



Nonprofit Studies Program

Working Paper 07-01
January 2007

A Unified Theory of Social Enterprise

Dennis R. Young



A Unified Theory of Social Enterprise

Working Paper 07-01

Dennis R. Young

January 2007

Nonprofit Studies Program
Andrew Young School of Policy Studies
Georgia State University
Internet: aysps.gsu.edu/nonprofit

A Unified Theory of Social Enterprise

Dennis R. Young
Nonprofit Studies Program
Andrew Young School of Policy Studies, GSU

Abstract:

The term “social enterprise” is interpreted in a variety of ways by scholars, policymakers, leaders in the business, nonprofit and public sectors, and by interested parties in different parts of the world. The diverse conceptions of social enterprise center on a common notion of engagement of private sector forms of enterprise and market-based activity in the achievement of social purposes. The variety of understandings derives in part from the fact that social enterprise takes place in different economic and political contexts, giving rise to alternative manifestations of the common underlying thrust. Governments, nonprofits, corporations, consumers, workers, investors, donors, volunteers as well as entrepreneurs play a variety of important roles in the consumption and production of social enterprise activity. Only by sorting through the diverse interests of these various groups can the phenomenon of social enterprise be fully clarified. However, given the current state of theory development, social enterprise can only be understood in piecemeal fashion – different strands of theory applying to different manifestations of social enterprise. To date, no overall conceptual framework ties it all together in a comprehensive way. The purpose here is to offer the general outlines of such a framework. What we suggest is very simple – the basic economics paradigm of supply and demand as applied to social enterprise.

Prepared for *Non-market Entrepreneurship: Interdisciplinary Perspectives* edited by Gordon E. Shockley, Peter M. Frank and Roger R. Stough, Edward Elgar Publishing, forthcoming

Introduction

The term “social enterprise” is interpreted in a variety of ways by scholars, policymakers, leaders in the business, nonprofit and public sectors, and by interested parties in different parts of the world (Nyssens and Kerlin, 2006). In Europe, for example, social enterprise tends to connote the engagement of various non-governmental forms of enterprise, including nonprofit organizations and cooperatives, in public service activity to address the employment issues and other needs of marginalized groups (Kerlin, 2006). In the U.S., by contrast, social enterprise has come to describe the undertaking of commercial ventures and engagement with business corporations by nonprofit organizations across a broad spectrum of public service-related activity (Young and Salamon, 2002). In addition, some scholars think about social enterprise along a public/private continuum of organizational forms and arrangements, where the emphasis is on achieving social innovation (Dees and Anderson, 2006). And, there is a growing group of practitioners and policymakers who see social enterprise as a new institutional form in itself – a kind of hybrid economic enterprise which combines profit-making with the achievement of social goals. Indeed, several countries in Europe, including Belgium, Italy and the United Kingdom, have enacted legislation to create new forms of social purpose organizations (Kerlin, 2006).

The diverse conceptions of social enterprise do center, however, around a common notion that social enterprise involves the engagement of private sector forms of enterprise and market-based activity in the achievement of social purposes. The variety of understandings derives in part from the fact that social enterprise takes place in different economic and political contexts, giving rise to alternative manifestations of the common underlying thrust. A related reason is that interests in social enterprise arise from several different segments in society – each of which twists the concept in a particular way. While considerable attention has been focused on so-called “social entrepreneurs” as the genesis of social enterprise activity (Light, 2006), this chapter will argue that the phenomenon is much more complex than that.

Governments, nonprofits, corporations, consumers, workers, investors, donors, volunteers as well as entrepreneurs per se, play a variety of important roles both in the consumption and production of social enterprise activity. Only by sorting through the diverse interests of these various groups can the phenomenon of social enterprise be clarified and fully understood.

A Unified Theory

The phenomenon of social enterprise has various theoretical underpinnings. However, given the current state of theory development, social enterprise can only be understood in a piecemeal way – different strands of theory applying to different manifestations of social enterprise. To date, no overall conceptual framework ties it all together in a comprehensive way. The purpose here is to offer the general outlines of such a framework. What we suggest is very simple – the basic economics paradigm of supply and demand as applied to social enterprise.

Specifically, there are various sources of demand for services produced through social enterprise forms. These include individuals who purchase services and goods, corporations that embrace such activity as an element in their corporate strategies, and governments that seek more efficient or effective ways of addressing social problems and delivering services. Similarly, there are alternative sources of supply, each with its own sets of motivations and incentives. Social entrepreneurs are driven by public and personal goals and nonprofit organizations seek to sustain themselves financially while addressing their social missions. Investors, donors and volunteers all seek both personal and social satisfactions from the resources they offer to the production of social enterprise.

The “market” for social enterprise activity which equilibrates these sources of demand and supply is of course very complex and hardly reducible to simple graphs or equations. However, an overall picture can be built up through the piecemeal process of synthesizing the theoretical fragments underlying each element of supply or demand for social enterprise.

