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Nonprofit Social Enterprise: Social Change in a New Economic Paradigm

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NONPROFIT SOCIAL ENTERPRISE: SOCIAL CHANGE IN A NEW ECONOMIC
PARADIGM

A Dissertation Presented

by

Cyrus Patten

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ABSTRACT

Changes are afoot in the nonprofit sector of the economy (James, 2003). Nonprofit leaders are adopting entrepreneurial business models to sustain or expand the scope of their mission work. This change is part of a counter-hegemonic shift toward a new economic paradigm in which blended business models create both social and financial value (Sabeti, 2009; Sahakian & Dunand, 2013). The current study explored how nonprofit leaders understand the shift toward a more enterprising and entrepreneurial nonprofit sector. Qualitative methods, along with a grounded theory framework were used to elicit leaders' perspectives on the emergence of social enterprise in nonprofits and the characteristics of successful nonprofit social enterprise. Findings include five themes of social enterprise understanding that offer structure for further research and professional discourse on the subject, including: 1) Social enterprise as a necessary and inevitable evolution of the nonprofit organization; 2) Social enterprise as a means of achieving a social mission; 3) Social enterprise as a true blending of business and social impact models; 4) Social enterprise as a business principle applied to a social mission context; and 5) Social enterprise as a market-driven approach to financial and social value creation. A secondary analysis points to the emergence of a social enterprise synergy effect in which the social and financial value generated by nonprofit social enterprises yield a third effect that is greater than the sum of the individual parts. The implications of these findings are limited to nonprofit social enterprises, but contribute to our understanding of this nascent field.

Keywords: Social Enterprise, Nonprofit, Not-for-profit, Fourth Sector, Third Sector, Social Entrepreneurship, Synergy, Social Mission, Social Impact

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CHAPTER ONE: INTRODUCTION

1.1 The Changing Nonprofit Sector

The nonprofit sector exists to serve an important role by filling a gap between the private and government sectors (Corry, 2010; Gunn, 2004). This work is typically considered charitable in nature, being primarily mission focused with little consideration for fiscal sustainability (Worth, 2016). Many Americans rely on nonprofits for basic services, medical care, and higher education as well as functions of civilized society and basic human protections (L. M. Salamon, 1999a, 2015).

In recent years, nonprofits have embarked on a new mission – seeking sustainability (James, 2003). It is no longer “taboo” (MacDonald, 2005) for nonprofit leaders to talk about marketing or seeking profits to sustain or expand their mission. The terminology is not uniform; these organizations are called social enterprises or social ventures, yet these words have different meanings for different stakeholder groups (Hill, Kothari, & Shea, 2010). While nonprofits are moving toward a more entrepreneurial future, the private business sector is moving toward a more civic-oriented existence (Young & Salamon, 2002). The organizations that engage in the blurring of conventional sector boundaries are joining a loose amalgamation dubbed the “fourth sector” (Sabeti, 2009).

Organizations with a primary social benefit are typically nonprofit. This structural definition stretches back to the genesis of the legal definitions in the 1970’s, yet nonprofits were first mentioned in statute in the 1880’s (Arnsberger, Ludlum, Riley, & Stanton, 2008; Hall, 2005). Social enterprises are entities that blend a social benefit with

business principles such as a profit motive – even if the profit is used to expand the scope or depth of the social mission. Hospitals and universities have operated under this model for decades. For traditional nonprofits, the notion of moving into a new sector is relatively new territory. While many consider the profit generated by these nonprofit hospitals and universities acceptable, the same consideration is not extended to other nonprofits that wish to sustain and scale their social mission with earned revenue. Organizations that grow the portion of their revenue from earned sources such as sales, services, and fees are met with skepticism if only for fear the source of revenue will harm the integrity of the nonprofit sector. As Child (2010) suggested,

The assertion that nonprofits have become more reliant on commercial revenues has become a point of great interest both inside and outside of the scholarly community because of what the trend means for the future of civil society. Some, for example, worry that attention to market forces, signified by changing reliance on earned income, will alter one of the defining characteristics of nonprofit organizations – namely, that they operate largely outside of the for-profit marketplace and are therefore not subjected to market pressures in the same way that businesses are (p. 146).

There are three currently accepted elements or “sectors” in the American economy (Gunn, 2004). The first sector includes the market or private sector where business is found. The second sector includes the functions of government typically considered “public” functions. The third sector is loosely described as the nonprofit, civic or voluntary sector. This sector typically includes faith organizations as well (Corry,

2010; Gunn, 2004). While each sector exists with specific boundaries as defined by legal and tax codes, the practical boundaries are much more fluid and, at times, overlapping. Figure 1.1 illustrates the intersections between sectors and the types of organizations found in each overlapping space as adapted from Gunn (2004, p. 5).

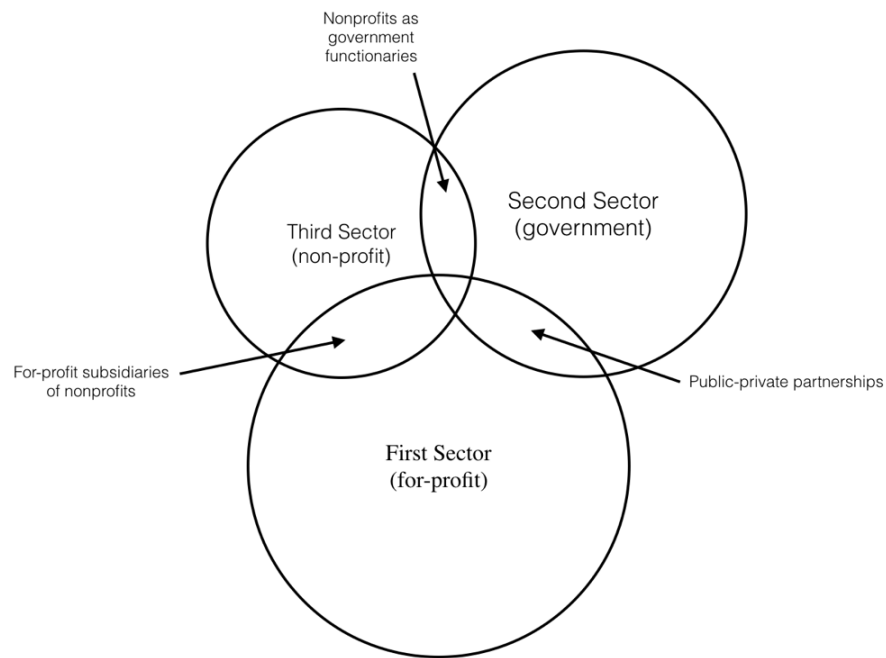


Figure 1.1 The intersection of the three economic sectors.

With this emergence of a fourth sector comes a new breed of social entrepreneur – social innovators who seek to maximize social benefit with an entrepreneurial mindset (Chell, 2007; Dees, 1998a). The implications of this sea change cascade into multiple domains such as management theory, organization change, public administration, and economics (Dart, 2004). This fourth sector blends the benefits of the for-profit and nonprofit models to scale social change where scale is not typically possible due to resource or other environmental limitations (Weerawardena & Mort, 2006). At the core

of the emergence of a fourth sector is a wholesale shift in how our culture addresses social problems. For example, the dominant legal and tax code structures that define organizations are being rejected by social entrepreneurs. These structures have contributed to an inaccurate perception of nonprofit limitations such as their inability to generate revenue. These perceptions contribute to pressures that affect nonprofit leaders ability to innovate. According to Dees, Emerson, and Economy , nonprofit leaders face government funding cuts, rising demands for performance evaluation, and new competition from the business sector (2002). These pressures have lead to the growth of nonprofit social enterprise. In practice, the fourth sector is expressed as nonprofit leaders embracing business principles and business leaders embracing social change priorities.

1.2 Purpose

The purpose of this study is to understand the emergence of a fourth sector in the economy – specifically its impact on nonprofits that operate social enterprises. This study used qualitative methods, including grounded theory, to explore social enterprise in the nonprofit setting. The outcome of this research has the potential to scaffold a deeper, more rigorous examination of social enterprise constructs and implications in the nonprofit sector.

The movement toward a new economic paradigm within nonprofits is part of a larger global shift that promises to have sweeping impact on our ability to fund and scale social change efforts. While this study focused specifically on social enterprise in the nonprofit sector, the broader sea change is that of the blending between organizational purposes and profit orientations – between financial and social value creation. This

blending pushes the traditional definitions of business and nonprofit, profit and charity. In order to understand the implications for the specific observations, this research points to the broader changes as context.

This study is a constructivist grounded theory exploration of the emergence of the fourth sector as it applies to nonprofit organizations. Qualitative data from interviews with nonprofit social entrepreneurs were combined with social enterprise literature to yield data from which this theory was constructed. A deeper understanding of this phenomenon exposes opportunities for robust research and provide the groundwork for inter- and intra-sectoral discourse on social enterprise. I offer a detailed analysis of the implications of this emerging sector in systemic, economic, and societal terms. Significant focus was placed on the societal implications of embracing a new normative understanding of nonprofits in our society.

1.3 Problem Statement

There are over 1.5 million organizations recognized as tax-exempt by the IRS. In 2010, they accounted for 9.2 percent of all wages paid and in 2014 were responsible for 5.3 percent of the national GDP. In 2013, a subset of nonprofits, public charities, reported \$1.74 trillion in total revenues (McKeever, 2015). Nonprofits operate as hospitals, universities, research institutions, charities, consultancies, foundations, and more. The true size and economic impact of this sector is immeasurable because many smaller organizations and churches are not required to report financial data to the Internal Revenue Service (IRS). The observable parts of the nonprofit sector represent a

significant portion of the American economy. Any shift in the business model of this industry would generate an economic and social ripple effect across the country.

Social enterprise is loosely defined as the blending of social and financial value creation (Chell, 2007; Dees & Anderson, 2003a; Sabeti, 2009; Santos, 2012). It describes not just economic, tax, or business concepts but an overarching shift in leadership principles. Words like sustainability, enterprising, and entrepreneurship now pervade nonprofit executive job descriptions. Boards of trustees are recognizing social enterprise as a key component of many nonprofits' futures and thus are recruiting for key leadership positions with entrepreneurialism in mind.

Yet in spite of this shift, the construct of nonprofit social enterprise is not well understood by nonprofit leaders or scholars (Dacin, Dacin, & Matear, 2010). While nonprofits are adopting entrepreneurial mindsets with blinding speed, our conceptual understand of this change has not kept up (Stecker, 2014). Meanwhile, pressures on nonprofit leaders to diversify and stabilize revenue have fostered the emergence of a new blending of social and financial value models (Carroll & Stater, 2009b; Foster & Bradach, 2005).

The blurring of lines between the business and nonprofit sectors as observed by an increasing number of entrepreneurial nonprofits has been dubbed the fourth sector of the economy. Yet this change reflects broader shifts in the cultural understanding of the nonprofit sector and changes in approaches to social change – far more complex than the formation of an economic sector.

Nonprofit leaders are taking part in a shift toward a new economic paradigm without a conceptual understanding of the process. There is very little formal research to guide this complex change process. Further, there is disagreement as to definition and boundaries of the fourth sector (Luke & Chu, 2013; Teasdale, 2011; Williams, 2002). Nonprofit leaders see the need for a more entrepreneurial approach as evidenced by their widespread adoption of social enterprise principles. Yet the majority of research focuses on implications and applications of social enterprise on the business sector, largely neglecting the nonprofit sector (Ashmos & Huber, 1987; Dacin, Dacin, & Tracey, 2011; Hill et al., 2010). While nonprofit scholars seem to agree that social enterprise is key to future nonprofit success and sustainability, the dominant social construction of nonprofits in the U.S. does not allow for entrepreneurial business models. The problem addressed in this study is this lack of conceptual understanding of social enterprise and the emergence of a fourth sector of the economy. Understanding social enterprise in the nonprofit context allows for more meaningful, evidence-based discourse and research. This research is intended to support the widespread adoption of social enterprise in the nonprofit sector, significantly reducing the sector's reliance on public resources. To put this in context, the 35 percent of the nonprofit sector that must report finances to the IRS disclose public funding in excess of \$1.9 trillion (McKeever, 2015).

1.4 Research Questions

Toward the goal of understanding the emergence of the fourth sector and its impact on nonprofit leaders and social change, I developed the following research questions:

1. How do nonprofit leaders understand social enterprise?
2. What impact have cultural assumptions had on the emergence of nonprofit social enterprise?
3. What are the implications for social change efforts based on the emergence of nonprofit social enterprise?

1.5 Summary

This research is an examination of a sea change in the construction of the nonprofit sector, wherein nonprofit leaders are adopting an entrepreneurial approach. This change has been considered part of the emergence of a fourth sector of the economy. This research sought to understand how nonprofit leaders see this change and describe the implications for the nonprofit sector, American economy, and social change efforts.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

There is an observable and fundamental change in how society is attempting to spur social change. Despite rapid increases in quality of living across the globe, humankind is presented with seemingly intractable challenges such as global warming, income inequality, poverty, food insecurity, and variations in access to quality education (Dees, 1998a). A new generation of change agents is attempting to solve these problems with social innovation in ways that expand upon and change previous efforts to address issues through nonprofit work. These innovations necessitate revisions to the very structures through which social problems have been addressed historically. These revisions can be described as pushing the limits of normative understanding of nonprofit boundaries by proposing tolerance of a more enterprising and business-like approach to management. When the traditional boundaries of business and nonprofit activities are pushed, the overlapping sections of the economy grow bigger. It is these blended models that can be described as comprising the fourth sector. In practice, this innovation or emergence of a fourth sector is referred to as social enterprise, social entrepreneurship, and social ventures (Chell, 2007; Luke & Chu, 2013). Scholars and nonprofit leaders do not yet understand the scope of the fourth sector, the forces acting upon and within it, or the implications of fourth sector growth as evidenced by the nascent nature of the literature and the lack of common language to describe this change.

2.1.1 Structure of the literature review. What follows is an overview of literature addressing the key constructs used in this research and a brief discussion of how

these terms are by nonprofit leaders and scholars. I describe the three sectors of the American economy and how they interact, and present evidence of an emerging fourth sector. I conclude this chapter by making a case that the fourth sector is in need of foundational research to define terms and boundaries and practice-oriented research to guide nonprofit leaders as they adopt an entrepreneurial approach to leadership in the nonprofit setting.

Traditional grounded theory methodology discourages a review of literature prior to collecting and analyzing data (Glaser, 1992). The author of this approach felt grounded theory was a uniquely open-ended approach which could be skewed by too much awareness of prior research. In this case, the literature review is a component of an iterative cycle of research on the fourth sector (Charmaz, 2014), and a necessary step in setting the stage for meaningful scholarly inquiry (Willig, 2013). The intent of this chapter is to establish a prerequisite understanding that nonprofit leaders are adopting new strategies as part of an emerging fourth sector. A second iteration of this review is included in Chapter 4, providing evidentiary support for the grounded theory that emerged from the data.

A conceptual framework that underlies this literature review is acknowledgment of the traditional assumption that social and financial values are opposing forces that must be balanced in an organizational environment (Brozek, 2009; Chertok, Hamaoui, & Jamison, 2008; Emerson, 2003; Marwell & McInerney, 2005). This chapter critically examines this dominant construction of organization foci as a linear continuum. Building

on this, an outcome of this research is a multi-dimensional model of social enterprise in the nonprofit sector from data provided by nonprofit leaders.

