there are any questions that you do not feel comfortable responding to, please just let me know and we will move onto the next one. All of the information that you provide will be reported in aggregate in such a way that it will not be attributable to you or your organization. If you choose, you may withdraw from the study at any time, and the information you have provided up to this point will be destroyed.

Some of the themes I'm hoping we can explore together today are: the social enterprise business model, the opportunity (product or service), leadership, governance, financial viability, organizational capacity, marketing and promotion, results, culture, and risk management. Most of all, though, I'd like to learn from your experience, so these themes will simply serve as a starting point for us.

Do you have any questions for me before we begin?

Charity/Nonprofit Organization and Social Enterprise

I'd like to make sure I have a good sense of what (Charity) and (Social Enterprise) do. Can you tell me a bit about both organizations, please, and describe how they fit together?

Organizational Capacity/Readiness

I'm very interested in what it was like for (Charity) to start (Social Enterprise). Can you describe what was involved for (Charity) from the point at which the idea of a social enterprise was introduced to the eventual launch of (Social Enterprise)?

Prompts:

1. What motivated your staff/Board to start a social enterprise?
2. How old was your nonprofit organization when you launched your SE?
3. How would you describe your organization's culture in terms of its openness to innovation and entrepreneurial approaches? What were some of the innovative/entrepreneurial activities your organization had been involved in prior to launching a SE?
4. How much did you know about (the industry the social enterprise operates in) prior to launching your SE?
5. What did you do to prepare for the launch of your SE, e.g. opportunity identification, feasibility study, business plan? Did you do this on your own or did you engage a consultant to help you with this work?
6. Did your organization have the operational capabilities and infrastructure required to launch and operate an SE within your own organization or your network, i.e. accounting, marketing, IT, performance measurement systems, space, equipment, commercialization, etc.? What were you lacking? How did you close the gaps between what you required and what was lacking?

7. How did you draw on your network of partners and allies to launch and operate the SE?
8. What was your organization's track record with respect to retaining talented staff prior to the launch of the SE? Post-launch?

The Opportunity

How did (Charity) decide that (Social Enterprise's offering) was what you wanted to build your social enterprise around?

Prompts:

1. Was the offering related directly to your organization's existing experience and expertise?
2. How did your organization initially determine the demand for the social enterprise's offering?
3. What was the level of competition in this market space when you entered? How did you determine this? What were the barriers to entry?
4. How would you describe the strategic fit or alignment of the SE with your organization's mission and strategic vision/direction? How did you determine this?
5. How did you determine whether the SE could meet your organization's social goals? Financial goals?
6. How innovative would you say your offering is? Why?

Leadership and Governance

What were the greatest opportunities and the greatest challenges that (Charity) experienced with respect to leadership (e.g. executive director of the charity and/or leader of the social enterprise) and governance (e.g. board of directions and/or social enterprise advisory committee)?

Prompts:

1. Who was the primary champion within the organization for the SE?
2. What was the initial level of buy-in from the organization's Board of Directors? How did this affect progress towards launching the SE?
3. How would you describe the level of buy-in from the Board now? What has caused this shift (if any)? Was there any change in the composition of the Board?
4. What was the Board's decision-making style? Were decisions made rapidly? How much freedom did the executive director have with respect to decision making?
5. How is governance structured for the nonprofit and the SE? Is there a separate Advisory Board for the SE? Do you have an organizational structure diagram that you could share with me, please?
6. Who leads the SE? What is this person's position called? To whom does this person report?
7. How would you describe your organization's executive director (and/or leader of the social enterprise) with respect to:
    a. Communication skills
    b. Inspiring staff, clients and partners

c. Finding resources

d. Understanding of business

e. For-profit/business management skill and experience

f. Non-profit management skill and experience

g. Radical thinking/innovative approach

h. Passion for social change

i. Ambition or drive

j. Understanding of the external context that the SE operates in

k. Ethics

l. Educational background (please describe)

m. Network size and composition (please describe)

The Business Model

Let's talk a bit about (Social Enterprise). Can you please help me to understand your business model?

Prompts:

1. Is it a program of your nonprofit organization/charity, i.e. a "related business" according to CRA regulations, or is it a standalone business?
2. What is your main offering?
3. Who are your primary customers?
4. How does your offering create value for customers?
5. Through what channels do you reach your customers?
6. How does the SE generate revenue? Where are the profits directed?

7. What would be the main costs associated with the SE?
8. How is ownership structured?
9. How are profits distributed?

Marketing and Promotion

What approach has (Social Enterprise) taken to marketing and promotion?

Prompts:

1. How has your approach evolved since you first launched?
2. Is there any benefit to your SE from a financial perspective to being able to say that the SE supports the work of the nonprofit, e.g. can you charge a higher price, does it give you an edge over your competitors, are there different expectations of quality? Any drawbacks?
3. What has been the effect of (Social Enterprise) on people's thoughts or perceptions of (Charity/Nonprofit)? Do people know that they are connected?