Demand for Social Enterprise

A common form of social enterprise is the sale of commercial goods and services by nonprofit organizations, presumably products that could as well be produced by for-profit organizations. Examples include gift shop items in museum stores, tourist packages offered by university alumni associations, bakeries or restaurants operated by nonprofit social service organizations, second hand merchandise shops operated by agencies such as Goodwill or the American Cancer Society, and parking garages operated by universities or performing arts centers. A distinguishing feature of these commercial offerings is that they could as well be sold by for-profit businesses. They are, in economist's terms, private goods – fully rival and excludable and without any significant externalities or issues of contract failure (James and Young, 2006). A parallel category of social enterprise outputs are products marketed by for-profit corporations with the intent of contributing (all) profits to charity – such as *Newman's Own* salad dressing.

The question at hand is why consumers demand these particular products, as opposed to their purely commercial counterparts. Clearly there is a base level of demand regardless of source of supply – people will purchase tee shirts, go on trips or park in garages whether or not they are provided by a nonprofit organization or a charity-minded corporation. However, a demand for social enterprise requires that consumers prefer to purchase these goods from favored (socially-oriented) suppliers and/or decide to consume more of such goods if offered by those suppliers. Why might they do so? Several possibilities exist.

First, some of these goods are unique or “differentiated products” in the sense that they carry the imprint of the sponsoring organization, and hence have added value. A tee shirt with a university logo or an art reproduction bought at a museum store carries with it the legitimacy or prestige of the institution from which it is purchased. Second, the consumer is likely to understand that the purchase represents a “tie-in sale” wherein a portion of the profits go to supporting the charitable activities of the institution. This added “warm glow” benefit makes these purchases more attractive – perhaps enough to convince a shopper to try *Newman's Own* salad dressing rather than stick with the usual brand, or to purchase baked goods from an alternative bakery whose sponsoring organization is helping to employ challenged workers.

Finally, some commercial goods provided through a social enterprise may offer the consumer greater assurance of quality. A tour of the Galapagos Islands conducted by a university alumni association with access to renowned faculty may promise greater insights and access to current thinking about evolution than a commercial tour, and even an art reproduction bought from a museum store may be thought to be more authentic than one purchased in an ordinary book or print store.

Furthermore, some manifestations of social enterprise may involve production of goods or services characterized by “asymmetric information” between consumers and producers, wherein consumers in a market setting find themselves at some disadvantage in determining if they are receiving a good bargain. Asymmetric information and “contract failure” constitute basic theoretical justifications for the participation of nonprofit organizations in the marketplace (Hansmann, 1986). This argument may extend to various manifestations of social enterprise, such as new ventures undertaken by existing or new nonprofits, involving day care for children or the elderly, tutoring, employment training, credit counseling, or various other services where the consumer has difficulty judging quality, veracity or honest pricing.

For these various reasons, a distinct demand may exist for commercial goods produced in the context of social enterprise, even if such goods themselves are peripheral to the specific social missions of the producing organizations and even if alternative products are available in the commercial marketplace.

Another part of the demand for social enterprise comes from business corporations. Corporations can often achieve important strategic goals, such as positioning their products, motivating their employees and improving their public relations, by associating themselves with charitable causes (Louie and Brooks, 2006). They can do this by sponsoring events and programs and having their own goods and services co-branded with a respected charitable organization. For example, financial corporations sell some of their credit cards by stamping them with the logos of charitable institutions to which they pay a small percentage of revenues from consumer purchases. Alternatively, corporations will sponsor special exhibitions by museums, zoos or arboretums from which they receive considerable positive publicity and for which they offer substantial grant support.

A fine line separates main stream nonprofit activity that happens to be supported in part by corporate philanthropy and “social enterprise” activity that might not be otherwise undertaken without such support. When a museum puts on an exhibit on changing fashions which happens to be supported by a clothing designer, or where a health charity, supported by a corporate grant, promotes a particular medical device or pharmaceutical product for its constituents, the line is sometimes blurred.

Nonetheless, it is clear that a demand for these forms of social enterprise exists in the corporate community, and it derives from the strategic goals of corporations as well as possible eleemosynary motives of corporate leaders (Burlingame and Young, 1996).

A parallel source of demand comes from government. Indeed, in many parts of the developed world, government is a prime mover in social enterprise development, through direct government grants and contracts for such ventures, or by subsidizing clients who would have been served by public programs or otherwise unserved. Here the issue is whether forms of social enterprise, such as the production of public services by nonprofit and business sector organizations can better, or more cheaply, accomplish social goals than direct service by government itself. For example, can nonprofit and for-profit organizations, with governmental financing and oversight, provide employment, education and training, vocational rehabilitation, substance abuse counseling, leadership and entrepreneurship education, and so on, more effectively than a public sector program administered solely within governmental auspices?