To set the stage for addressing my second research question, in the discussion and second-phase literature review, I critically explore the cultural assumptions about nonprofits that have led to the formation of a fourth sector with special attention paid to the role of nonprofit leaders as social entrepreneurs (Alliance, 2010; Dees, 1998a; Dees et al., 2002).

The scope of this review includes research of any methodology that focused on nonprofits in the United States that are engaging in social enterprise. In conducting the review, I sought research on key terms including social enterprise, social entrepreneurship, and social ventures. An early finding of this literature review was that social enterprise appears to be the most commonly used and broadly defined term for these types of blended business-mission activities. For the purposes of this research, the term social enterprise is used to describe the research focus. I specifically focused on these activities within the nonprofit sector. While social enterprise, for example, is not bound to the nonprofit sector, this research focuses on the implications of these types of activities for nonprofit leaders.

2.2 Key Constructs

There is disagreement on terminology among nonprofit leaders and scholars that complicates a review of literature. This section is intended to summarize the most prevalent definitions of the key constructs that make up this research. While these

construct definitions are not intended to be comprehensive, they do reflect a preponderance of thinking around each concept.

Among notable scholars exploring the intersection of business and social good, social enterprise is described simultaneously as a for-profit company with a social mission, a non-profit corporation with earned-revenue, and an altogether different structure that allows for the pursuit of both mission and profit (Dart, 2004; Duncan Jr, 2007; Teasdale, 2011). This has led to inconsistencies, both in practice and research, which are part of the genesis of this work. The nascence of these concepts as modern applications for nonprofits has resulted in confusion about terms and thus a limited discourse on best practice.

2.2.1 Nonprofits. Within the scope of nonprofit research and this proposal, several key constructs need to be defined. In the United States, “nonprofit” and “not-for-profit” are used interchangeably. These terms normatively refer to organizations that have been recognized by the Internal Revenue Service as tax exempt. Small organizations and churches need not apply for tax exempt status and may operate as such if they meet certain criteria ("Organizations Not Required to File Form 1023,"). The terms “foundation,” “fund,” and “charity” are often used in reference to specific types of nonprofit organizations. Outside of the U.S., a common term is Non-Governmental Organization (NGO). Informally, the term “organization” is often a reference to a nonprofit while “company” or “corporation” refers to a for-profit. In this research, “nonprofit” is used to describe tax exempt organizations as defined by the Internal Revenue Service (McKeever & Pettijohn, 2014).

The modern construction of the nonprofit in the United States can be traced to the early 1900's even though some venerable institutions have existed, in some form, for thousands of years (Herman, 2011). Over 90% of nonprofits that exist in the U.S. today were created since 1950. In the early days of the country (1780-1860) charitable organizations existed only as loose social networks of individuals with common interests. During and directly after the Civil War (1860-1890) people were engaged in the rebuilding of a nation and the concept of nonprofits evolved slightly further. Groups developed methods of supporting soldiers and repairing the damage of war (Herman, 2011). During the early economic booms when America's first super-wealthy emerged from a thriving business community, a true legal definition of nonprofits began to form. The laws that govern the nonprofit sector and incentivize charitable giving were established between 1894 and 1969 (Arnsberger et al., 2008). These laws, for the first time, formally recognized organizations that existed for a primarily charitable purpose.

In recent years, nonprofit numbers have grown considerably. Their economic power has grown consistently as well (Figure 2.1). Between 2007 and 2012, the Bureau of Labor Statistics (2016) reports the number of nonprofit employers grew by 15.3 percent while private sector employers grew by just 1.7 percent. During the same period, nonprofit employment numbers grew by 8.3 percent while the private sector shrunk by 3 percent. Further, total wages paid in the nonprofit sector grew by 26.3 percent while private sector wages grew by 7.6 percent.



Figure 2.1 Nonprofit vs. Private Sector Growth 2007-2012

The growth of the nonprofit sector can be attributed to multiple factors, not the least of which is a positive correlation with national economic and social justice. That is, when a country’s people struggle, demand for nonprofit services increases.

2.2.2 Social enterprise. Defined as various blends or balances of social and financial value creating programs, social enterprise is becoming more common under “a new pro-business Zeitgeist” (Dees, 1998a, p. 56) in the nonprofit world. What we now call social enterprise is not at all a new concept. Nonprofit organizations have deployed earned revenue business models since they were first given distinct legal status in the United States in the early 20th century. Excluding religious institutions, earned income in nonprofit organizations has exceeded donation revenue in U.S. public charities for many years (Dees, 2003).

In the years between 2005 and 2013, nonprofit revenue from fees and contracts grew from 54 to 72 percent. These figures exclude hospitals and universities. Formal academic discourse on the subject, however, is still very new (Dacin et al., 2011). There is no widely accepted demarcation of boundaries, meaning terms like social enterprise can be applied loosely. Any company can legally call itself a social enterprise or venture. Social entrepreneurship is a more inclusive term that is used to describe a leadership orientation or a subset of entrepreneurs that seek to impact social problems. Interview participants were asked how they understand the term “social enterprise” to further examine this phenomenon.

2.2.3 The three sectors of the economy. There are three elements of the American economy which spread far beyond economic definitions and into cultural, religious, philosophical, and other domains (Gunn, 2004). The sectors are defined by legal and tax codes while the priorities of the individual institutions can be a reflection of the social priorities of their founders. These priorities are not bound to one single economic domain and instead move in response to our own interests and priorities. We see this expressed as businesses with social missions, churches operating schools, and myriad other examples of blended functions.

The first sector includes the market or private sector where business is found. The second sector includes the functions of government typically considered “public” functions. The third sector is then loosely described as the nonprofit, civic or voluntary sector and typically includes faith organizations and institutions of higher education (Corry, 2010). To define the sectors, one can look to economic, legal, tax or even

political disciplines (Anheier & Seibel, 1990). This research is limited to the third sector of the economy except with respect to the interaction with the first and second sectors, and the forces they apply toward the formation of a fourth sector.

2.2.4 The third sector. When most people think of the third sector, they are drawing on a social construction of nonprofit organizations that is formed through personal experience (Herman & Renz, 1997). This leads to varying and personalized definitions of what it means to be nonprofit.

Nonprofits serve an important role filling gaps in service between the first and second sectors. Where a need exists and neither government nor business will meet the need, the nonprofit sector often steps in (Gunn, 2004). But their role is significantly more nuanced than this. While many people do not know that the third sector exists, almost everyone interfaces with it at least once in their life (Gunn, 2004). As many hospitals and universities are nonprofit organizations, their services and intellectual contributions to society reach nearly all corners (Powell & Owen-Smith, 1998; L. M. Salamon, 2015).

At 5.4% of U.S. GDP, the third sector is a significant economic force in its own right (McKeever, 2015) and it is growing (McKeever & Pettijohn, 2014; Zimmermann, 1999). In 2012, only thirty-five percent of the third sector was required to file financial reports with the IRS. As such, the true magnitude of the third sector economy is not known (McKeever & Pettijohn, 2014). Weisbrod (2000) contends that with the boundaries between sectors blurring, the links between nonprofits and the rest of the economy are strengthening.

Figure 2.2 illustrates the relationship between the second and third sectors of the economy and the pressures that have contributed to the emergence of a fourth sector. It was adapted from the work of Sabeti (2009), whose framework further highlights the belief that social and financial value creation are mutually exclusive or counterforces. Social value is traditionally measured as nonprofit mission impact while financial value is created by for-profit business that generates value for shareholders. Sabeti's work argues a fundamental characteristic of the fourth sector is this blending of social and financial value creation. This model can thus be applied across organizational structures, tax statuses, and varying organizational foci. A second fundamental characteristic of Sabeti's framework –one that is challenged slightly by this research- is that social value cannot be created without sacrificing financial value creation. This notion is explored further in the following sections.

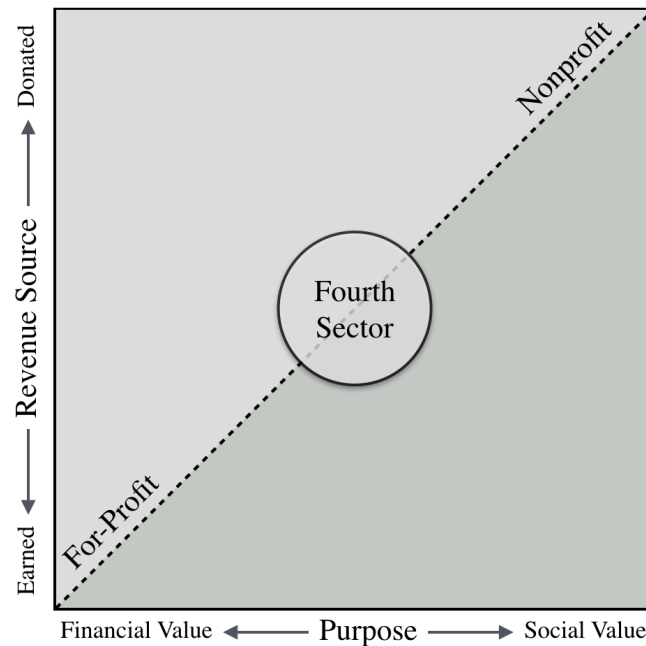


Figure 2.2 Purpose vs. revenue seeking organizations

2.2.5 The interplay between sectors. Nonprofits are beginning to adopt entrepreneurial approaches, and businesses are incorporating social missions. Each is looking slightly more like the other (Alter, 2007). This blurring of sectoral boundaries between the second and third sectors of the economy has exposed conflict as the private sector looks to tax-exempt organizations as unfair competition because they pay fewer taxes and raise tax-preferred capital in the form of tax-deductible donations (Weisbrod, 2000). Conversely, for-profit social enterprises have begun moving into markets traditionally dominated by nonprofit organizations because they can access government contracts, and fee-based revenue. While competition between the sectors is observable, the future of social change appears to be in closer cooperation between these organizational types, not competition (Austin, Stevenson, & Wei - Skillern, 2006).

The relationship between the business and nonprofit sectors is closer than one might suspect. A traditional economic definition of nonprofits relies on the relationship between the organization and its stakeholders, for which services or products are subsidized (Sowell, 2014). In this respect, nonprofits operate within the same economic paradigm and social construction of business in that they exist to add value to the market. Nonprofits typically create social value rather than financial, but this is changing.

2.2.5 The profit-mission relationship. Conventional understanding of the for-profit and nonprofit sectors relies on a linear continuum to illustrate the dichotomous relationship between mission and profit. This fundamental assumption about organizational priority and behavior may not be considering additional dimensions that make up complex systems (Trexler, 2008). Figure 2.3 illustrates this prevailing linear model of thinking regarding social enterprises, the fourth sector, and the blending of social and financial value creation. This linear understanding suggests that social and financial value objectives can co-exist, but not without conflict between them. Further, nonprofit leaders who subscribe to this model are led to believe any social value creation is at the cost of financial value creation and vice versa. Under this model, there is no true blending of social and financial objectives. In this way, the two dominant concepts of social enterprise appear to be in conflict with each other: 1) social enterprise is a blended model of social and financial value creation and 2) social enterprise exists on a linear continuum as represented below. The following figure is an interpretation of various notable scholars' work toward defining social enterprise (Brozek, 2009; Chertok et al., 2008; Emerson, 2003; Marwell & McInerney, 2005).

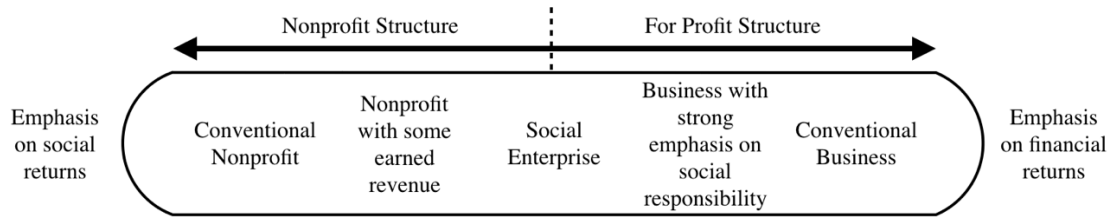


Figure 2.3 The relationship between profit, mission, and organizational structure.

2.3 Forces Toward Change

2.3.1 Change is happening. In contrast to earlier depictions of the profit-mission relationship exemplified in Figure 2.3, nonprofits are shifting such that they are embracing earned revenue as a key to their future (Foster & Bradach, 2005). The incorporation of social enterprise may be the next iteration of the third sector (Dees, 2007) or an outcome of the cyclical nature of fluctuating government investment in social problems (Backman & Smith, 2000). Alternatively, it may be the emergence of a new, independent sector (Sabeti, 2009). Such activity is referred to as ancillary revenue or the commercialization of the nonprofit sector and reflects massive change in the sector as a whole (Backman & Smith, 2000; Weisbrod, 2000). These changes signal a shift in not just how nonprofits are treated legally, but how they are seen culturally as a key functionary in our economic and social future.

On a micro-level, companies and organizations are pushing the boundaries of their sectors and are exploring uncharted territory (Dees & Anderson, 2003a). This represents a change in external nomological beliefs about nonprofits but also the internal culture of martyrdom among nonprofit leaders and staff (Yang, 2013). What people believe about nonprofits-- that they cannot generate revenue, cannot pay fair wages, and

cannot invest in infrastructure or innovation-- has impacted the way in which nonprofits are led. Nonprofits are expected to act more like businesses while simultaneously expected not to make any significant investment in marketing, fundraising, or other forms of overhead. The emergence of a fourth sector is eroding the belief that nonprofits should perpetually struggle to sustain themselves, that market forces do not apply to them, and that staff should tolerate sub-market compensation (Pallotta, 2009). The unrestricted resources that can be generated by social enterprise can enable the types of investments currently prohibited by the dominant construction of nonprofit organizations in the U.S.

While organizations and their leaders are pushing the definitions of their sectors, they are not always met with tax or legal structures that embrace the innovation (Sabeti, 2009). A critical theme in the emergence of the fourth sector is the difference between structural and socio-cultural changes in construction of social enterprise. More important than the legal or tax code changes that provide a supportive ecosystem for the fourth sector is a change in the social construction of social enterprise as a means of social change (Chell, 2007). This shift is expressed in nomological acceptance that an organization can provide both social and financial value creation (Friis, 2009; M. Moore, 2000, 2003). The blending of sectoral boundaries allows for social innovations on a scale previously limited by more stringent definitions of permitted behavior (Weerawardena & Mort, 2006). This blending, in itself, is a social innovation (Escobar, Gutiérrez, Gutierrez, & Carlos, 2011).

It is evident that the nonprofit sector is changing, adopting a more entrepreneurial approach. The aims are equally clear: social enterprise offers diversified revenue sources,

dependable revenue, independence from bureaucratic government or grant-making institutions, and increased mission impact potential. The following section outlines the forces that are acting upon nonprofit leaders toward a new paradigm.

2.3.2 Economic and competitive forces. Since the 1980's government has withdrawn much support for the nonprofit sector, necessitating an openness to earned revenue by nonprofit leaders (Dees, 1998a; L. M. Salamon, 1999b). Traditional revenue models are volatile, providing further incentive for the adoption of social entrepreneurship (Kelly & Lewis, 2010; Stecker, 2014). Nonprofits fill service gaps between government and private markets, but they are doing a lot for the economy too (Weisbrod, 2009). Industries in which nonprofits and for-profits co-exist represent a growing segment of the American economy (James, 2003).