Financial Viability

Launching and sustaining a social enterprise, while also operating a charity, can require considerable financial resources. Based on your experience with (Social Enterprise), what factors do you believe most affect a social enterprise's ability to be financially viable?

Prompts:

1. Was your organization financially stable prior to the launch of your SE, i.e. no operational deficit, cash reserves to support the organization in case of an

emergency, a solid fund development plan for the next 2-3 years, etc? If so, for how long had your organization been in this relatively stable financial position prior to launch?

2. Were the financial projections that you initially developed for the SE realistic?
3. What sources of funding did you access for start-up? For financing ongoing operations/growth?
4. What was the availability of local financial infrastructure in your community when you were launching your SE? How did that affect your organization? What is the availability today?
5. Were there other sources of investment/funding in your community that you chose not to access? If so, why not?
6. Have you ever run into cash flow problems? How were you able to address these?

Results

How do you measure and demonstrate results, i.e. your SE's progress in the areas of social and financial impact and operational effectiveness?

1. How do you define success from a financial perspective, i.e. subsidized, self-sustaining, profitable? Is this the same way you described in prior to launch? Has your SE been financially successful?
2. How do you define success from a social impact/mission perspective? Is this the same way you described in prior to launch? Has your SE been successful in terms of generating social impact?

3. Do you track operational effectiveness? How effective and efficient are your operations?

Culture

Can you please tell me a bit about what it was like for your staff, volunteers and Board members to shift towards pursuing profit in addition to your organization's social goals?

Prompts:

1. Have you been able to find a balance between for-profit and non-profit culture?
2. What did your organization do to help with this cultural shift?

Risk Management:

What were (Charity's) greatest concerns from a risk management perspective when you were launching (Social Enterprise)?

Prompts:

1. What did you do to mitigate these risks? Did any of your worst fears come to pass? Anything wholly unexpected?
2. What has been the impact of (Social Enterprise) on your nonprofit organization's reputation? What have you experienced? How have you managed this?
3. Did you experience any "mission drift," i.e. decreased social impact? Did your organization's mission shift at all with the addition of a social enterprise?

Other

1. Have we missed anything in our discussion today?
2. If I have further follow-up questions as I begin to write my thesis, would it be okay if I were to contact you again?
3. Is there anyone else whom you would suggest I talk to?

If you have any further thoughts, please don't hesitate to call me or send me an email. My phone number is 403.819.2543 and my email address is jillandres05@gmail.com.

Thank you very much for your time. I have really appreciated hearing your thoughts and insights and learning from your experience.

Guide for Funders

About the Research Project

I am an MBA student at the Haskayne School of Business in Calgary. After completing the majority of my coursework, I decided that I wanted to reconnect with what motivated me to do my MBA in the first place, which was to better understand how individuals and organizations could use the tools of business to effect positive social change, particularly through social enterprise (SE). Therefore, I am now in the process of conducting research for a thesis that is exploring the predictors of success for SEs launched by Canadian charities.

I will be speaking with people at organizations that have started SEs to discuss their business models and critical success factors. My intent is to interview people at organizations that have had success with social enterprise, as well as those that have either not had success or found that the venture was not reaching its full potential. These

organizations represent a wide range of areas within the social sector, including arts and culture, mental health, poverty reduction, and healthcare. Finally, investors and funders will also be asked to share their learnings related to social enterprise, again with the aim of identifying those factors that are related to the success of social enterprise in Canadian charitable organizations.

My hope is that a better understanding of the critical success factors will:

1. Facilitate the development of practical methodologies, i.e. tools and frameworks, to inform and assist charities and nonprofit organizations that are contemplating the launch of a social enterprise; and
2. Provide direction to communities and governments that are evaluating the resources and infrastructure needed to encourage and sustain social enterprise.

Definition of Social Enterprise

Social enterprise is defined for the purpose of this project as a business started by a charity, whether it is housed within the charity as a related business or set up as a separate entity, where fifty percent or more of the profits generated by this business are reinvested to support the charity's programs and operations.

Interview Questions

Your experience in providing funding to charities to support their social enterprise initiatives has no doubt provided you with some good learning and insight into why some experience success while others struggle or fail entirely to get off the ground, what organizations and ventures are most likely to succeed and those that are unlikely to get off the ground. Today, I'd like to focus on makes a successful social enterprise. You will be

asked to share your learnings related to social enterprise, again with the aim of identifying those factors that are related to the success of social enterprise in Canadian charitable organizations.

If there are any questions that you do not feel comfortable responding to, please just let me know and we will move onto the next one. All of the information that you provide will be reported in aggregate in such a way that it will not be attributable to you or your organization. If you choose, you may withdraw from the study at any time, and the information you have provided up to this point will be destroyed.