There are a number of reasons to think that such enterprises can often do so. First, there is an efficiency argument which posits that smaller (or sometimes larger) scale, market-disciplined, more specialized private organizations that must compete for contracts are likely to have lower costs or better quality than government agencies. Such economies can derive from economies (or diseconomies) of scale to which private entities more easily adjust, or from competition itself. This argument may of course be counter-balanced by risks of corruption if the contracting process is not properly administered. In addition, there is the argument that the goals of many social enterprise activities are intrinsically better addressed in a market context

because they involve market processes. For example, learning how to become a reliable employee or how to run a small business may be better taught through actual involvement in a business enterprise than through a government training program.

More generally, one must consider the question of government's comparative advantages and disadvantages. In particular, government may be quite efficient at collecting and distributing resources, through the tax system for example, but not so efficient in directly delivering services. Private contractors can be more efficient than government in the actual delivery of services. Regimes of contracting out versus direct service provision by government entail different types and levels of "transactions costs." In particular, in-house production involves substantial supervisory and procedural costs while contracting out entails costs of search for, and oversight of, prospective contractors. Thus, for each potential area of service provision government needs to determine when outsourcing is more efficient than in-house production, by weighing these different costs against one another. Over time, we have witnessed an evolution towards the "hollow state," in both the U.S. and abroad, where government concentrates on financing and oversight functions, leading increasingly to contracting out of service delivery to private parties (Skelcher, 2000). A demand for social enterprise on the part of government has arisen in those areas where outsourcing has become the favored mode of public service delivery, including various mental health, community development and social services (Smith, 2002). An interesting case in point was the welfare reform initiative in the United States which led to increased contracting out to human service providers in areas such as child care, employment and training, emergency food services and overnight shelters (De Vita, 1999).

Overall, demand for social enterprise emerges from three main sources – consumers of commercial products who prefer purchasing from social enterprise providers, corporations seeking strategic benefits by association with social enterprise, and governments seeking more efficient or effective ways to address public goals through social enterprise contracting arrangements. These sources of demand provide the resources that help entice potential suppliers of social enterprise activity. And each is understood via different elements of economic theory –

elements that underwrite consumer preferences, corporate profit-enhancement and governmental efficiency-seeking, respectively.

Supply of Social Enterprise

The supply of social enterprise depends substantially on the activity of so-called “social entrepreneurs” willing to respond, as individuals or via host organizations, to the abovementioned demands for the products of social enterprise. Alternatively, social entrepreneurs proactively create a supply of social enterprise activity for which they hope to actualize latent demand. The supply of social enterprise also depends on the providers of investment capital and volunteer resources who are willing to support the social objectives involved, or who, in some cases, may benefit from the social and economic returns to their investments.

Three main theoretical constructs help us understand the supply side of social enterprise. The first is the market for social entrepreneurs, specifically the notion that social ventures compete for entrepreneurial talent in a marketplace that offers a variety of material and intangible rewards. The second is an understanding of nonprofit organizations as multi-product firms. A third is an understanding of volunteering and giving behavior, including the willingness to supply capital or labor at below market rates, in order to support the benefits of a social enterprise.

Consider each of these sources in turn.

Social entrepreneurship is now recognized as a subject of serious scholarly attention (Light, 2006). A key insight of the literature on social entrepreneurship is that entrepreneurship is a generic phenomenon required to catalyze change and create new forms of activity in all parts of the economy (Dees and Anderson, 2006; Hisrich et al, 1997; Young, 1983). Moreover, entrepreneurs are driven by a variety of motivations, not just profit-seeking (Young, 1983). Hence, they seek opportunities in a variety of venues to achieve their goals, which may vary from material reward, to achieving autonomy, to pursuing particular beliefs or artistic or professional satisfactions.

The choice of pursuing social enterprise activity within the framework of a nonprofit organization or indeed in a private sector business venue will depend on the

opportunities that present themselves and the resources made available in particular instances. In this view, social enterprises can provide good matches between the motivations of certain varieties of entrepreneurs and the social and material goals of particular ventures. For example, an entrepreneur seeking to make both a good living and a contribution to society may prefer a social enterprise venture that offers both. A longstanding question in the entrepreneurship and economics literature is whether nonmaterial motives are dominated by profit-seeking motives. The pursuit of social enterprise in areas where straight business alternatives seem to be available suggests that nonmaterial entrepreneurial motivations can have a significant impact on supply.