Nonprofit leaders have recognized that government funds and private philanthropy dollars have not grown at the same clip as the nonprofits that depend on them (Gunn, 2004; Hammack, 2001). In response to this, they have commercialized by adding earned revenue or other social entrepreneurial tactics (Child, 2010). Whether a nonprofit leader subscribes to the belief that retractions in government spending necessitate the commercialization of the sector (Child, 2010; Guo, 2006; Hammack, 2001) or that social entrepreneurship is a natural evolution of the third sector (Dees, 2007), it is clear nonprofits are shifting to a new strategy (Weisbrod, 2000).

2.3.3 Government. The space between government and private sectors is often filled by nonprofit organizations (Weisbrod, 2009). Traditional economic theories suggest this occurs when private industry cannot extract individual value from a

particular good or service, thereby making it a public good (L. M. Salamon, 1999a; Sowell, 2014). Others suggest the surge in social entrepreneurship is the commercialization of the third sector due to retractions in government spending (Backman & Smith, 2000; Chell, 2007).

Dees and Anderson (2003b) make the case that the nonprofit sector is the optimal place for social innovation to be developed, tested and disseminated. In their view, the nonprofit sector serves a critical function in efforts to effect social change. They further claim that increased oversight and limited resources from government, combined with increased competition from the business sector has led to a hostile environment for nonprofits. This claim is further reinforced by Tuckman (1998) in the context of the commercialization of the third sector as a method of gaining independence from burdensome limitations of public resources. In response to these pressures, the third sector has welcomed fundamental structural change.

Government sets the boundaries of the economic landscape by allocating limited resources for specific purposes. Business seeks opportunity to meet market demands for goods and service when value can be extracted on an individual level. The area unoccupied by these economic functionaries is where nonprofits typically operate. These are the fundamentals of our economic system that have contributed to a cultural definition of roles and responsibilities.

2.3.4 Cultural forces. Nonprofit organizations are under significant and increasing pressure to focus on business outcomes of financial sustainability and growth (McDonald, 2007). Contradictory legal and tax expectations discourage such innovation

driven by nomological assumptions about the role and limitations of nonprofits – despite evidence that innovation is a significant predictor of organizational performance (Hu & Yu, 2008). Nonprofits are concurrently urged to act more like businesses while the symbols of such are rejected as unpalatable activities for a nonprofit. This is demonstrated in the form of popular media reporting on exorbitant salaries and high administrative overhead – neither of which speaks to the impact or efficiency of an organization. Nonprofits are held to a different standard: one in which innovation is seen as inappropriate. Inconsistencies in how stakeholders evaluate the efficacy of nonprofits further confound how leaders understand their ability to innovate (Herman & Renz, 1997).

Dacin, Dacin, and Tracy (2011) describe the social entrepreneurship field as nascent while terminology is still debated in the field and scholarly environments. If one considers the emergence of a fourth sector a shift in the social constructions of business and social impact, then the conceptual and theoretical work needed to describe and understand this new sector can arise from practice-based research in which empirical observations are applied to professional contexts by nonprofit leaders (Dacin et al., 2010; Schultz & Hatch, 2005). The way our culture understands nonprofits and their role in our economy, society, and social change greatly impacts their willingness and ability to innovate. Our nomological beliefs-- or what we believe to be true absent any real evidence-- about nonprofits continues to hinder innovation.

2.3.5 The impact of nomological beliefs. Evolutions in definitions and structures notwithstanding, a powerful cultural definition of the third sector applies a very real force

on the sector as a whole. This nomological definition, or information assumed to be true, of permissible nonprofit activity serves to limit innovation in the third sector and stifle the adoption of entrepreneurial approach to nonprofit leadership (MacDonald, 2005). The research is not clear on how nonprofit leaders move their organizations based on what they believe to be limitations on nonprofits. These nomological effects on third sector innovation could be significant but are not yet well researched (Andreasen, 1995).

While this research focuses on the role of nonprofits in the emergence of the fourth sector, it is worth noting that the social construction of business is changing as well (Hart, 2007). Business is becoming a force for social good, especially as new generations take on social and entrepreneurial challenges using business as a vehicle for change (Hill et al., 2010; Wilburn & Wilburn, 2014).

2.3.6 The emerging fourth sector. The manner in which the fourth sector is defined, debated, researched, operationalized, measured, and improved is subject to a common definition of the key constructs, which has not yet been achieved. Further, complex system change will not be achieved without a deep understanding of the forces that have precipitated the change (Amagoh, 2008). This research seeks a grounded theory understanding of the emergence of a fourth sector so that we might embrace the potential impact on social issues (Drayton, 2002). The fourth sector is a product of changes to the business and social sectors. To understand the product, we must understand the constituent parts.

While the fourth sector is a convergence between the business and nonprofit sectors, the latter has been underutilized as a resource for understanding the cultural and

economic implications of such a change. Indeed “traditional social enterprise” (Chell, 2007) is modeled after the nonprofit sector. The third sector has been launching new ventures to impact social problems for years (Alvord, Brown, & Letts, 2004). As the fourth sector has emerged, gained in popularity, and even earned a name for itself, research has focused primarily on the role of business in this new environment.

The fourth sector is emerging as an economic, social, cultural, and political force. But the definition of the sector is far from determined (Martin & Osberg, 2007). The robust discussion on the subject frames the fourth sector as a convergence between the third and second sectors (Sabeti, 2009). However, the operationalization of the fourth sector is expressed in the second sector as social enterprises. That is, according to some, the fourth sector may not be a distinct sector but rather a new economic paradigm in which social and financial value creation are the norm (Dees, 1998a; Sabeti, 2009).

While the definition of the fourth sector is actively debated, it has become a repository for all social innovation that blends financial and social value (Ridley-Duff & Bull, 2015). Until better understood and universally defined, the fourth sector is at risk of becoming a diluted concept. Perhaps more concerning is the potential for missed opportunities to develop and implement new strategies for affecting social change.

The adoption of blended value creation or social enterprise as a potential new sector of the economy is still conceptual in nature (Dacin et al., 2011). There is even disagreement as to the definition of the fourth sector (Williams, 2002) and its constituent parts (Corry, 2010; Luke & Chu, 2013). Despite considerable effort having been put toward defining this “emerging” sector, “existing academic literature provides a

bewildering array of definitions and explanations for the emergence of social enterprise” (Teasdale, 2011, p. 99). With such disagreement about the components, the legitimacy of any definition of the overarching concept of a fourth sector is questionable. A commonly understood definition, or shared language, will establish preliminary framework against which more research can be done on this subject.

2.4 The Case for Further Study

2.4.1 Loose definitions. Dees (1998b) explains that the language of social entrepreneurship may be new, but the concept is anything but. The new and loosely defined terminology refers more to the blurring of sectoral boundaries (Gunn, 2004). It remains to be seen how necessary that construction is to the theoretical, scholarly, and practical applications. Being new, the fourth sector is in need of uniform terminology and understanding (Hill et al., 2010; Martin & Osberg, 2007). The working definition of the fourth sector is limited to the common structures of the public, private, and social sectors. That is, the fourth sector is defined only in relation to the first, second and third sectors. A more nuanced definition that addresses the social construction of social enterprise would allow for more substantive research (Grant, 2008) while any uniform definition at all would be a good start (Young & Lecy, 2014).

The construction of social enterprise is a product of one’s perspective. Chell (2007) for example, gives perhaps the most direct attention to the dual constructs of social enterprise as either a nonprofit or for-profit function. Both business and nonprofit can be powerful value creators. Chell offers a revised definition of social

entrepreneurship that focuses on the concurrent creation of social and financial value, regardless of the legal structure.

Toward the goal of clarifying the primary actor in the fourth sector, Mackey and Sisodia (2014) offer that business is “the greatest wealth creator the world has ever known” (p. ix). They posit that business is equipped to create social value as well as financial. While Dees (2003) argues that nonprofit social enterprise must prioritize social returns over financial, new for-profit constructs allow for the pursuit of both social and financial value. As both for- and nonprofit constructs change form, the challenge of a social entrepreneur to choose the correct legal structure becomes more complicated but no less important.

The emergence of the fourth sector may be better described as an evolution in the vehicles through which society achieves social change. Sahakian and Dunand’s (2013) global construction of the fourth sector describes the implications on a grand scale, as a “counter-hegemonic political economy” (p.2)-- a new economic paradigm. This research informs the construction of this new way of thinking. As with any new concept, the language used to describe it evolves along with the concept. As it stands, social entrepreneurship is an “untidy concept” (Peredo & McLean, 2006) that is ever evolving (Dart, 2004).

2.4.2 Incomplete research landscape. Dees and Anderson (2006) point out that the research in social entrepreneurship has been mostly descriptive case studies and “how-to” guides. They further suggest that the field is “ripe for theory development.” In support of this research, Dees and Anderson agree with Schultz and Hatch (2005) that

strong theory must build from practice. The fourth sector has not been the focus of much scholarly research because it is relatively young; the definition of the sector is still in development (Hill et al., 2010; Marwell & McInerney, 2005), and cultural assumptions about boundaries between the private and nonprofit sectors have held strong (Grant, 2008; Herman & Renz, 1997). Luke and Chu (2013) point to a significant need for more research on social entrepreneurship, especially with regard to the implications for social change. Thus this study is an attempt to contribute to the research on the blending of social and financial value creation and the societal implications of such a change. With regards to nonprofits engaging in social entrepreneurship, the research is particularly thin.

Minimal research has been done on the shifts nonprofits are making toward the formation of a fourth sector. Dart (2004) explains social enterprise differs “from the traditional understanding of the nonprofit organization in terms of strategy, structure, norms, and values and represents a radical innovation in the nonprofit sector” (p. 411). With innovations in practice come opportunities for advances in nonprofit management theory. The fourth sector is defined as the convergence of organizations that adopt both financial and social value production to maximize impact (Sabeti, 2009). This definition acknowledges changes in tactics, and points to the emergence of hybrid organizations and an infrastructure to support them. Worth noting is that the hybrid organizations described by Sabeti (2009) and colleagues are for-profit corporations that are permitted to embed social missions in their organizing documents. The research focus on for-profit social enterprises obfuscates the true value and implications of the paradigm shift that are

reflective of a societal shift in thinking about how we solve social problems with innovation.

The research on social enterprise is mostly anecdotal (Dees, 2006) and two dimensional (Brozek, 2009; Chertok et al., 2008; Emerson, 2003). To illustrate, Dees (1998a) presents a spectrum that explains social enterprise as a linear continuum between business and mission orientations. In attempting to explain the blurring of sector boundaries, the Social Enterprise Spectrum reinforces the existing construction of rigid definitions. Gunn (2004) presents a graphical representation of overlapping sectors (See Figure 2.1) that highlights the multiple nexuses between the sectors. Both of these theorists suggest a two-dimensional understanding of the relationship between profit and mission orientations is insufficient (Dees, 1998a).

A more nuanced and multi-dimensional understanding of the fourth sector is needed (Young & Lecy, 2014). This overlapping of sectors (Gunn, 2004), while accurate, demonstrates the rigidity of thinking about social innovation. The blending of tactics, challenging of sectoral boundaries, and inter-sectoral partnerships do not confirm, on their own, the creation of a fourth sector. As sector definitions follow legal structures, a fourth sector might be justified in the event of a new hybrid enterprise structure that does not yet exist. The research efforts describing a true blending of nonprofit and for-profit organizations are eclipsed by those aimed at for-profit social enterprise and non-profit commercialization (Hill et al., 2010).

This research seeks to develop a grounded theory of the emergence of the fourth sector as an evolution of the social construction of organizations seeking to solve social

problems. Within this construction the legal or tax status of such organizations will take a back seat to the cultural, normative, and nomological structures we apply to social change organizations. This research leads to the construction of a model of social enterprise in the nonprofit sector that can be applied by nonprofit leaders.

2.5 Summary

It is clear that business and social sectors have much to learn from each other. The evidence that a new sector exists is not clear and convincing in that the fourth sector is a catch-all term to describe blended social and financial value organizations, regardless of tax or legal status (Ridley-Duff & Bull, 2015). Because social enterprises do not hold their own tax code definitions, legal status, or other “supportive ecosystem” (Sabeti, 2009) the definition of the fourth sector does not fit within the template of the other three sectors. That is, the first, second, and third sectors are defined by their legal and tax qualifications while the fourth sector has no such definitions. Rather, the fourth sector may be another evolution of the way civilized society addresses social problems, and an evolution in the structures we utilize to effect change (Hill et al., 2010).

Most of the research on this topic approaches social enterprise from one of two directions: as a tool for nonprofit sustainability (Andreasen, 1995; Bielefeld, 2009; Child, 2010; Dart, 2004; Dees, 1998a; Kelly & Lewis, 2010; Stecker, 2014; Weisbrod, 2000, 2009; D. Young & M. Grinsfelder, 2011), or as an evolution of the capitalist ethos that includes social value creation (Hart, 2007; Mackey & Sisodia, 2014; Sabeti, 2009; Yunus, Moingeon, & Lehmann-Ortega, 2010). Few scholars consider social enterprise a

function of both, and even fewer have articulated a vision for a truly hybrid sector (Chell, 2007; Sabeti, 2009).

The terminology used to describe and study the fourth sector is far from set (Dees, 1998b; Hill et al., 2010; Martin & Osberg, 2007; Young & Lecy, 2014), furthering the notion that an independent sector may not exist until a universal definition is reached and research has caught up to practice. The fourth sector, such that it is, requires additional research toward a guiding conceptual framework (Dees, 2006).

The majority of fourth sector scholars believe the fourth sector is an evolution in legal and tax structures, predominantly in the form of new for-profit incorporation options (Sabeti, 2009). A smaller set of scholars have begun to consider the fourth sector as a new social construction of social change that includes innovative blends of the nonprofit and for-profit sectors. This innovative blend and new order and approach is the focus of this research. Nonprofit leaders are recognizing their tasks to be increasingly complicated. The fundraising, regulatory, and competitive pressures produce pressures to innovate. This research may contribute to the theoretical and conceptual base upon which practice can further evolve.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This study is a constructivist grounded theory examination of nonprofit leaders who engage in social enterprise and their understanding of the emergence of a fourth sector of the economy. Toward the goal of understanding the emergence of the fourth sector and the impact on nonprofit leaders and social change, the following research questions were devised:

1. How do nonprofit leaders understand social enterprise?
2. What impact have cultural assumptions had on the emergence of nonprofit social enterprise?
3. What are the implications for social change efforts based on the emergence of nonprofit social enterprise?

This methodology was designed to collect data on how nonprofit leaders understand the emergence of a fourth sector of the economy. The primary data source was interviews with nonprofit leaders who are engaging in social enterprise as a means of supporting their organization's mission work. A secondary data source was the written and electronic materials published by the leaders' organizations that pertain to social enterprise, organizational sustainability, and mission.

3.2 Methodology

3.2.1 Theoretical approach. The fourth sector is a new economic paradigm in which corporate entities, including both for- and nonprofits, are blending social and

financial value creation. This potential impact of this sector is not fully known because it is not defined or fully understood.