Do you have any questions for me before we begin?

The Funder

I'd like to make sure I have a good understanding of what your organization does. Perhaps you could tell me a bit about what happens when a nonprofit or social enterprise approaches you for funding, please.

Prompts:

1. What types of organizations do you fund?
2. What projects do you fund, e.g. business planning, start-up capital, expansion?
3. Do you offer other forms of support as a supplement/alternative to funding, e.g. technical expertise?
4. Who makes the funding/investment decisions?

Funder Motivation

Although social enterprise has been around for years in the form of Girl Guide Cookies, museum gift shops and so forth, it's only been a few years since people have really begun to talk about it and invest in it. I'm curious about how your organization got involved in funding or investing in social enterprise. When did your organization's involvement in social enterprise begin and how did it happen?

Prompts:

1. How long have you been funding social enterprise?
2. Why did your organization decide to fund social enterprise?

Examples of Social Enterprises

I would imagine that, as a funder, you would have seen both successful and unsuccessful social enterprises over the years. Can you please share some examples of these social enterprises and your thoughts on what has made these organizations either successful or not?

Prompts:

1. What are some specific examples of successful social enterprise in this community? What has made them successful?
2. What are some specific examples of social enterprises that have not been successful or have been consistently underperforming? What is it about these social enterprises that did not enable them to be successful?

The Opportunity/Funding Criteria

I'm interested in learning more about how you decide which organizations or projects to invest in. How do you evaluate the quality and potential of an organization's social enterprise idea?

Prompts:

1. What are the criteria that you use to determine whether or not you will fund a particular SE?
2. How did you develop these criteria?
3. Have your criteria changed over the years? If so, in what way?
4. How much weight to you ascribe to the idea's financial potential relative to its social potential?

Organizational Capacity

Based on your experience working with a number of nonprofit organizations that have started social enterprises, what are the characteristics of nonprofit organizations that are more likely to be able to launch and sustain a SE?

Prompts:

1. Do you see any relationship between the age/size/budget of the nonprofit and their likelihood of success? If so, what do you see?

Leadership and Governance

I would imagine that different skill sets are required to successfully lead a nonprofit organization as compared to a social enterprise. What do you look for in terms of

leadership and governance for nonprofits that are launching or operating a social enterprise?

Prompts:

1. Are there particular skills or attributes that you look for in the nonprofit organization's Executive Director? For example,
    a. Communication skills
    b. Inspiring staff, clients and partners
    c. Finding resources
    d. Understanding of business
    e. For-profit/business management skill and experience
    f. Non-profit management skill and experience
    g. Radical thinking/innovative approach
    h. Passion for social change
    i. Ambition or drive
    j. Understanding of the external context that the SE operates in
    k. Ethics
    l. Educational background (please describe)
    m. Network (please describe)
    n. Other?
2. What do you look for from a governance perspective?
3. What kinds of structures need to be put into place to oversee the social enterprise, e.g. a separate advisory group or board?

Financial Viability

My understanding is that some organizations enter social enterprise on solid financial footing, whereas others may be in a less stable financial position. What kind of impact does an organization's current financial position have on their likelihood of success with their social enterprise?

Prompts:

1. What do you look for in terms of the organization's current financial position?

Results

Some organizations define success in terms of generating profits that can be used to cross-subsidize programs and services that they may have trouble generating funding for, while other organizations may be satisfied with breaking even as long as their social enterprise generates the social returns they are seeking for. How do you define success or, otherwise stated, how do you know that you've made a good investment?

Prompts:

1. What type of performance reporting do you require from your funded organizations?

Risk Management:

There are risks involved for anyone starting a small business, and perhaps to an even greater extent for a nonprofit starting a social enterprise. What do you believe are the greatest risks to organizations launching and operating social enterprises?

Prompts:

1. What are your thoughts with respect to the impact of SE on a nonprofit organization's reputation? How have you seen organizations mitigate this risk?
2. How significant do you believe the risk of "mission drift" is with the addition of a SE? How have you seen organizations mitigate this risk?
3. There is evidence to suggest that the biggest threats to the survival of SEs are "the difficulties of balancing for-profit and non-profit principles and cultures" (Rubin & Stankiewicz, 2001). What have you seen in terms of the impact of an organization's culture on their likelihood of success? How have you seen organizations mitigate this risk?

Other

1. What is one piece of advice that you would give to the Executive Director or Chair of the Board of a charity that is considering starting a social enterprise?
2. Is there anything else that you would like to share with me today?
3. If I have further follow-up questions as I begin to write my thesis, would it be okay if I were to contact you again?
4. Is there anyone else whom you would suggest I talk to?

If you have any further thoughts, please don't hesitate to call me or send me an email. My phone number is 403.819.2543 and my email address is jillandres05@gmail.com

Thank you very much for your time. I really appreciated hearing your thoughts and insights and learning from your experience.