Similar arguments can be made for suppliers of capital and labor for social enterprise ventures. Clearly, for example, volunteer labor is motivated by factors other than material reward (Preston, 2006). Here too, the possibilities are manifold, ranging from pure altruism and intrinsic satisfaction associated with addressing a social cause, to receipt of private benefits such as status, recognition and on-the-job-training, or in the case of “pro bono” volunteering, the satisfaction of professional obligations and values (Brudney, 2006). The same applies to paid workers who contribute their efforts to social enterprise activity. There is evidence, for example, that many paid workers in nonprofit organizations make so-called “labor donations” by accepting lower pay than they can command elsewhere in exchange for other (psychic and social) benefits associated with their work and venue (Preston, 2004). These potentialities apply to suppliers of capital as well. Social enterprises can offer opportunities for financial return which might be less generous or riskier than alternatives available in the commercial sector. Yet, investors with an interest in social as well as private returns may be willing to invest in them, just as many investors or consumers prefer to support corporations that they consider to be socially responsible. Certainly this would be true of the investment decisions of many foundations and other nonprofits that consider “program related investments” to be part of their investment portfolios (Cantori, 2006). In all, there is no reason to believe that all entrepreneurs and investors who fuel the private economy are solely motivated by material benefits and financial returns. Social enterprises, which combine private and social benefits in various proportions, can successfully attract the

investments of these suppliers of key resources. Indeed, corporations such as Timberland and Starbucks make a particular point of distinguishing themselves through their support of social ventures, in part to make themselves attractive as commercial investments (Austin, 2000).

Finally, many examples of social enterprise manifest themselves within the context of existing organizations – profit and nonprofit. Here again entrepreneurial motivations come into play. Rosabeth Kanter (1983) coined the phrase “intrapreneurship” to recognize that entrepreneurs operate inside organizations as well as in the open marketplace. Indeed, many of the best examples of nonprofit entrepreneurship are found within organizational boundaries and involve individuals who want to change the directions of their organizations in important ways (Young, 1985). In addition, there are structural reasons why nonprofit organizations in particular become the source of their own supply of social enterprise. The theory of nonprofit organizations as multi-product firms, first introduced by Estelle James (1983) and further elaborated by Burton Weisbrod (1998) and others, provides a systematic rationale for such internal venturing.

This theory can be summarized as follows. Nonprofits are run by (entrepreneurial) managers who have certain preferences for producing the social goods associated with the nonprofit’s mission. These managers seek to avoid “non-preferred” activity such as commercial ventures that contribute only to the net financial support of the organization. However, they do derive satisfaction from the additional social programming that they can provide with the extra revenue that non-preferred activity can offer. Thus, nonprofit managers make trade-offs, deciding to undertake a certain level of non-preferred activity in order to maximize their overall satisfaction from the combination of preferred and non-preferred programming.

Many ventures undertaken by nonprofits can be understood through this framework. Social enterprise initiatives that contribute to the organization in purely financial terms may be undertaken and tolerated if they are profitable and do not damage the organization in other ways. Other social enterprise ventures are more comfortably pursued because they combine elements of social mission achievement with financial return. And still other social enterprises are maintained even when

they lose money, because they make important contributions to the social mission. In general, the finding that most social enterprise ventures are closely related to the organization's mission (Massarsky and Beinhacker, 2002; Young, 2005) is consistent with this model of social enterprise as an important element in the supply of a multi-product nonprofit firm.

Theory and the Nature of Social Enterprise

The supply and demand framework helps to explain the varying concepts of social enterprise in different parts of the world. In particular, in Europe the growth of social enterprise appears to be demand-driven (Borzaga and Defourny, 2001, Borzaga and Santuari, 1998). Governments seeking ways to cope with high unemployment and the welfare of marginalized populations needed a new approach outside the traditional welfare state model. The private sector needed to be engaged, with entrepreneurial energies to find new and creative solutions to intransigent problems. In this milieu, the solution moved towards the kind of regime already common in the United States, governmental contracting out with private, largely nonprofit entities.

By contrast, social enterprise in the United States appears mostly to be supply-side driven (Kerlin, 2006). In particular, nonprofits facing increasing competition for funding, constrictions of governmental financing, and indeed competition with for-profit firms in traditionally nonprofit markets such as home health care or higher education, have sought ways to supplement their income with earned income ventures. As multi-product firms, these organizations found new combinations of preferred and non-preferred service offerings in order to survive and grow.

To be sure, both sides of the market needed to respond in each of these cases. In the European venue, new social entrepreneurial energies have been stoked by government policies, stimulating individuals and groups to set up new nonprofit organizations and those within existing charities to develop new contract offerings in response to governmental incentives. In the U.S. case, the supply side initiative has found new pockets of demand among individual consumers interested in the new products and services offered, among philanthropic and governmental funders intrigued with creative market solutions to old problems, and among large

corporations anxious to associate with socially worthy organizations and ventures. While the distinct origins of these two genres of social enterprise yield different forms and combinations in the short run, they can be viewed ultimately as manifestations of the same kinds of interactions of supply and demand for social enterprise activity. However, only a “unified theory” of social enterprise which acknowledges both demand and supply side forces, allows us to recognize social enterprise as a coherent phenomenon and understand its variations from one venue to another.