Social enterprise and social entrepreneurship is the topic of an increasing amount of research. The fourth sector is a relatively new concept and is now used as a conceptual container for social enterprise activities. The majority of research on this subject focuses on business as a force for social good. Despite evidence that the nonprofit sector incubated social enterprise for decades, it has not been the focus of practice research.

Notable work on this topic has been done by Dees (2003, 2007), Salamon (1999a, 1999b, 2015), Weisbrod (2000, 2009), Anderson (2006; 2003a), Young (2011; 2014; 2002), and Drayton (2002). As is often the case with emergent concepts, practice is ahead of research. However, based on a review of available scholarly databases and broad-based internet searches, it appears the question of “how do nonprofit leaders understand the fourth sector” has not been asked.

This research contributes to the construction of the fourth sector by developing a theory from the management experience of nonprofit leaders. The value in these data has not yet been fully realized. In practice, the theory constructed from this research may inform future social enterprise ventures in nonprofits, may indicate themes that can be used to predict of success or failure, and may further codify the terms used to describe and research the fourth sector.

The innovations by nonprofit leaders toward a more entrepreneurial third sector have been eclipsed by the discourse on social enterprise in the business sector. Yet, an underlying assumption of the researcher is that the nonprofit sector is the model for such

innovations. These innovations reach deeper into the third sector's past. The motivations for this innovation stretch far beyond pure competitive economics. Rather, they are driven by an entrepreneurial spirit and a socially constructed belief about the limits placed on nonprofits that happens to be inaccurate. Thus, this implicit phenomenon is best tested with a grounded theory approach.

Specifically, a constructivist grounded theory approach is a contemporary take on Glaser's (1992) original model of grounded theory qualitative research. Constructivist grounded theory acknowledges that both data and analysis are derivatives of shared experience. This approach allowed me to make explicit the implicit, constructing a theory of how nonprofit leadership understand social enterprise. Constructivist grounded theory is a method that exposes a construct that exists rather than applying the researcher's own biases and opinions to craft a theory. Thus this approach complements the notion that social enterprise and the fourth sector is a social construction (Charmaz, 2014).

The theory constructed from this work has consequently been exposed and interpreted rather than presented as an objective summary of data. As the phenomenon under study is a counter-hegemonic shift toward a new economic paradigm, a more dynamic and interpretive theoretical construction is warranted (Charmaz, 2014; Sahakian & Dunand, 2013).

This research focused on practice in the organizational environment, through observance of nonprofit leadership. Citing Locke (2001), Ng and Hase (2008) point to grounded theory as "particularly appropriate to researching managerial... behavior as it captures the complexity of the managerial process" (p. 155).

3.2.2 Instrumentation. A semi-structured interview protocol was used to guide interviews (Appendix A). This open-ended design is consistent with traditional grounded theory (Strauss & Corbin, 1990) while the semi-structured format follows Glaser's (1992) acknowledgment that preconception follows the researcher. Modest modifications to the instrumentation were made as pre-interviews yielded new and important information about the theoretical sample itself (Charmaz, 2014). The questions sought information about how nonprofit leaders understand the changes in their industry, the pressures that were driving innovation, and the implications of widespread adoption of social enterprise principles.

3.2.3 Sampling. The sample was compiled using a theoretical sampling approach (Charmaz, 2014). I contacted nonprofit leaders I knew to be engaging in social enterprise activities and utilized those initial respondents to identify additional invitees to the protocol. At the end of the interview protocol, respondents were asked to suggest similar organizations that might be appropriate to include in the sample.

To remain focused on quality over quantity of data, 5-10 completed interviews were sought (Charmaz, 2014). A stopping point was identified upon category saturation, which required a level of data analysis during the collection process (Charmaz, 2014). Saturation was found to occur after seven completed interviews excluding the pre-interview used to test the survey protocol. Category saturation was found with seven completed interviews. As the key informants and rich data sources, nonprofit leaders shaped the construction of a theoretical framework of the fourth sector (Creswell, 2012).

3.2.4 Target sample. The target sample was drawn from the pool of nonprofit leaders in the United States who operate social enterprises. Nonprofits include those recognized as tax exempt by the Internal Revenue Service. Social enterprises are earned-revenue programs. By definition, donative revenue, public and private grants, and investment income are excluded.

3.3 Participants and Recruitment

One former chief executive of a nonprofit social enterprise who I had interviewed prior to the current study was interviewed as a test case. The executive provided feedback on the interview protocol and the experience provided an opportunity for the researcher to make minor updates to the protocol. The only substantive update included rewording one question to decrease the likelihood of misunderstanding. Otherwise, the test protocol allowed me to practice the implementation of the protocol with a participant whose data was excluded from the sample.

The sampling frame included sixteen organizations that were identified with a combined convenience and snowball sample. Beginning with a list of eight organizations provided by a member of the Social Enterprise Alliance¹, three were immediately ruled out due to their legal status as for-profit corporation. The chief executives of the remaining five were contacted and invited to participate in the research. Of these five, three accepted the invitation to participate and completed interviews. One of these interviews recommended an executive at a social enterprise who had experienced both

¹ The Social Enterprise Alliance is a national membership organization and “key catalyst for the rapidly growing social enterprise movement in the United States” (“Social Enterprise Alliance About Page,” 2016).

the success and failure of a social enterprise. This executive pointed the researcher to a social enterprise incubator/investment conduit fund. Through this organization, leaders in an additional five nonprofit social enterprises were identified. Of these five, four responded to the request to participate, three of whom completed interviews. These four leaders provided names of leaders in two additional nonprofit social enterprises, but both declined to participate. Ultimately, this process yielded seven completed interviews with nonprofit social enterprise executives.

The organizations within the sample frame represented a proportional distribution of organization size and geographic distribution relative to the U.S. Figure 4.1 compares the distribution of reported organization income in the U.S. nonprofit compared to the study sample.

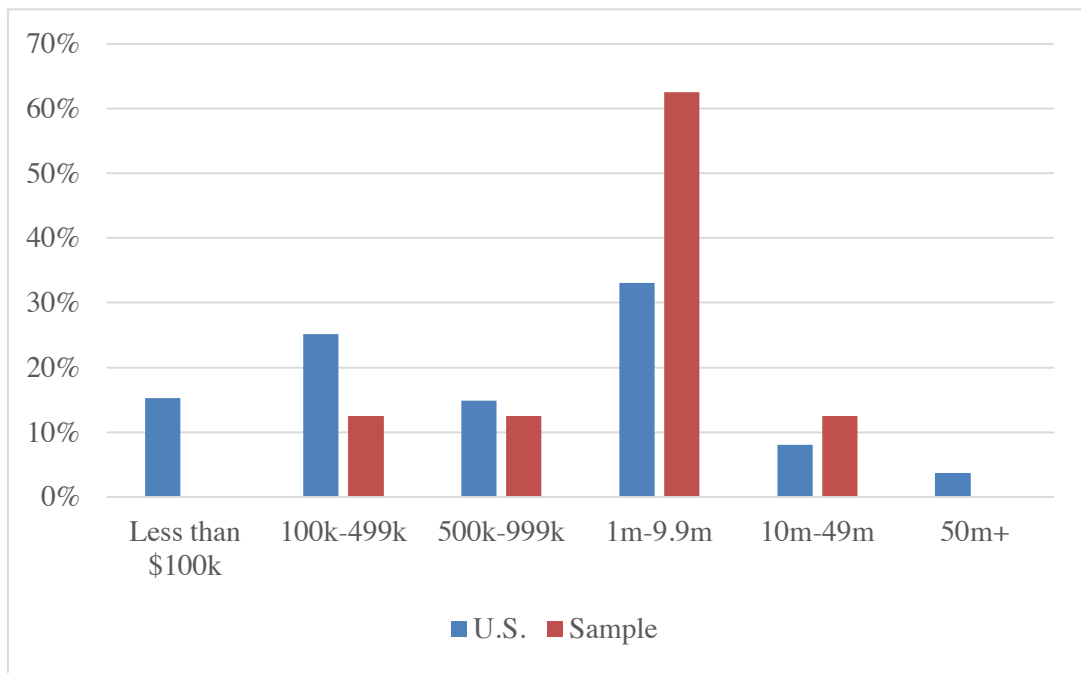


Figure 3.1 Distribution of participants by reported organization income

The organizations led by the executives interviewed reported a mean staff size of 228.9 with a range of 8 to 609. Two organizations operate primarily on the East coast, two in the Midwest and four on the West Coast. Two of the seven nonprofit leaders interviewed were female. Five hold advanced degrees, with one holding a doctorate. Below is a description of each participant's organization. Names have been replaced with pseudonyms to protect the identity of participants.

Mike is the Executive Director of an organization with a \$145,000 annual budget that operates in the Midwest. He supervises three full time staff in his two-year-old organization. The organization is a project of a larger, \$3.5 million nonprofit with a much broader scope than the social enterprise that Mike operates. Mike was hired with a gift from a family that wished to see an enterprising approach taken to address job training deficits in the community. His initial focus was identifying opportunities to start or acquire enterprises that would meet this mission objective while growing toward financial sustainability.

Steve is the CEO of a large nonprofit on the West Coast with \$10 million in revenue in 2014. Steve is also CEO of an organization the large nonprofit started as a social enterprise with a current operating budget of \$650,000. His social enterprise team includes 22 full time employees. Both organizations seek to address family homelessness. The social enterprise was established to address the root causes of homelessness by way of job training and placement.

Ruby is the CEO of a \$1 million social enterprise in a large Midwestern city. This organization seeks to break the cycle of chronic unemployment and poverty among

women. The organization produces and sells food products and engages clients in the process of making, marketing, and distributing the product. Ruby leads a team of 90 employees many of whom are also clients.

Larry is the Executive Director of a \$3.5 million social enterprise in the Northeast. He supervises a team of 167 staff including many clients. His organization operates thrift stores and workforce development programs that train underemployed individuals with specific, marketable skills. As part of this enterprise, Larry's team accepts donated goods, repairs them if necessary, and re-sells them. The organization also salvages buildings for valuable building supplies and sells them to consumers and contractors.

Edie is the CEO of a \$4.6 million nonprofit social enterprise in the Midwest. The organization serves young adults who are experiencing homelessness or are at imminent risk of becoming homeless. Edie leads a team of 91 staff in pursuit of this mission. The organization operates a thrift store where community members donate goods that are re-sold to generate revenue and provide job training opportunities for youth.

Simon leads a team of 609 staff and clients as part of a \$5 million nonprofit social enterprise on the West Coast. The organization employs youth in the concessions and vending industry, teaching job skills and generating revenue for the organization. This organization seeks to break the cycle of poverty by empowering youth through work experience and financial capacity building.

Levon leads a \$12 million nonprofit social enterprise on the West Coast. The organization provides workforce development services to individuals, placing them in

hard to fill jobs, providing work experience, and meeting a community need for various services. His team is comprised of 600 individuals who seek to end poverty by empowering individuals through steady employment.

3.3.1 Data. Respondent interviews were conducted on the phone and audio recorded. They lasted approximately 40-60 minutes. During the interviews, minimal notes were taken and only with regards to following leads in the data (Charmaz, 2014). Audio recordings were transcribed and subjected to a low level of initial analysis to identify patterns and opportunities to revise the instrument.

In addition to interview data, supporting information about each leader's social venture was gathered along with publicly available financial records. The primary source for this information was the leaders themselves. A secondary source was an internet search using search terms identified by the nonprofit leader. The intent of gathering this data was to validate data collected during interviews (Glesne & Peshkin, 2006). The data collected from these sources was not coded, and only used as corroboration for the primary data source. Key data checkpoints included whether a nonprofit is reporting substantial earned revenue relative to their budget, and baseline information such as budget size, workforce size, and geographic reach of the organization.

3.3.2 Protection of human subjects. This study was certified as exempt by the University of Vermont Institutional Review Board. The study presented no risk to subjects. Interview data was de-identified following transcription. In order to ensure the privacy of respondents the file containing the responses was double-password-protected

using a different password than the one used to access the computer. The computer was password protected, stored in a locked room at all times in a private office.

3.4 Data analysis

Between interviews, the data were subject to initial coding for broad themes as well as to review opportunities to improve the collection process. Following completion of data collection, the full content of the transcriptions underwent a multi-step coding procedure. This procedure is outlined in Table 3.1 and described in more detail below.

Table 3.1 Explanation of comparative method

Phase	Comparative Method	Intent	Procedure
Pre-Coding	Data-to-data	Identify opportunities to improve data collection, initial broad themes	Memo-writing immediately following each interview.
Initial Coding	Incident-to-incident	Early conceptualizations and themes	Line-by-line coding for concepts.
Focused Coding	Code-to-code	Conceptualize the relationships between codes.	Selected from initial codes or newly emergent codes to pursue and tested them against full data.
Sorting and Connecting	Code-to-code, code-to-data	Organized the second level codes into theoretical categories	Codes were sorted and connected yielding an explanatory diagram.
Theory Construction	Categories-to-code, theory-to-code, theory-to-incident	Constructed a grounded theory of the emergence of the fourth sector from the perspective of nonprofit leaders.	The explanatory diagram was used to crystallize the overarching aims of this research into a practice-oriented theoretical explanation of the fourth sector.

Adapted from Charmaz (2014) and Ng & Hase (2008).

From the initial coding of transcribed interviews, initial codes were assigned to phrases that held meaning relative to the research questions. From the initial codes, 23 focused codes were developed based on either frequency of occurrence, condensation of repeated concepts, or significance of concepts. The 23 focused codes were condensed into 5 themes. The transition from focused codes to themes is explained in Table 3.2.

Table 3.2 Focused Codes and Themes

Focused Codes (23)	Themes (short code)
<ul style="list-style-type: none"> • Social Enterprise (SE) = Necessary evolution • SE = Self Sufficiency, revenue diversity • At this phase, many orgs are testing SE, learning, researching • Few early adopters have a long term experience with it • SE is, and allows for, Innovation 	SE as a necessary evolution of the nonprofit. (Evolution)
<ul style="list-style-type: none"> • Significant portion of revenue • SE = requires mission benefit • SE ≠ UBI (unrelated business income) • Nonprofit-only model (NPO Competitive Advantage) • SE = tool for social change • SE facilitates and requires scale 	A means of achieving the mission. (Mission)
<ul style="list-style-type: none"> • SE ≠ Binary • SE = triad • True blending of DNA • Discipline Diversity • Good SE = fully embedded, not side project 	A truly blended business model. (Blended Model)
<ul style="list-style-type: none"> • External expertise • Partnership with for-profit • Decision Matrix • SE = brings business discipline to impact measurement • Business principles bring new methods for impact measurement 	Using business principles to achieve the mission. (Business)
<ul style="list-style-type: none"> • Market need • Offer value 	Using the market to achieve the mission. (Market)

The data were then re-coded for the presence of the five themes derived from the coding process. This process tested the emergent themes against the full data set to confirm their legitimacy. All five themes of social enterprise understanding were found to be consistently present in all seven interviews as visualized by figure 3.2.

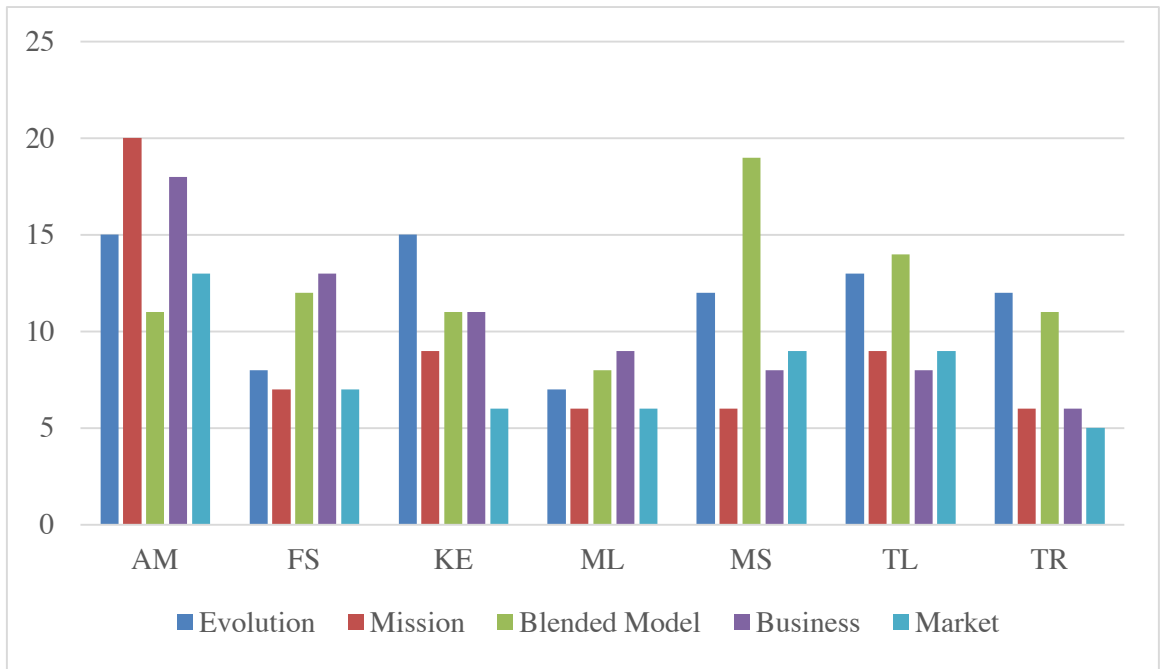


Figure 3.2 Saturation of five themes in interview data

The five themes were used to construct a grounded theory model of how nonprofit leaders understand social enterprise. This model is included in Chapter five.

3.5 Significance

This study sought to contribute to an understanding of the fourth sector and the potential impact of social enterprise, as well as to provide a deeper understanding of nomological understanding of the nonprofit sector. The aim of this study was to yield a constructed theory from empirical data, for the purpose of explaining more about the

fourth sector and social enterprise. Specifically, the design of the study was intended to further the effort to understand and cultivate the emergence of social enterprise as a means of supporting nonprofit social change efforts.

While this study focused specifically on nonprofit social enterprise, the findings support the dominant construct in the literature of social enterprise as a blend of social and financial value creation. The exact ingredients of this blend are not set and to some degree, do not matter (Dacin et al., 2010). If the working definition of blended value is accepted, then the significance of this study and those to follow might stretch across sectors in the same manner social enterprise theory does. As such, researchers and leaders in for-profit businesses, charitable foundations, higher learning institutions, and other industries might find value in this work as it informs the ways in which value creation is blended to create hybrid models we might call social enterprise.

3.6 Trustworthiness and Credibility

3.6.1 Internal Validity. One threat to validity in this study was my personal experience as a nonprofit executive. As a nonprofit leader, I experienced resource constraints that limited the impact of the teams I led. This experience then led to the exploration of alternative means of funding social change and ultimately into this research. My professional experience has included working with a number of nonprofit organizations to help them adopt a more enterprising mindset and plan and launch social enterprises. This experience has led to a bias in favor of nonprofits that run social enterprises.

My own perspective is inextricably aligned with my research identity. Thus I used reflexivity to incorporate continuous awareness of my biases by systematically attending to my impact on the context of the research (Ng & Hase, 2008). The memo-writing process was used as a prompt for checking biases and potential for researcher influence on the interview responses. Constructivist grounded theory acknowledges the existence of my preconceptions and their impact on my interpretation of the data (Charmaz, 2014). Thus, a trusted colleague served as a critical friend, asking provocative questions and challenging my assumptions about the construction of research questions, methodology, and research findings.

I further ensured study validity by identifying and examining negative cases as they emerged from the data. This was expressed in respondent statements that countered the theoretical framework of the research, or that undermined the grounded theory construction. While minimally present, these cases were highlighted in the coding process and considered in the analysis process. The primary negative case was nonprofit leader disagreement with regard to whether nonprofit social enterprise would yield financial independence and sustainability.

Triangulation was used to reinforce internal validity (Glesne & Peshkin, 2006). Data sources included interviews with nonprofit leaders, printed and electronic materials for each organization, and, minimally, publicly available financial records of the organization.

3.6.2 External validity. This study was intended to construct a model of how nonprofit leaders understand the fourth sector and thus make explicit the implicit

conceptual frameworks applied to this change. Grounded theory methodology acknowledges that research conclusions are social constructions drawn from interpretations of observable data. These data are interpreted differently by both researcher and participant (Charmaz, 2014). The conclusions of this research are therefore limited to the sample of nonprofit leaders studied. The interpretation of the findings, however, can be transferable in nonprofit management practice settings at the discretion of individual leaders. While the findings and applicability is limited to nonprofit leaders, the underlying conceptual frame of social enterprise as a multi-dimensional model of blended value extends to for-profit enterprises. Thus, the conceptual and theoretical models of social enterprise understanding extend in applicability beyond the limits of the nonprofit sector.

CHAPTER FOUR: DATA AND FINDINGS

4.1 Findings

Nonprofit leaders shared their understanding of nonprofit social enterprise through a semi-structured interview experience. As interviews were completed, the memoing processing began to illuminate patterns of thinking that appeared in multiple interviews. Examples of these focused codes are found in Table 3.1. These concepts were then found to fall into a natural grouping. These groups emerged after careful review of the focused codes and researcher memos and were found to be consistently present during a re-coding process. These groups of focused codes were found to support five basic themes of social enterprise understanding, namely: 1) Social enterprise as a necessary and inevitable evolution of the nonprofit organization; 2) Social enterprise as a means of achieving a social mission; 3) Social enterprise as a true blending of business and social impact models; 4) Social enterprise as a business principle applied to a social mission context; and 5) Social enterprise as a market-driven approach to financial and social value creation. The five themes were then used to construct a model of how nonprofit leaders understand social enterprise. From this model, a grounded theory of social enterprise was developed that can be used as a basis for further study on this subject. In this chapter, I explain each theme is explained below as it relates to the larger constructed model of social enterprise understanding. Chapter 5 outlines the grounded theory stemming from these findings.

1. Social enterprise as a necessary and inevitable evolution of the nonprofit organization. As understood by nonprofit leaders, social enterprise appears to be an

inevitable and necessary evolution of the nonprofit organization and the nonprofit sector. As public resources constrict or remain flat concurrent to increasing needs for services, nonprofit leaders are seeking new sources of revenue. This is simultaneously a contextual and behavioral precipitant of the development of social enterprise in the nonprofit sector. That is, nonprofit leaders are experiencing pressures, both internal and external to the organization, to form social enterprises for various reasons. One leader said of their social enterprise: “it provided a place for us to supplement our on-the-job training program. It also generates revenue for the organization so it’s a win-win.”

Nonprofit leaders are using social enterprise to provide stable revenue that is also discretionary in nature and as a means of responding to increasing uncertainty from traditional funding sources. Nonprofit leaders see social enterprise as process and a mindset that has taken hold in the nonprofit sector and is important to the continued operation of many organizations. One nonprofit executive interviewed spoke of social enterprise as a new way of thinking that was taking hold in the sector as evidenced by younger leaders taking the reins of established organizations:

Well I brought it. I mean this mindset, I brought the concept of our organization being more entrepreneurial. Before I came, it was a... a kind of standard organization. We were funded only by grants and donations and some Federal grant money.

Similarly, all of the nonprofit social entrepreneurs interviewed indicated the successful social enterprise should generate some revenue but also contribute to the mission work. This was highlighted by a nonprofit executive who said the enterprising

activities are inseparable from the organization not just because of the 65% of total revenue generated by them, but because the social enterprises are an essential part of the organization that supports the mission:

I think of a social enterprise as something that looks a lot to an outsider like a commercial enterprise. It generates revenue, but it's done for a very different reason. It's done because it's a mission of a social outcome, a desirable outcome.

When asked how social enterprise would affect the nonprofit sector as a whole, nonprofit leaders indicated a generally optimistic view that the future has arrived. They talk of social enterprise as an opportunity to seek new revenue that was not accepted practice until recently. And they spoke of the wholesale change in the nonprofit sector as a positive change because the sector needs help scaling ideas and incorporating business principles to run more effectively:

I think social enterprise encourages organizations to think differently about their business models, and look for opportunities to develop earned revenue strategies that are legitimate, that fit with whatever change they're trying to create in the world. If there is a way to be able to do more of that change, because you're able to put people to work, or to have some other revenue strategy associated with it, I think that's great.

Another leader indicated “the key component is having a business acumen that helps you create these businesses, number one, and then operate them, number two, in a manner that a for profit business would succeed.” This focus on business principles to run

successful enterprises is not unique to the nonprofit sector, but the integration of a mission component is.

Along with describing how social enterprise may be a necessary evolution, nonprofit leaders considered the pitfalls of this evolution as part of being a strong leader. An example of this was expressed by one leader when he said “the challenge for us is ... how do we ... stay focused on the core mission components.” The notion of mission creep, or the gradual derailment of an organization’s mission that is often subtle over time but yields a significant cumulative detour from the original mission, was consistently mentioned by nonprofit leaders. Nonprofit leaders expressed concern and awareness of the threat that social enterprise activities could divert and distract from the core mission of an organization.

2. Social enterprise as a means of achieving a social mission. Nonprofit leaders understand social enterprise as a tool with which to accomplish their mission. Consistent with theme number one, social enterprise as understood by nonprofit leaders is not a business enterprise that exists independent of the mission work, even if the sole purpose of the enterprise is to fund unrelated mission work. That is, an enterprise that generates profits that support a nonprofit organization but is otherwise unrelated to the mission of the organization is not a social enterprise as understood by nonprofit leaders. Rather, social enterprise is an integrated business activity that supports financially, functionally, operationally, logistically, or otherwise the mission impact of the organization.

Nonprofit leaders described the genesis of social enterprise in their organizations most often as a result of both mission and fiscal forces. That is, the leaders described their

social enterprises as meeting a specific need related to achieving the mission. Indeed some described the mission need as the primary driver toward the creation of a social enterprise – the potential for profit playing a distant second role. One leader described the formation of their successful social enterprise this way:

We have focused for years on addressing the problems of family homelessness. Over the last five years, we began to really expand that to say that solving homelessness by itself wasn't really getting at the root of the problem. The root of the problem was poverty. We began talking seriously about, what do we do for our families to improve their incomes and to escape the poverty that has led to a lot of the problems that they are facing. That gave rise to a program-- we call it our education and employment program-- where we started really focusing on career development, job skill development, hard and soft skills. As part of that, recruiting businesses to open their businesses to internships for our residents to be able to gain some real-life job experience. It was at that point that that program began to encounter some problems, because these residents we're serving are high needs. They come from very, very difficult challenging backgrounds, multi-generational poverty, and they simply did not have the skills to succeed even in the supported internships in private enterprise.

This leadership story connects the mission-based needs of a program – such as alleviating poverty by building self-sufficiency through career development – with the market forces that lead to the formation of social enterprise. When social problems appear intractable, social enterprise can be a method of removing barriers to progress.

The same nonprofit leaders went on to complete the story of social enterprise as a mission tool:

At the same time, we've been looking at ways to diversify our revenue streams. We do have a lot of rental income through project-based vouchers, if you're familiar with all that. We do have quite a diversified revenue stream, but like all nonprofits, growing revenue faster than your desire to spend it is always a challenge. We began to look at social enterprises as a potential way to address both of these objectives. One is to create supported internship opportunities that would help our residents on their path to escaping poverty, and the other is to develop these social enterprises that would host these internships that would generate earned income that would build the strength of the overall organization.

This story highlights a theme that is found among many of the nonprofit leaders interviewed. The leaders saw opportunities to improve upon their mission work and magnify outcomes by meeting a need that was traditionally and insufficiently met by an outside actor such as businesses. In this way, nonprofit social enterprise represents a mode of expanding the agency of the nonprofit organization in order to meet a need.

Nonprofit leaders also described social enterprise as a method or tool for achieving the mission and not simply a source of revenue. This concept suggests nonprofit social enterprise is not simply defined and thus the process of choosing the appropriate social enterprise is critically important to the overall success and impact of the enterprise and the larger nonprofit. A number of nonprofit leaders provided powerful examples of this dynamic. For example, one leader talked about how a coffee shop run by

a nonprofit is not a social enterprise in and of itself. A coffee shop that employs youth who are typically unemployable, thus creating a record of successful employment, and providing service industry training and experience is a social enterprise. It is this blended model that appears to offer the most significant positive impact according to nonprofit leaders.

The above example suggests that social enterprise is more than a nonprofit operating a business, even if that business exclusively supports the mission work of an organization. According to one leader, social enterprise is more than that. “I think if your business activity isn't directly related to your mission, then that's just operating a business.” He went on to highlight the two necessary components of a social enterprise being both financial and social value creation, noting that “you just look at the two words that it's called, social enterprise. They both have to be happening, in my opinion, for it to be called a social enterprise.”

3. Social enterprise as a true blending of business and social impact models.

Building on the first two emergent themes, nonprofit leaders defined social enterprise as a true blending of mission and enterprising activities. Social enterprises exist as a unique model in which the enterprise activities and mission work feed each other, yielding a synergy effect illustrated in Figure 4.2. This synergy effect is greater than the sum of the impact of each constituent parts in that the enterprising activity contributes to the mission and the mission contributes to the enterprise resulting in an overall impact that is larger than if each activity existed independent of the other.

Nonprofit leaders talked about the ways in which the success of a social enterprise is attributable, in part, to a well-integrated structure. This was seen in the way leaders describe their social enterprises not as divisions of the larger organization so much as components of their mission-oriented programs. To illustrate this point, when asked to define social enterprise, one leader described it as the act of “using the market through the sale of products or services to advance a social mission.” A leader who views social enterprise as a compartmentalized and thus somewhat unrelated activity of the organization might have defined it as an activity of the organization but not necessarily in service to the mission.

When asked whether their social enterprise contributes to the impact of the organization in both financial and social terms, one leader said of the two functions: “they are integral. They're interwoven into each other.” This true blending was a salient theme among nonprofit leaders that were running social enterprises. This concept applied to the importance of activities being fully integrated into the operation of the organization but also to the value added of the enterprise itself. That is, nonprofit leaders felt a social enterprise contributed to the organization by generating both financial and social value. One leader found their role was to broker this integration if the organization was going to thrive:

For us, what has changed is that what I found when I arrived ... so I come from a private sector and a lot of what I saw when I arrived is that we were a human services organization who happened to do this thing on the side, and the people who ran the business thought the people who ran the program were not

responsible, and vice versa, so there was an internal tension in terms of who had more value, even. The biggest cultural shift that needed to happen was that everyone needed to understand that one does not exist without the other, and the two have to be inextricable.