The Equilibrium for Social Enterprise

The forgoing framework for social enterprise posits that forces of demand and supply come into balance in order to determine the level and type of social enterprise activity observed in the marketplace. An interesting question is why we seem to observe an increasing level of such activity in recent years. Another question is whether the character of social enterprise is changing, for example, becoming “too commercial” as argued by Weisbrod (2004), and hence presenting dangers to society at large or to the host organizations which sponsor them. A review of influences on both the demand and supply sides of our theory helps to sort out these issues. Indeed, this analysis is an extension of that in the previous section which illuminates why social enterprise takes predominantly different forms in the U.S. and Europe.

On the demand side much of the growth of social enterprise seems explainable by governmental retrenchment and withdrawal from direct service provision, on both sides of the Atlantic and elsewhere in the world. In European venues, such “privatization” required the creation of new private (nonprofit) forms as well as movement from a regime of grants and gifts to a system of government contracting with existing charities. In the American context, privatization took the form of both governmental retrenchment in some areas such as the arts and social services, and greater reliance on demand-side financing, such as vouchers and tax credits in health care, economic development and education (Gronbjerg and Salamon, 2002). While the forms of response to these changes were different, both sets of developments encouraged growth in various manifestations of social enterprise. For example, in

Europe much of social enterprise has been connected to the creation of new organizations to employ marginalized populations at government expense, while in the U.S. social enterprise initiatives in the form of businesses employing disadvantaged workers have been created by nonprofit organizations and foundations partly to generate additional income to compensate for diminished government funding and partly to gain access to new (demand-side) forms of government support such as vouchers, tax credits and Medicaid payments.

On the supply side, the growth of social enterprise and its increasingly commercial flavor seem explainable by the engagement of commercially oriented, entrepreneurial energies unleashed by new opportunities for creativity, financial rewards and emphasis on a more business-like culture. Indeed, great concerns have been raised about “mission-drift” wherein changes in personnel, the pressure of competition for resources, and the rewarding of market success, actually transform the internal logic of nonprofit organizations towards revenue maximization and away from maximum mission impact (James, 1998). In fact, contemporary demands for social enterprise do indeed appear to intensify the mission/market tensions inherent in nonprofit operations (Young, 2006). Whether nonprofits can successfully manage these tensions by continuing to subordinate market incentives to mission achievement remains an open question (Weisbrod, 1998), especially as nonprofits and for-profits become increasingly intertwined and distinctions between them continue to blur (Dees and Anderson, 2006).

Incidentally, while the mission-drift phenomenon now seems especially worrisome in the U.S. context of supply-driven social enterprise, it is really an old wine in a new bottle. In the 1970s and ‘80s, analysts in the U.S. worried about undue influence of increased government funding on the integrity of nonprofit organizations (Kramer, 1981). This form of mission-drift has become more of an issue now in countries of Europe such as the United Kingdom, where the financing of nonprofit organizations has shifted from grants to contracts (Knapp and Kendall, 1993).

Another equilibrium-related issue suggested by the supply/demand framework is whether supply or demand for social enterprise can be influenced by specific organizational strategies or public policies. On the demand side, of course, public

policies that favor private over public forms of public service delivery seem bound to encourage social enterprise of one kind or another. There are reasons to believe that policies can affect the supply of social enterprise as well. Light (2006), for example, suggests that the supply of social entrepreneurs may be elastic (presumably with respect to various kinds of incentives) rather than fixed or severely limited in supply as some previous observers have argued. Certainly a number of private sector strategies have been developed to support the pool of entrepreneurial talent and to encourage the supply of social enterprise, including the emergence of networks and associations of support for social entrepreneurs such as the Social Enterprise Alliance, Community Wealth Ventures, and Ashoka. An interesting question for research is whether these developments have indeed had an impact on the supply of social enterprise or have merely identified and shaped efforts that would have taken place anyway.

Finally, the demand-supply framework for understanding social enterprise suggests the value of analyzing the impact of various kinds of public policies on the magnitude and character of social enterprise activity. For example, the framework suggests that governmental outsourcing and privatization policies can be expected to encourage social enterprise activity, while regulatory and tax policies can be expected to influence the shape of those enterprises – for example, whether they take place in nonprofit or for-profit form.

Cases in Point

The influences of the forces of supply and demand on the development of social enterprise activity can be further appreciated through inspection of selected case studies. A few such cases are cited here to illustrate different forms of social enterprise and alternative circumstances under which it comes about.

The *Georgia Justice Project* (GJP) is a nonprofit organization in Atlanta devoted to providing legal assistance and other forms of support to indigent individuals involved in the criminal justice system, including incarcerated individuals, ex-convicts and those facing criminal charges (www.gjp.org). It was founded by John Pickens, a lawyer who, as a volunteer for his church's night shelter, learned that many poor families required legal advice.

As described by Executive Director, Doug Ammar, the GJP is an “unlikely mix of lawyers, social workers and a landscaping company.” The latter company is called *New Horizon*, a venture started to enable GJP to hire men and women who have been in prison. The idea is not only to provide economic assistance to such individuals and their families but to build job skills and work experience that will enable future employment.