Another leader pressed the importance of social enterprise as being related to the mission but also the passions of the staff. Here too, nonprofit leaders were describing their involvement in truly blended activities in which a nonprofit seeks both social and financial impact. As described by one leader, "...social enterprise as something that looks a lot to an outsider like a commercial enterprise. It generates revenue, but it's done for a very different reason. It's done because it's a mission of a social outcome, a desirable outcome."

4. Social enterprise as business principles applied to a social mission context.

Social enterprise is generally described as a method of incorporating business principles and techniques to maximize both mission impact and financial performance of the enterprise and the nonprofit organization (Young & Lecy, 2014). These principles may include effective measurement of impact, organizational change management, program development, recognition and response to market demands, or methods of scaling up successful social enterprises.

While much of the literature on both nonprofit and for-profit social enterprise considers social entrepreneurs as either business or social leaders, the nonprofit leaders interviewed for this study operated with a much more fluid understanding of the social enterprise leadership. They spoke as if they were serving multiple leadership roles. Their

experience running nonprofit social enterprises required a more nuanced understanding of what it means to be a social entrepreneur.

The literature on social enterprise is organized by professional discipline. As such, there are at least two dominant perspectives of social enterprise as a for-profit activity and as a non-profit activity. The practical definition of social enterprise in the nonprofit sector is more nuanced than the academic definition in that social enterprise appears to be a somewhat complex activity that incorporates multiple priorities. The way in which nonprofit leaders describe social enterprise rarely included discussion of legal status and instead focused on a blending of business principles into the mission-centric orientation of a nonprofit organization. In this way, nonprofit leaders interviewed describe social enterprise in terms that do not entirely align with the dominant for-profit vs. nonprofit academic discourse. This apparent divergence in both research and management practice inadequately accounts for the reality in which social enterprise exists in both realms simultaneously. The interviewees explained their understanding of social enterprise as, in part, embracing principles of business management such as continuous process improvement. One leader explained this concept as a leadership trait common in high-impact nonprofits. “I would say that we have a continuous improvement mentality here, so we're always working to improve the business and run a more efficient business.” The same leader went on to describe the culture change that is necessary in nonprofits that embrace a more enterprising mindset. She described one leadership experience this way:

One transition that we had to make as an organization was making sure that everybody understood, both internally and our stakeholders, that sales create jobs. We are a sales-driven organization because ultimately our ability to hire women and change their lives is predicated on our sales. We don't have work if we don't sell product.

Another nonprofit leader explained their success as a nonprofit in business terms – specifically with regard to the changes that needed to occur if the social enterprise was going to meet the needs of the organization.

That was a big shift that needed to occur when I started, and business was an afterthought and it was run very inefficiently. All the things that a manufacturing operation would need to have, like a strong handle on inventory and your cost of goods and sourcing of raw materials and all the things it takes to run a good manufacturing operation, that wasn't being done. I would also say that same lack of discipline was honestly part of the program side or the mission side as well. Interestingly, we were running an okay program and an okay business when I started; it wasn't as though we were running this stellar program and a poor business. We had to apply a lot of the same rigor to both sides.

This rigor, according to interviewees, is a key mindset that comes from the business sector. Several of the leaders interviewed identified a need to bring outside expertise into the organization in the form of board members or staff. One leader described the culture of their organization, which was founded as one of the first

nonprofit social enterprises in the United States, as more of a business mindset than a nonprofit mindset.

We definitely have become much more business-like in terms of who we hire. We have more MBA (Masters in Business Administration), MPP (Masters in Public Policy) types. We have a culture of being a business more so than thinking as a traditional nonprofit. We also are using systems that you'd find typically in businesses, whether large or small. We use success factors for example, to do performance management, which is a Fortune 500 industry tool. Even our board is really comprised of entrepreneurs and business leaders.

Another leader described a structured process for including outside entrepreneurs in any new venture development process. “With each of our enterprises is that we engage experts in each of the fields, or consultants that help advise us in growing these businesses.”

While this leader’s description represents a move toward the business side of the continuum that was more extreme than others, each of the nonprofit leaders interviewed described a need to include entrepreneurial expertise at all levels of leadership in order to achieve success. Business expertise on nonprofit boards is not a new occurrence. However, key personnel recruitment from the private sector, if indeed it is becoming more common, represents an observable shift in how nonprofits are led. The business expertise in key staff positions reflects the true blending of financial and social value creation models and signals a focus on the market that is driving the social enterprise activity.

5. Social Enterprise is a market-driven approach to financial and social value creation. Nonprofit social enterprise is a response to an identified market demand. Such demand could be for a product or service, necessitating the formation of an enterprise that meets the demands. Nonprofit leaders expressed this directly as well as in how they described their social enterprises as meeting a community need. One leader whose organization ran a thrift store found that related services were important component of the overall value proposition of the organization:

We have four different thrift stores where we offer building materials and household goods. We repair, for many things, it comes in and we do very modest cleanup or just brush it off and put a price tag on it and it goes back out the door. For some items we do more thorough refurbish and repair. Major appliances are all tested thoroughly. Anything with a plug we test. We make sure it's safe, no obvious defects and that sort of thing. For electronics and computers, we wipe hard drives and we reuse whatever we can. The other services that we offer include pickup and delivery service. We go out and get stuff. We do house clean-out services, but we also build affordable housing, do weatherization work and install solar panels and that's all through our youth job training programs where we're teaching youths to be skilled contractors and builders and carpenters and stuff like that.

The entrepreneurial mindset that appears to be prevalent in the nonprofit social enterprise space leads to the offering of additional but related services. In this way, the nonprofit management mindset of stretching limited resources across multiple domains

when possible is a benefit and perhaps even a strategic advantage of nonprofit social entrepreneurs. That is, they know how and when to offer services that overlap and by doing so maximize their efficiency.

Social enterprises adapt to, and respond to market demands as they become evident. Successful social enterprises are responsive to this market demand by offering a value to the market that is not offered elsewhere. Nonprofit social entrepreneurs strive to create enterprises that meet dual market needs in a way that others cannot compete. One nonprofit leader described the interest in meeting a market need where brand trust – such as that enjoyed by some nonprofit organizations – provides a competitive advantage. “There's a trust factor ... people actually want to know that the primary reason we're doing it isn't to make a profit, but it's to serve the public or to meet our mission.”

This concept of a unique market offering, coupled with a community contribution in the form of a social mission or other benefit contributes to a larger understanding that nonprofit social enterprise differs from for-profit social enterprise in some important ways. One of which is the potential for a nonprofit social enterprise to enjoy a competitive advantage not available to a for-profit enterprise that is afforded to it by the community trust placed in nonprofits. That is to say when given a choice between them and a for-profit, nonprofits hope consumers will choose them for a particular product or service. One interviewee described a partnership with a for-profit business that hoped to do good by their community while also increasing sales of their product:

There's a company in town here that makes pillows... They make organic, natural pillows. They were started by a couple of guys who own a mattress franchise

here, started in the basement of one of their stores, and literally did it because there was an opportunity for them to sell good-quality pillows to their customers within their local franchise. That was the only reason they started it, was to make a good product for their customer and make money doing it. But since they've partnered with us, we now sew all their pillowcases, we stuff them all, and we package them all, we've become a really integrated part of their brand, so that now every pillow that a customer buys has a card inside of it that tells about us, and about how by the customer purchasing this product, they've helped support the community.

Along with these perceived benefits, some of the interviewees commented on potential challenges, including the potential risk of responding to market demands. One nonprofit leader described it this way:

Maybe a social enterprise was successful for 10, 15, 20 years, but then, for example, metal prices drop and so suddenly you're taking in all these old appliances and part of how you used to pay for that is the metal weight for recycling them. Suddenly you're out \$70,000 a year because metal prices have dropped from \$120 a ton down to \$6 a ton.

The concept of risk came up in nearly every interview. It was identified as a source of concern for nonprofit leaders whose boards were not always accepting of the risk. One leader described a balancing act when considering social enterprise in the nonprofit setting. "There's a very small sweet spot between three and six months where

you have to demonstrate taking some risk and investing some of that into program, because that will entice funders to continue to partner with you.”

Each of the themes identified in this research represent how nonprofit leaders understand social enterprise. This does not necessarily reflect the enterprises nonprofits are running but rather how they believe their enterprises should be run or the elements that make up a true social enterprise. At times, their understanding of nonprofit social enterprise was informed by the failure of one. At other times, their understanding is informed by successes. In both cases, nonprofit leaders have demonstrated an emerging expertise in this nascent field of nonprofit social enterprise.

4.2 Moving to a Grounded Theory

Despite a lack of consensus on how to define social enterprise, the nonprofit executives interviewed shared common threads in their understanding of social enterprise-- threads that I have captured as the five themes of social enterprise understanding described above. When considered in the context of the nonprofit sector as a whole, I conclude that the themes yield the following grounded theoretical framework.

Social Enterprise is an evolution of social change efforts, expressed in both nonprofit and for-profit corporate structures. Truly integrated organizational activities are key to social enterprise definitions. That is, a social enterprise is an initiative that combines enterprise activities with a mission impact component. Further, social enterprise responds to a market demand for products or services while meeting a demand that impedes mission progress. The data indicate that an ideal implementation of social

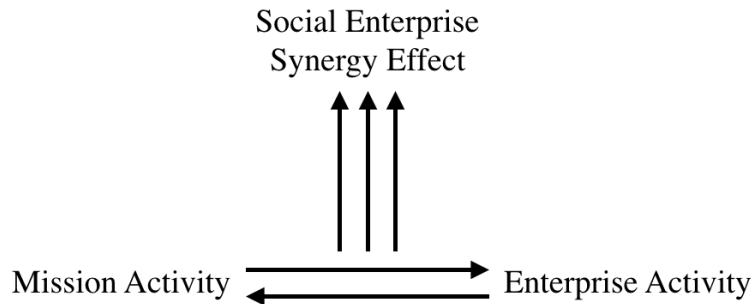
enterprise uses a market-driven business activity that positively impacts the mission impact of the organization.

While the literature bounds our understand of social enterprise as existing on a linear continuum of either social or financial value priorities, the nonprofit leaders interviewed present a more fluid and multi-dimensional understanding of the concept. One characteristic of social enterprise seems to be consistently present in the interview data, that social enterprise is a blend of social and financial value creation. This concept can be found in all five themes of social enterprise understanding, culminating in a sixth finding described below.

Nonprofit leaders interviewed as part of this study understand the relationship between social and financial value creation as one of mutual benefit wherein each component feeds and magnifies the other. Consistently throughout the interviews, leaders described both financial and social benefits generated by their social enterprises. Most described their social impact as being magnified by the social enterprise to a degree not possible without the enterprise. This theme led to the development of a concept I call the social enterprise synergy effect in which successful social enterprises generate an impact that is greater than the sum of each part.

This synergy effect is notable and observable in successful nonprofit social enterprises and is a major finding of this research. Figure 4.2 explains the outcome of a blended social enterprise model as greater than the sum of the parts.

Figure 4.1 Social Enterprise Synergy Effect



The social enterprise synergy effect is observed in nonprofit social enterprises wherein the enterprise activity is strengthened by the integration of the mission activity and vice versa. Each component is made stronger by the other such that the total impact is greater than the impacts of the individual components were they to exist independently. This is a key finding and core to the constructed grounded theory of nonprofit social enterprise described in the next chapter.

The literature on social enterprise, both in nonprofit and for-profit terms, focuses on social enterprise as a linear or one-dimensional construct in which social and financial value creation compete for priority and resources (Brozek, 2009; Chertok et al., 2008; Dees, 1998a; Emerson, 2003; Marwell & McInerney, 2005; L. Salamon, 2002; L. M. Salamon, 1999a; Weisbrod, 2000, 2009). Yet this research, a minority of the literature on social enterprise, and the nonprofit leaders interviewed as part of this study contend a more multi-dimensional model is necessary to describe the construct of social enterprise as a blend of social and financial value creation. This new model was necessary to reflect the cross-sector nature of social enterprise and refocus the discourse on impact and outcomes rather than organizational type. Figure 4.2 is a multi-dimensional, grounded theory model of social enterprise that meets this need.

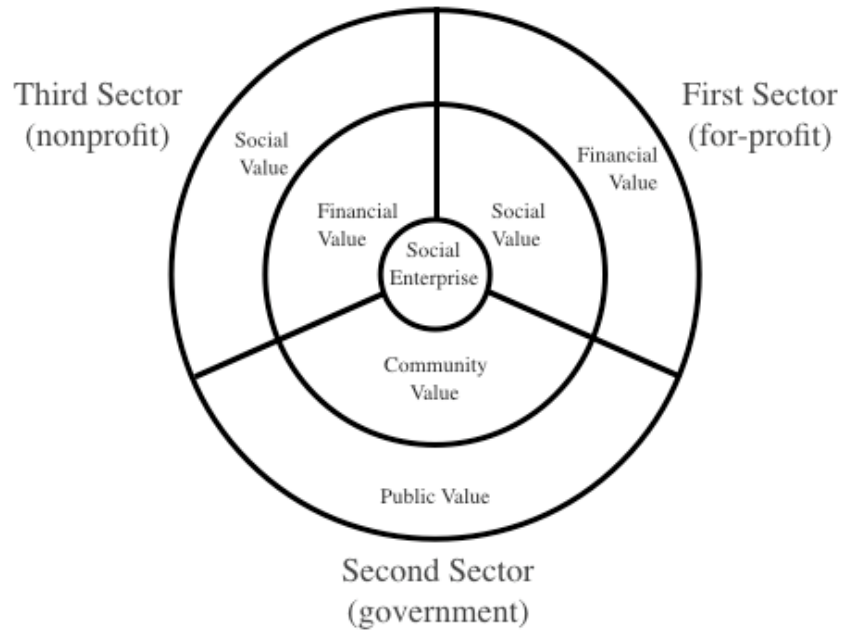


Figure 4.2 A grounded theory model of social enterprise

4.3 Secondary Literature Review

This second-phase review is intended to determine if the constructed grounded theory resulting from this research is supported in the literature. Grounded theory research methodology is divided into two perspectives regarding literature reviews (Giles, King, & de Lacey, 2013). The first approach is to delay a literature review until after data has been collected and coded. The second approach is to conduct a preliminary literature review and then a secondary review during the analysis phase. Given that this research is part of an iterative process toward defining and understanding the fourth sector of the economy and nonprofit social enterprise, the second approach was warranted. This secondary review of literature is organized into two categories based on the findings of five themes of social enterprise understanding and the social enterprise synergy effect.

4.3.1 The five themes of social enterprise understanding. While constructed from interview data, each of the five themes of social enterprise understanding are supported by the literature.

1. Social Enterprise is a necessary and inevitable evolution of the nonprofit organization.

The nonprofit sector is growing in size (Anheier & Seibel, 1990; Austin et al., 2006; Corry, 2010). While the demand for their services increases, public funds remain stagnant or even retracting (Backman & Smith, 2000). This market demand for services has led to the proliferation of nonprofit organizations. For lack of new resources to fund this expansion, partnerships with business have also become more numerous (Austin, 2000).