New Horizon can be understood as a supply-driven enterprise, conceived by an entrepreneurial director and staff who were motivated by a desire to address an important social problem. In the words of Mr. Ammar: “We did not have any dedicated funds. We were not responding to an RFP. We were not responding to any known demand – only the needs of our clients for employment....We have never had nor sought government support for this...We believed that the business could pay for itself. We were not aware of the potential this business would create in the funding world....Over the next [first] few years, the business created a great financial drain on our operation – we lost tens of thousands of dollars for years...But at the same time we created an opportunity for our donors.” (e-mail message; Sept. 18, 2006).

Currently, the company succeeds not only in providing critical employment experience to clients but also generates substantial revenues to help support the landscaping business and the rest of GJP’s operations. Overall, *New Horizon*’s direct earnings contribute almost 27 percent of GJP’s total revenue. The largest proportion of GJP’s revenues, approximately 72 percent, comes from gifts and grants, much of that driven by support of *New Horizon*. A small remaining component of income derives from interest on savings accounts and court fees. Aside from such fees, GJP receives no government funding.

Demand for *New Horizon* stems from the marketplace itself – businesses and residential customers who require landscaping services and who are attracted both by its competitive prices and service quality and the special benefit of knowing that the company is helping to address an important social problem. Additional components of “demand” take the form of donor support - particularly conservative lawyers and Southern donors who are attracted to *New Horizon*’s “bootstrapping” philosophy

wherein at-risk clients are trained and employed in a bottom-line business and expected to show up every day and work to get their lives on track.

It seems clear that *New Horizon* was not primarily demand-driven. No government funds were designated to create special employment services of this kind, nor were households, philanthropic foundations or businesses clamoring for a new landscaping service manned by ex-convicts. No doubt, however, there was a *latent* demand on the part of sympathetic users, especially other nonprofits with grounds that required tending, as well as segments of the local donor community including attorneys, churches, foundations and corporations.

Another especially visible case in point is the recent establishment of *Google.org* by *Google, Inc.* (Hafner, 2006). *Google.org* is described as a for-profit philanthropy seeded by *Google, Inc.* with \$1 billion to address poverty, disease and global warming. One of its first initiatives is to develop an ultra-fuel efficient hybrid car engine in order to reduce global dependence on oil. The unusual for-profit format for *Google.org* provides the company with substantial flexibility to invest its funds in various kinds of promising technological and social ventures, and avoid various regulations that constrain conventional nonprofits or foundations. As such, *Google.org* ignores some sources of potential demand for its projects, such as traditional donations or government contracts that might require nonprofit status. However, given its origin and source of capital, these may be of little consequence to the success of *Google.org*.

That is not to say, however, that *Google.org* is entirely supply-driven. In particular, *Google.org* clearly serves the needs of its parent corporation, helping the latter to fulfill its promise to investors to devote 1 percent of its stock and 1 percent of its profits to philanthropy. This intent may be viewed in both demand and supply terms. Clearly the founders of *Google, Inc.* have incorporated some of their own social objectives into their plans for using the new wealth that the company has created. And indeed they have engaged an executive director for the company whose career encompasses substantial experience in public health, and who can thus be expected to push new ventures on the basis of their potential *social* benefits. However, *Google.org* is also an important strategic initiative of the parent corporation

that will contribute to its commercial success in the marketplace by bolstering its benevolent public image. Hence, the advent of *Google.org* can as well be reasonably described as partly demand-driven, stemming in large measure from the strategic needs of its successful parent corporation.

Other cases of social enterprise are more clearly demand-driven, stemming from public sector policy and resource allocation. For example, under the Social Labour Provision Act in the Netherlands, local authorities are responsible for establishing so-called *sheltered* or *social workshops* in order to employ individuals with physical and mental handicaps. According to Renooy (2001) these units have been set up as public corporations and foundations, and have engaged in subsidized work in manufacturing, horticulture and other areas of economic activity. Similarly, in the United Kingdom, the Health Services and Care in the Community Act of 1993 was the impetus for new voluntary and cooperative enterprises providing community and home-based services for the elderly, the mentally ill, or the physically disabled, in place of large government institutions (Spear, 2001). In Germany, the so-called Work Integration Social Enterprises (WISE) also stem in large measure from policies that require government partnerships with private suppliers in order to employ jobless workers (Bode, Evers and Schulz, 2004). In the United States, the establishment of nonprofit Community Development Corporations followed a similar scenario, where government initiative provided the resources and mandate for the establishment of locally-based social enterprises to address the needs of low income communities (Vidal, 2002). In all these cases, demand in the form of government programs and resources was explicit, although the emergence of social enterprise also depended on the response of latent sources of supply – e.g., potential social entrepreneurs who exploited new opportunities created by government.

The Future of Social Enterprise Study

The supply/demand framework for understanding social enterprise has the potential for integrating heretofore disparate subject matter into a more coherent whole. At the root of social enterprise is the notion that governments cannot address all important social needs by themselves, and that other vehicles and sources of

support are available, and indeed will emerge, to address those needs. Indeed, governments' realization of their limitations is growing, leading to increasing levels of social enterprise development in various forms. Nor do traditional private forms of enterprise such as conventional nonprofit organizations exhaust the set of possibilities through which social enterprises can develop. Commercial ventures by nonprofits, cooperative forms, public/private partnerships, corporate initiatives and indeed hybrid organizations with mixed financial and social goals, are all possible under various circumstances.

The supply/demand framework suggests that if there is a latent demand for addressing a particular social need, then social enterprise may come about in one of two ways – by making the latent demand explicit through government funding programs or initiatives by private sources of funds, and then working to develop or attract potential sources of supply; or through social entrepreneurship, undertaken by individuals and teams within or outside existing organizations, that formulate social projects and then cobble together support from latent sources of demand.

Viewed in total, this perspective on social enterprise brings together several streams of existing study and scholarship from a number of different disciplines, including the study of traditional nonprofits in a variety of academic settings including schools of public administration, social work, interdisciplinary centers, and schools of business, the study of corporate philanthropy and social enterprise in schools of management and business, and research on welfare state policies in schools of policy studies, social work and departments of political science. A full understanding of social enterprise will therefore require crossing these disciplinary boundaries and perhaps even redefining the study of privately-based, socially directed economic activity in a manner that transcends the old labels of nonprofit organization, social entrepreneurship or corporate philanthropy.

Acknowledgments

The author wishes to thank Lewis Faulk for his help with sources for this paper, Janelle Kerlin for her suggestions and comments on a first draft, and Doug Ammar for his insights about the Georgia Justice Project.

References

- Austin, James E. (2000). *The Collaboration Challenge*, San Francisco: Jossey-Bass Publishers
- Bode, Ingo, Adalbert Evers and Andreas Schulz (2000). “Facing New Challenges, Work Integration Social Enterprises in Germany”, 2004. Paper presented to the International Society for Third-Sector Research, Toronto, July
- Borzaga, Carlo and Jacques Defourny (eds) (2001). *The Emergence of Social Enterprise*, London: Routledge
- Borzaga, Carlo and Alceste Santuari (eds) (1998). *Social Enterprises and New Employment in Europe*, Trento Italy: Regione Autonoma Trentino-Alto Adige and Autonome Region Trentino-Sudtirol in cooperation with the European Commission – D.G.-V CGM- “Consorzio Nazionale della Cooperazione Sociale”
- Brudney, Jeffrey L. (2006). “The Distinctiveness and Efficiency of Pro Bono Volunteering, in Dennis R. Young (ed), *Wise Decision-Making in Uncertain Times*, New York: The Foundation Center, pp.205-223
- Burlingame, Dwight and Dennis R. Young (eds) (1996). *Corporate Philanthropy at the Crossroads*, Bloomington: Indiana University Press
- Cantori, Greg (2006). “Holistic Grantmaking”, in Dennis R. Young (ed), *Wise Decision-Making in Uncertain Times*, New York: The Foundation Center, pp. 171-189
- Dees, J. Gregory and Beth Battle Anderson (2006). “Framing a Theory of Social Entrepreneurship: Building on Two Schools of Practice and Thought”, in Rachel Mosher-Williams (ed), *Research on Social Entrepreneurship*, ARNOVA Occasional Paper Series, Vol.1, No.3, pp.39-66
- De Vita, Carol J. (1999). “Nonprofits and Devolution: What Do We Know?”, in Elizabeth T. Boris and C. Eugene Steuerle (eds), *Nonprofits & Government: Collaboration and Conflict*, Washington, D.C.: The Urban Institute, pp. 213-233
- Gronbjerg, Kirsten A. and Lester M. Salamon (2002). “Devolution, Marketization, and the Changing Shape of Government-Nonprofit Relations”, in Lester M. Salamon (ed), *The State of Nonprofit America*, Washington DC: Brookings Institution Press, pp.447-470
- Hafner, Katie (2006). “Philanthropy Google’s Way: Not the Usual”, *The New York Times*, September 14, pp.1,C4
- Hansmann, Henry (1987). “Economic Theories of Nonprofit Organization”, in Walter W. Powell (ed), *The Nonprofit Sector: A Research Handbook*, New Haven: Yale University Press, pp.27-42

Hisrich, Robert D., Everette Freeman, Anne P. Standley, John A. Yankey and Dennis R. Young (1997). "Entrepreneurship in the Not-for-Profit Sector: The State of the Art", in Raymond W. Smilor and Donald L. Sexton (eds), *Entrepreneurship 2000*, Chicago:Upstart Publishing Co., 321-335

James, Estelle (1983). "How Nonprofits Grow: A Model", *Journal of Policy Analysis and Management*, 2, pp.350-365