Nonprofits have long sought sustainability. Yet doing so has, until recently, meant honing fundraising strategies and diversifying revenue sources (Carroll & Stater, 2009a; Mayer, Wang, Egginton, & Flint, 2014). Citing Crimmins and Keil (1983), Kerlin (2006) asserts that nonprofits have engaged in commercial activity since the founding of the U.S by selling goods and services relevant to their missions. The new economic paradigm of the fourth sector allows for new ways of earning revenue such as operating social enterprises that generate profits. This earned revenue comes with fewer limitations than grant or donative revenue such that a nonprofit leader has discretion over how it is used.

Participants described the evolution of their organization toward more independent and sustainable sources of revenue through social enterprise as a necessary next step given political, cultural, and economic forces limiting available public and philanthropic dollars to support their work. One nonprofit leader described the need to

diversify revenue sources so that they could continue to expand their service offerings faster than conventional resources were becoming available.

Scholarly work on social enterprise remains focused on social enterprise as a function of for-profit business with embedded social missions (Kerlin, 2006). Yet the practice and professional literature focuses more on enterprising nonprofit organizations (Dees, 1998a, 1998b, 2007; Young & Salamon, 2002; D. R. Young & M. C. Grinsfelder, 2011). This divergent approach to knowledge formation related to social enterprise does not serve the interests of practitioners in the field who are seeking to effect social change.

2. Social Enterprise as a means of achieving a social mission.

A popular notion is that nonprofits have become increasingly commercialized in recent years, pulling more revenue from non-donative sources like fees (Child, 2010). However, empirical data do not support this conclusion. Instead, the proliferation of social enterprise can be seen as an innovation by nonprofit leaders driven by desires to achieve a mission within resource constraints (Dees, 2003). Both nonprofit management practice and scholarly understanding of social enterprise has quickly evolved. An earlier understanding of social enterprise described it as a means of funding social change efforts. This understanding led to the notion of commercialization in the nonprofit sector and was believed to represent the increase of unrelated income. This commercialization was found to be nonexistent (Child, 2010; Tuckman, 1998). However, the idea that nonprofit social enterprise could benefit the social sector was found to be very much true (Alliance, 2010; Dart, 2004; Lyons, Townsend, Sullivan, & Drago, 2010; Smith, Cronley, & Barr, 2012).

Most of the nonprofit leaders interviewed spoke of a desire to start a social enterprise to meet a specific mission-related need such as providing jobs or employment experience for their clients. One leader described the creation of their social enterprise as necessary in order to achieve their mission:

We do have quite a diversified revenue stream, but like all nonprofits, growing revenue faster than your desire to spend it is always a challenge. We began to look at social enterprises as a potential way to address both of these objectives. One is to create supported internship opportunities that would help our residents on their path to escaping poverty, and the other is to develop these social enterprises that would host these internships that would generate earned income that would build the strength of the overall organization.

While engaging in enterprise as a nonprofit is not new, the notion that a nonprofit leader would feel compelled to start a social enterprise in order to achieve their mission represents a new way of understanding management practices in nonprofits. Further, this notion that a social enterprise could be a necessary component to achieve a mission objective represents a deeper relationship than the dominant thinking of social enterprise as a means of raising additional revenues for a nonprofit.

Traditional management theory may not apply to nonprofit social enterprise. Mason et. al. (2007) reference a growing body of literature that considers social enterprise as a unique subtype of the nonprofit sector that requires its own brand of management theory. The evolution of nonprofit organizations toward social enterprise in order to achieve a social mission is a reflection of environmental pressures to increase

both impact and efficiency. This coercive isomorphism nests an individual organization's adaptations in a broader context of institutional theory (DiMaggio & Powell, 1983). This theory might further explain the transmission of shared values across economic sectors. Through symbolic and relational carriers, a social enterprise ethos is spreading throughout the third sector. In this way, social enterprise is gaining both popularity and staying power as a means of achieving social missions.

These changes reflect back to the broader goals of this research of exploring the emergence of a new, fourth sector of the economy. This new fourth sector might encompass the blended models of social and financial value creation described above. This conceptualization of organizational decision-making aligns with theories of organizations as rational actors that respond to, in this context, market forces in order to survive and thrive (Tomer, 1992).

3. Social Enterprise is a true blending of business and social impact models.

Masseti (2008) contends that social enterprise exists on a continuum that balances two sets of opposing forces. The first set includes priority – either market or mission driven. The second set includes profit orientation – either profit required or not required. This construct recognizes that the four forces pull, at times, in different directions. However, they can co-exist. Further, this construct acknowledges the structural components social entrepreneurs consider such as whether to incorporate as a for-profit or non-profit entity by balancing the profit requirements. This small but significant acknowledgement supports the findings of this research that corporate status

holds minority importance with regard to how nonprofit leaders understand social enterprise.

Nonprofit leaders described social enterprise in terms of the intended outcomes, priorities, impact on their mission and financial resources, and in other similar ways. Rarely did any of them describe the structural components of the social enterprise such as legal or corporate status as a relevant factor. While the sample and methodology limit the applicability of this conclusion to the broader community of nonprofit leaders, participants in this study understood social enterprise as a blended value activity, not an organizational construct. Massetti's (2008) construct, dubbed the "Social Entrepreneurship Matrix" (p.1) explains social enterprise as a hybrid activity that blends social and financial value creation. Alter (2007) further supports the idea that social enterprise exists on a continuum, not a binary structure of profit or mission purposes. She offers that the two priorities are increasingly integrated into new ventures and program innovations.

4. Social Enterprise uses business principles in a social mission context.

The use of business concepts to effect social change is not entirely new. However, some scholars point to a relatively recent increase in the integration of these two historically different sectors. Indeed, evidence is mounting that the two are thinking and working together in more integrated models. Kanter (1999) points to businesses finding new markets in the social sector that are both profitable and socially productive. Still others point to the numbers to make the case that social enterprise will soon comprise a

major part of the business landscape. Hartigan (2006) contends that a growing number of social entrepreneurs are seeking to use their business acumen to address social problems.

The nonprofit leaders interviewed describe a changing leadership paradigm in which nonprofits are embedding business principles into all levels of organizational behavior. They described this in the form of hiring staff that are knowledgeable about business practices, adapting their operations to include continuous improvement processes and considering quantifiable measures of program success that span beyond social outcomes. One leader described their practice of conducting market research, business planning, and conducting cost-benefit analyses before making decisions to start new ventures. These are concepts learned from the business community that have been integrated in nonprofit management practices that contributes to the concept of blended value organizations.

5. Social Enterprise is a market-driven approach to financial and social value creation.

Masseti (2008) offers that social enterprise is intended to meet a market demand for social change, using a market demand for a business product or service. This notion reinforces the idea that social enterprise is a market-driven approach to financial and social value creation. In economic terms, a market failure is an instance in which the availability, price, or distribution of a good or service is insufficient to meet demand. Phillips (2006) explains that market failures can also be failures of equitable distribution or access as determined by social justice standards. He further contends that social entrepreneurs are meeting market demands for social justice with new ventures because they can conceive of models in which both financial and social value is created.

The findings of this research support the conclusion that social enterprise is a market-driven activity. Specifically, social enterprise can be a response to either social or economic market opportunities or pressures. A strict definition of market pressures does not adequately describe the forces that lead to social enterprise creation because many of the pressures described by nonprofit leaders in this study focused on the gaps in the social market. For example, their clients needed jobs that the market was not providing so the nonprofit created jobs through a social enterprise.

The five themes of social enterprise understanding support a general finding of organizational isomorphism in the nonprofit sector (DiMaggio & Powell, 1983). This “coercive isomorphism” (DiMaggio & Powell, 2012, p. 67) reflects cultural expectations that nonprofit organizations innovate and reduce reliance on public resources. Further, organizations may be evolving somewhat independently but amidst similar systemic pressures such as scarcity of donative resources (Dees & Anderson, 2003a). A 2004 study found public sector institutions to be more vulnerable to all types of institutional isomorphism than their nonprofit and for-profit counterparts (Frumkin & Galaskiewicz, 2004). As such, government agencies may evolve not just in response to, but in imitation of social enterprise evolution. Thus, a signal that the fourth sector does exist and is gaining traction might be observed in updates to the laws that govern both business and nonprofit sectors, the ways in which organizations are classified in the tax codes, and the statutory benefits afforded to organizations that seek to create social value in addition to financial value. This would be a practical observation of the theoretical concept of “blurring” the lines between sectors. Updates to laws and government institutions as

described above would serve as confirmation that the boundaries are blurring and the fourth sector does, indeed, exist.

4.3.2 Social Enterprise Synergy Effect. Dees (2003) wrote that social entrepreneurs engage in social enterprise not for financial gain but for mission impact. He suggested that the most successful social entrepreneurs deserved the title because they developed creative, market-driven approaches to solving a social problem. While Stecker (2014) argues that the rise of social enterprise in the nonprofit sector is primarily financially motivated, she suggests the nonprofit sector has just begun to see the hybridization of business and mission motives into a new blended economic paradigm. This blending suggests the relationship between financial and social value creation looking forward is a complex and co-dependent one. While it is evident that scholars have previously examined the relationship between social and financial value creation, this research contributes to the conceptual understanding of this relationship in two key ways. First, the multi-dimensionality of the relationship is illuminated in that we more thoroughly understand that social and financial value creation efforts are rarely independent of each other in this context. That is, the relationship is mutually-beneficial. Second, the synergy effect described by participants is not explicitly discussed in the literature. Rather, existing knowledge on the relationship between social and financial value creation efforts focuses on the importance of each but not the added impact of the relationship itself. Further, the added value of blended models described as the synergy effect adds an additional dimension to the dominant thinking on social enterprise as a linear model or opposing forces.

The development of a social enterprise synergy effect concept from this research led to the discovery of a piece by Zhang & Swanson (2013) in which they interviewed nonprofit leaders about the nexus of social and business objectives in nonprofits. They found that managing a viable business and maintaining a social objective can be a “mutually beneficial activity” (p.105). The existence of a synergy effect is not evident in the literature on social enterprise and the limitations of this research prohibit the theory of a synergy effect from being applied to the entire population of social enterprises. However, the literature does not contradict the existence of such an effect. Indeed, the most notable scholars on this subject contend that social enterprise is a nascent and thus not fully understood concept (Dees, 1998a, 1998b, 2003, 2006, 2007; James, 2003).

While one aim of this research was to further define social enterprise, the findings suggest the discussion of social enterprise as primarily a function of business or mission is an unnecessary debate. Certainly the “father of social entrepreneurship” (Worsham, 2012, p. 442), Gregory Dees, said social enterprise was really about the impact and innovation, not the money (Dees, 2003). The findings of this research support this notion that nonprofit social enterprise is about a unique approach to solving intractable social issues.

Lastly, a concept that is found among all five themes of social enterprise understanding is supported by the literature on social enterprise. Social enterprise as a true blend of financial and social value creation supports the conclusion the structure of an enterprise matters less than the total impact. Further, the literature suggests a truly blended model might be the best criteria for evaluating whether or not something should

be considered a social enterprise (Emerson, 2003; Sabeti, 2009; Teasdale, 2011). This supports the working definition of social enterprise such that practitioners and scholars alike might move on from the definitional work and dig deeper into the task of developing best practices.

CHAPTER FIVE: DISCUSSION AND IMPLICATIONS

5.1 Introduction

Social enterprise is growing as part of the nonprofit sector (Lyons et al., 2010). This research found indications that it is a necessary evolution of the nonprofit sector as a result of cultural, financial, and government influences. Further, the concept of social enterprise is still nascent as research and practice continue to inform our understanding. As primary informants in this process, nonprofit leaders are the front line of social enterprise. As the primary vehicle for addressing social problems, the nonprofit sector is concurrently the front line of social change efforts. Thus, nonprofit leaders are at the very tip of the spear with regard to the future of social change in this country.

Nonprofit leaders understand social enterprise as an important part of their organization's future and as a key component of the nonprofit sector moving forward. The conceptual definition of social enterprise remains elusive but the findings of this research add to the understanding of social enterprise as an evolutionary step toward a new economic paradigm in which business and social change blend together to maximize impact on the social problems we face.

5.2 Limitations

This study utilized a convenience sample which may produce a biased sample. I acknowledged this directly in the research. This research focused specifically on nonprofit leaders, which limits the scope of applicability to that particular sector of the economy.

This research is also limited in generalizability due to the small sample size. As the sample frame is delimited to nonprofit leaders that operate social enterprises in the United States, the conclusions are limited to that population as well. This research applies only to nonprofits, though it is worth noting that a significant portion of the literature on social enterprise focuses on the for-profit sector. Given that a snowball sampling method was used, respondents were confined to a group that found social enterprise to be a useful strategy in their leadership skillset. While all respondents approached social enterprise with cautious optimism, none rejected the idea as an integral piece of the future of the nonprofit sector. Thus, the sample itself was skewed toward those with a favorable but pragmatic view of the topic.

In spite of these limitations, I argue that the research contributes to our understanding of social enterprise in the nonprofit sector. The themes of social enterprise understanding are constructed from empirical data gathered from nonprofit leaders with current expertise on nonprofit social enterprise. Because of this, the constructed theory is grounded in real-life experiences of nonprofit executives and thus the findings can inform the work of other nonprofit leaders when considering, planning, launching, or managing social enterprise.

5.3 Summary of Findings

Nonprofit leaders interviewed as part of this research understood that social enterprise can be described with five emergent themes that, as a whole, can be extrapolated to a grounded theory constructed framework. The themes are 1) Social Enterprise as a necessary and inevitable evolution of the nonprofit organization; 2) Social

Enterprise as a means of achieving a social mission; 3) Social Enterprise as a true blending of business and social impact models; 4) Social Enterprise as the use of business principles in a social mission context; 5) Social Enterprise as a market-driven approach to financial and social value creation.

The interpretation of these themes led to the formation of a theoretical framework called the social enterprise synergy effect wherein there is an observable impact of well-integrated social enterprise that yields an impact greater than the sum of the parts. This effect is conceptual in nature and thus can and should be explored in future research.

The five themes and grounded theory framework also help to address the original research questions. I address each of these individually as follows.

1. How do nonprofit leaders understand social enterprise?

Nonprofit leaders that took part in this research understood social enterprise as a mindset, an approach to leadership that incorporates an entrepreneurial approach to solving intractable social problems that leverages business principles and enterprising programs. They saw social enterprise as a means of addressing their social mission more than a method of earning revenue although the revenue component remains a key component of the model. Nonprofit leaders saw social enterprise as a necessary and inevitable stage in the course of nonprofit sector evolution wherein it will play a significant role in nonprofit sector growth and viability. Concurrently, they expressed a belief that social enterprise is not the only path forward or a compulsory step for all nonprofits to take.

Nonprofit leaders interviewed in this study understood social enterprise as an important and growing part of the nonprofit sector as a whole. While the scope of this research is limited to those nonprofit leaders that operate social enterprises, the proliferation of social enterprise in the nonprofit sector suggests these findings may grow in relevance as more of the field adopts this approach.

2. What impact have cultural assumptions had on the emergence of nonprofit social enterprise?

Nonprofit leaders interviewed as part of this study struggled with the concept of social enterprise in that their internal culture and external stakeholders do not understand social enterprise in a uniform manner. As can be expected from the blending of two historically different approaches to social and financial value creation, a collision in worldviews can occur. Interviewees believed that cultural and community understanding of nonprofits is evolving alongside them. Thus, the cultural assumptions that define social enterprise organization impact on the emergence of nonprofit social enterprise but are not a prohibitive force in this paradigm shift.

3. What are the implications for social change efforts based on the emergence of nonprofit social enterprise?

Nonprofit leaders that were interviewed saw social enterprise as a positive contribution to the business of effecting social change. They understood social enterprise as a means of magnifying their measurable impact on their mission, and as a means of supporting growth and establishing the conditions necessary for successfully scaling a social change effort. Nonprofit leader participants saw social enterprise not as a silver

bullet to the problems of resource constraints or intractable social challenges but rather as an important evolution – a new set of tools. Further, nonprofit interviewees saw social enterprise as a way to establish autonomy from rigid and unpredictable funding sources and as a means of meeting a market need that otherwise hinders their ability to impact a social change effort.

Nonprofit leaders described social enterprise as a way to achieve organizational goals such as autonomy from rigid funding sources and the associated bureaucracy. They also saw social enterprise as a means of stabilizing revenue sources at a time when many nonprofit leaders worry about their organization's financial future with potential contractions of government investments in their causes or a shift in the priorities of private philanthropies. Lastly, nonprofit leaders interviewed saw social enterprise as a means of improving mission outcomes by meeting a need they might otherwise have depended on external systems to address. As discussed in the previous chapter, this is a response to a need such as employment opportunities that is not otherwise being met by the market. This conclusion supports the concept of the social enterprise synergy effect in that nonprofit leaders feel their social enterprises contribute meaningfully and measurably to their mission impact.

5.4 Discussion

This research sought to describe how nonprofit leaders understand social enterprise. The intent was to begin an exploration of social enterprise in the nonprofit sector as a means of securing much-needed financial sustainability and independence from traditional funding sources (Stecker, 2014). The notion of social enterprise as a path

forward for nonprofit organizations was evident but not adequately understood. While the scope and applicability of these findings are limited, they contribute modestly to the definition of this new frontier and thus help shape the research landscape on this topic moving forward.

The research process asked nonprofit leaders to describe their understanding of social enterprise as it applied to their organization and as a potential force upon the nonprofit sector as a whole. Near unanimous themes arose from this process, resulting in an inductive, constructed theory of social enterprise that includes five themes of social enterprise understanding. These themes further reinforced the application of an existing principle to a new context; that is, the notion of a synergy effect with regards to the relationship between nonprofit social enterprise activities and mission impact. While both the themes and synergy effect yield significant potential for further study and contribute to the understanding of nonprofit social enterprise, the synergy effect presents the most promising potential.

This social enterprise synergy effect suggests that a nonprofit operating a high-functioning social enterprise might produce measurably better social impact than an organization focusing only on mission activities. If this theory is found to be true, social enterprise may impact a nonprofit mission on a greater scale than is assumed in a preponderance of the literature on this subject. A common perspective is that social enterprise is a financial venture and is sought by nonprofit leaders as a means of diversifying and stabilizing revenue (Hartigan, 2006). While this is true, the notion that

social enterprise could improve mission impact is a potentially new direction for organizational and leadership research.

5.5 Implications

This research began a deeper exploration into nonprofit social enterprise and partially illuminated a relationship between social missions and enterprising activities of nonprofits. Specifically, the social enterprise synergy effect that was constructed from this research could help organizational leaders plan and execute social enterprise more effectively. In order for this implication to bear out, additional research is necessary. The most promising implication of these findings is the possibility that social enterprise can play a larger role in nonprofit organizations than is currently reflected in the literature.

The five themes of social enterprise understanding that emerged from this research are but a small window into the world of nonprofit social enterprise. The implications of these findings may inform nonprofit leadership research and professional literature. These findings are most relevant for nonprofit leaders who are considering starting a social enterprise in their organization or those that are operating a social enterprise already. For those operating one, these findings may connect their experiences to the broader community of nonprofit social entrepreneurs in a way that helps them understand their own thinking, decision making, and leadership choices with regard to the social enterprise they operate.

This work contributes to the theoretical understanding of social enterprise as a blend of social and financial value creation activities. Thus, it pushes the limits of how we consider social enterprise as a mechanism of social change by pivoting away from

legal, tax, and structural definitions in favor of an impact-focused definition. That is, we might define and evaluate social enterprise more accurately by examining the process and outcomes of social change efforts rather than strict and antiquated tax code categories. The implications of this research as part of a larger shift in theoretical understanding of social change via social enterprise are themselves significant. As we begin to conceptualize social enterprise as a social change strategy that transcends the boundaries of organizational structure, social change leaders are granted necessary agency to effect previously intractable social problems.

This research is a small and focused window that observes a broader economic paradigm shift in which social and financial value creation is blended to create a larger impact on social issues. As such, implications of this and future research on social enterprise practice are noted here. As social enterprise continues to spread as a means of effecting social change, it is possible that nonprofit social enterprises could begin to out-compete for-profit enterprises for human and financial resources. Further, as social entrepreneurs add experiential knowledge and scholars contribute their conceptual findings to this field, the impact of social enterprise will continue to grow. That is, social entrepreneurs will get better, faster, and more efficient at effecting social change.

The anticipated economic impact of widespread social enterprise adoption is notable. As the nonprofit sector contributed \$905.9 billion to the U.S. economy in 2013, any observable shift in resource allocation would result in a significant impact on the distribution and availability of public resources (McKeever, 2015). As part of this economic impact, workforce implications of social enterprise growth would be

significant as well. Millennial workers—those born between 1977 and 1997—are rising to leadership positions in social enterprises. More than any previous generation, they seek a sense of purpose from their employers (Meister & Willyerd, 2010; K. Moore, 2014). This same generation is known for challenging the status quo and forcing various industries to reevaluate how they operate (Emeagwali, 2011). This trait suggests the full impact of the incoming generation of social change agents and social entrepreneurs has yet to be seen.

Given the observed increase in social enterprise prevalence and the broadness of the impacts described above, revisions to the legal and tax codes may be warranted. While the evolution of social enterprise as blended value models has occurred despite a static tax code, revisions could strengthen the conditions that foster social enterprise development. Revisions might simply clarify the boundaries of organizational structures, create new structures for social enterprises, or open new opportunities for tax-advantaged enterprises that blend the benefits of nonprofit and for-profit structures in a way that mirrors the blended value models of social enterprises.

5.6 Suggestions for Future Research

This research contributed to the conceptual and practical understanding of social enterprise but raised numerous additional questions about this nascent field. These questions illuminate opportunities for future research that are described below.

This research uncovered a phenomenological definition of social enterprise as understood by nonprofit leaders. The need for a working definition of social enterprise remains. This definition could be much strengthened by additional, rigorous empirical

research on social enterprise as an economic paradigm shift. Such a study might examine a large sample of social enterprises from both for- and nonprofit settings. Collecting data on social enterprises as they are defined by their leaders may yield more concrete parameters that might be used to differentiate social enterprises from, for example, socially responsible businesses. Further defining social enterprise could strengthen the field as it evolves, allowing funders and investors to more accurately identify true social enterprises from those operating on the fringes with negligible social impact.

Related to the need for a standard definition of social enterprise is the need for a more accurate picture of the nonprofit sector as a whole. Specifically, the exact number of nonprofit organizations in the U.S. is not known because state government handles corporate registration and the Internal Revenue Service only keeps financial records of organizations with revenues in excess of \$50,000. As a result, it is difficult for researchers to estimate the representativeness of samples or the applicability of findings without an accurate picture of the population. Moreover, because social enterprise lacks clear definition and because financial reporting requirements do not adequately capture this type of activity, it is virtually impossible to determine how many nonprofits are engaging in social enterprise. The closest approximation is reported as unrelated business income – or an organization’s self-report of revenue from sources substantially different than its charitable purpose (Kerlin, 2006). However, this figure is a woefully inaccurate measure of social enterprise activity which can often be reported as part of exempt revenues.

Future research could also test the five themes of social enterprise identified in this study within a larger sample of social entrepreneurs from both nonprofit and for-profit sectors. This larger sample would seek to verify the social validity of the findings empirically by asking social entrepreneurs to verify, modify, contradict or reject the themes as a reflection of their understanding of social enterprise. This research would be enabled by first addressing the definitional issues described above.

As many of the participants described developing their own framework to evaluate social enterprise opportunities and performance, further research could be done toward developing a framework. Such a framework could still be based in leadership stories and experience but also include insights drawn from quantitative analysis of social enterprise success and impact. That is, an evidence-based model of social enterprise could assist leaders in identifying, researching, planning, deploying, and evaluating social enterprise. The need for such a framework is further reinforced by the evolution in social understanding as a blended model of social and financial value creation made evident by this research.

The findings of this work suggest the legal and tax definitions are less important than the operationalization of social enterprise illustrated by the five constructed themes of nonprofit social enterprise understanding. Thus, future research could focus less on the traditional definitions of for- and nonprofit social change and more on the impacts of blended value organizations. According to the nonprofit leaders interviewed in this study, the impact of social enterprise is more important than the specifics of its structure.

Studies that span across corporate structure and instead focus on impact could yield interesting and relevant results.

The theoretical framework constructed as part of this research illuminated a deep connection between the impact of an organization and the social enterprise activity dubbed the social enterprise synergy effect. A quantitative approach to understanding the measured impact of nonprofit social enterprise organizations relative to their traditional nonprofit counterparts would contribute to the understanding of how social impact is affected by enterprise activities. This type of research would confirm existence of the social enterprise synergy effect if the findings include an observably stronger mission impact in social enterprise organizations than in their traditional siblings. Related to this, the findings of the current study suggest nonprofit leaders understand their organizations impact on a much deeper level than can be articulated in any current measure of organizational impact or efficiency. This suggests the need for a measure of organizational impact that could provide a consistent method of rating an organizations impact relative to their stated goals. Such a measure would also allow funders, investors, and the general public to understand an organization's impact easily and quickly.

Building on a standardized measure of mission impact, future research might explore the measured impact of organizations relative to their social enterprise activities, their impact relative to competitors, or their measurable total impact above that of the constituent parts. The existence of the synergy effect would be further confirmed by measuring an added value of concurrent and well-integrated social enterprise and mission programs. That is, the true measure of an organization's impact would include the

financial, social, and other benefits generated. Research that constructs a method of quantifying overall organizational impact would serve the nonprofit sector by allowing for a more accurate and comprehensive measure of impact. This might be achieved by surveying nonprofits and simultaneously studying their total added value in both financial and non-financial terms. Such research could yield a model for quantifying total impact with an organizational survey.

5.7 Final Thoughts

Social enterprise is a growing component of the nonprofit sector. It is simultaneously a method of developing sustainable and discretionary revenue to fund social programs, a means of meeting social market demand for services, a necessary evolution of the social construction of nonprofit organizations, and a blending of interests between the business and nonprofit sectors of the economy.

The nonprofit leaders who participated in this study understand social enterprise to be a benefit to both their financial and social value creation efforts such that the integration of a social enterprise into the core of a nonprofit organization produces an added, measurable benefit. While the future of social enterprise in the nonprofit sector is as dynamic as the social entrepreneurs that create them, it will serve an important role going forward. As the understanding of social enterprise evolves with the proliferation of examples from which nonprofit leaders can learn, so too will the effect of the enterprises on the social problems they aim to solve.

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APPENDICES

Appendix A: Invitation to Participate

Hello,

I am a doctoral candidate at the University of Vermont researching social enterprise in nonprofits. Public records indicate your organization may be engaging in social enterprise. I am writing to invite you to participate in my research. Your participation would be kept confidential, and the results would help other nonprofit leaders understand social enterprise in the nonprofit setting. If you would be willing to participate or have questions about the study, please contact me by phone or email. I may be reached at 802-497-4864 or cyrus.patten@uvm.edu. I have attached additional information about the research for your review.

Thank you,

Cyrus Patten, MSW

Ed.D Candidate

Appendix B: Phone Interview Script

Researcher: “Thank you for agreeing to hear about this study. You are being invited to participate in this study because you are in a leadership position at a nonprofit organization that is engaging in social enterprise.

Having reviewed the Research Information Sheet I sent you earlier, do you consent to participate in this study?

YES

NO

Date: _____

Investigator Signature: _____

Appendix C: Interview instrument

Instructions: I am studying how nonprofit leaders are incorporating business practices into their organizations. Specifically, how organizations are finding new ways to fund their mission work.

1) Tell me about your organization as a social enterprise.

Possible follow-ups:

What is social enterprise?

Is your organization a social enterprise?

Where does your revenue come from?

Show social enterprise continuum and ask to place their organization on it.

2) How has your organization changed in this regard during your tenure?

Possible follow-ups:

Is your social enterprise a new thing for your organization?

Why did you start the enterprise?

What led to the creation of your social enterprise?

3) What is the role of social enterprise in your organization's future?

Possible follow-ups:

Will this part of your organization grow?

Will you rely more or less on earned revenue moving forward?

Has this been a successful venture for your organization?

4) How might social enterprise change the nonprofit sector?

Possible follow-ups:

Will it change how the community sees nonprofits?

Could it significantly change how we fund social change?

5) Have cultural assumptions about nonprofits affected how you lead your organization?

Possible follow-ups:

How do they impact your organization?

What is your sense of how the community sees your organization?

6) What other organizations are running social enterprises?

Appendix D: Definitions

Nonprofit

For the purposes of this research, a nonprofit is a corporate entity that is recognized by the U.S. Internal Revenue Service as tax exempt under section 501(c)(3) of the Internal Revenue Code.

Social Enterprise

A corporate entity that blends social and financial value creation. This means the company or organization seeks to generate financial returns as well as serve a public good.

First Sector

The business sector of the economy. Typically including for-profit corporations.

Second Sector

Government.

Third Sector

The nonprofit, voluntary or civic sector of the economy. Typically including charities and social service organizations.

Fourth Sector

The theorized blend between the first and third sector of the economy wherein new entities are blending financial and social value creation. This sector is not yet defined by legal or tax codes while the other three sectors have clear demarcations.

Appendix E: Certification of Exemption




The
UNIVERSITY
of VERMONT

Committees on Human Subjects
Serving the University of Vermont
and the UVM Medical Center

RESEARCH PROTECTIONS OFFICE
213 Waterman Building
85 South Prospect Street
Burlington, Vermont 05405
(802)656-5040 ph
www.uvm.edu/irb/

Protocol Exemption Certification

TO: Cyrus Patten
FROM: Sarah Wright, Research Review Analyst 
DATE OF CERTIFICATION: 22-Apr-2016
SUBJECT: CHRBS: 16-577
Nonprofit Leadership and the Future of Social Change

Following IRB review of your project, it has been determined that it qualifies for exemption, as indicated below.

Exemption Category: 2

Federal Exemption: "Research involving the use of educational tests (cognitive, diagnostic, aptitude, achievement), survey procedures, interview procedures, or observation of public behavior, unless: (a) information obtained is recorded in such a manner that human subjects can be identified, directly or through identifiers linked to the subjects; and (b) any disclosure of the human subjects' responses outside the research could reasonably place the subjects at risk of criminal or civil liability or be damaging to the subjects' financial standing, employability, or reputation."

This exemption is effective for the duration of the project UNLESS modifications are made that affect the original determination of exemption.

cc: Katharine Shepherd

Note: If this project is the study of cancer or is cancer-related, it may require review by the University of Vermont Cancer Center prior to any research activities.