James, Estelle (1998). "Commercialism Among Nonprofits: Objectives, Opportunities, and Constraints", in Burton A. Weisbrod (ed), *To Profit or Not to Profit*, New York: Cambridge University Press, pp.271-285

James, Estelle and Dennis R. Young (2006). "Fee Income and Commercial Ventures", in Dennis R. Young (ed), *Financing Nonprofits*, New York: AltaMira Press, pp.93-119

Kanter, Rosabeth (1983). *The Change Masters: Innovation and Entrepreneurship in the American Corporation*, New York: Simon & Schuster

Kerlin, Janelle (2006). "Social Enterprise in the United States and Abroad: Learning from Our Differences", in Rachel Mosher-Williams (ed), *Research on Social Entrepreneurship*, ARNOVA Occasional Paper Series, Vol.1, No.3, pp.105-125

Knapp, Martin and Jeremy Kendall (1993). "Policy Issues for the U.K. Voluntary Sector in the 1990s" in Avner Ben-Ner and Benedetto Gui (eds), *The Nonprofit Sector in the Mixed Economy*, Ann Arbor: The University of Michigan Press, pp. 221-241

Kramer, Ralph M. (1981). *Voluntary Agencies in the Welfare State*, Berkeley: University of California Press.

Light, Paul C. (2006). "Searching for Social Entrepreneurs: Who They Might Be, Where They Might Be Found, What They Do", in Rachel Mosher-Williams (ed), *Research on Social Entrepreneurship*, ARNOVA Occasional Paper Series, Vol.1, No.3, pp.13-37

Louie, Alison and Arthur C. Brooks (2006). "Engaging Business with Nonprofits", in Dennis R. Young (ed), *Wise Decision-Making in Uncertain Times*, New York: The Foundation Center, pp.191-204

Massarsky, Cynthia W. and Semantha L. Beinhacker (2002). "Enterprising Non-profits: Revenue Generation in the Nonprofit Sector", Yale School of Management-Goldman Sachs Foundation Partnership on Non-profit Ventures,
[\(\[http://www.ventures.yale.edu/docs/Enterprising_Nonprofits.pdf\]\(http://www.ventures.yale.edu/docs/Enterprising_Nonprofits.pdf\)\)](http://www.ventures.yale.edu/docs/Enterprising_Nonprofits.pdf)

Nyssens, Marthe and Janelle Kerlin (2006). "Social Enterprise in Europe", working paper presented to the International Society for Third Sector Research, Bangkok Thailand, July, 14 pp.

Preston, Anne E. (2004). “Compensation in Nonprofit Organizations”, in Dennis R. Young (ed), Effective Economic Decision-Making by Nonprofit Organizations, New York: The Foundation Center, pp.47-66

Preston, Anne E. (2006). “Volunteer Resources”, in Dennis R. Young (ed), Financing Nonprofits, New York: AltaMira Press, pp.183-204

Renooy, Piet H. (2001). “The Netherlands: Neighborhood Development Enterprises”, in Carlo Borzaga and Jacques Defourny (eds.). The Emergence of Social Enterprise, London: Routledge, pp.236-251

Skelcher, C. (2000). “Changing Images of the State: Overloaded, Hollowed-out, Congested”, *Public Policy and Administration*, 15(3), 3-19

Smith, Steven R. (2002). “Social Services”, in Lester M. Salamon (ed), The State of Nonprofit America, Washington DC: Brookings Institution Press, pp. 149-186

Spear, Roger (2001). “United Kingdom: A Wide Range of Social Enterprises”, in Carlo Borzaga and Jacques Defourny (eds.), 2001. The Emergence of Social Enterprise, London: Routledge

Vidal, Avis C. (2002). “Housing and Community Development”, in Lester M. Salamon (ed.), *The State of Nonprofit America*, Washington DC: Brookings Institution Press, pp.219-239

Weisbrod, Burton A. (ed) (1998). To Profit or Not to Profit, New York: Cambridge University Press

Weisbrod, Burton A. (2004). “The Pitfalls of Profits”, Stanford Social Innovation Review, Winter, 40-47

Young, Dennis R.(1983). If Not For Profit, For What?, Lexington, MA: Lexington Books.

Young , Dennis R.(1985). Casebook of Management for Nonprofit Organizations: Entrepreneurship and Organizational Change in the Human Services, New York: Haworth Press

Young, Dennis R. (2005). “Mission-Market Tension in Managing Nonprofit Organizations”, Working Paper NP 05-02, Nonprofit Studies Program, Andrew Young School of Policy Studies, Georgia State University

Young, Dennis R. and Lester M. Salamon, 2002. “Commercialization, Social Ventures, and For-Profit Competition”, in Lester M. Salamon (ed.), The State of Nonprofit America, Washington DC: Brookings Institution Press, pp.423-446

Young, Dennis R. (2006). "Social Enterprise in Community and Economic Development in the U.S.A.", International Journal of Innovation and Entrepreneurship Management, 6 (3), 241-255