The creation of social enterprises by not-for-profits

An abstract prepared for the 2014 Innovation and Societal Entrepreneurship Research Colloquium @RMIT

Tricia Fitzgerald
PhD candidate
University of Auckland Business School
Department of Management and International Business
Owen Glenn Building, Grafton Road
Auckland, 1010
pm.fitzgerald@auckland.ac.nz

Introduction

With increasingly uncertain income available from government and the public, many not-for-profits feel compelled to develop commercial revenue streams to increase their autonomy (Morris, Coombes, Schindehutte, & Allen, 2007). While it is unclear how many not-for-profits explore commercial income opportunities, it is argued that while many, perhaps most not-for-profits have considered this option, few are commercially successful (Oster, Massarsky, & Beinhacker, 2004; Stevens, 2008). The disruptive challenges of bringing commercial processes into not-for-profit organisations are often underestimated (Kirkman, 2012).

Although many writers reserve the term social enterprise for a stand-alone hybrid (Battilana & Dorado, 2010; Emerson, 2003), this paper suggests that social enterprises can and do exist within not-for-profits (Kerlin, 2010; Young, 2001). In New Zealand, for example, more than two thirds of social enterprises are within or run by not-for-profits (Department of Internal Affairs, 2013). It argues further that not-for-profits may act as a useful incubator for small but potentially scalable social enterprises, with their existing infrastructure and need for resources. However, much remains to be learned about how social enterprises might be successfully generated in this context, and institutional logics help in understanding this process.

In order to understand how commercial activity can operate in not-for-profits, it is first necessary to understand the main differences between not-for-profit \(^1\) and for-profit

\(^1\) The terms not-for-profit and for-profit are used to describe primarily social purpose and commercial organisations respectively.
organisations, before it is possible to describe more precisely how a not-for-profit might combine both logics within a social enterprise. There is, of course, huge variety in all these organisational forms and there are significant limitations in making sweeping generalisations about them. Nevertheless, it is possible to detect some perceptible tendencies between the organisational archetypes (Boschee, 2006; Thornton, Occasio, & Lounsbury, 2012; Trivedi & Stokols, 2011).

The dual for-profit and not-for-profit logics are used as a lens to understand these differences and examine the transition required of a not-for-profit. This abstract therefore first describes current academic understanding and the relevance of institutional logics. The sector of interest within this research is then identified more precisely and finally, the contribution that is expected to be made by the 2014 colloquium paper is outlined.

**Institutional Logics**

Institutional logics refer to the overarching principles of how an institution or organisation essentially works (Greenwood, 2008). They link the nested actions of individuals, organisations and broader societal or sectoral institutions. Emerging over time through social interaction, these logics can be defined as “socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules” that shape behavioural choices (Thornton & Ocasio, 1999: 804). These behavioural prescriptions have a marked impact on organisations and may emerge from a mixture of the core institutions of the market, community, state, democracy, religion, family or the corporation (Friedland & Alford, 1991; Greenwood, 2008). Because of the ingrained nature of institutional logics, organisational personnel commonly respond unconsciously to these different logics and prescriptions: they are simply the way the world is seen (Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011).

Logics influence personnel and organisations at different levels and times, however, and individual or groups of personnel can influence these logics in turn (Poole & Van de Ven, 1989). Further, the size, structure, ownership and identity of an organisation, as well as the structure of the institutional field can prompt a receptivity to some logics more than others, which may or may not be compatible (Dacin, Dacin, & Tracey, 2011; Friedland & Alford, 1991; Greenwood et al., 2011). The resulting plethora of possible logics means that most organisations have multiple logics, even if they are not consciously acknowledged (Besharov & Smith, 2014). Examples of various logics within a not-for-profit might include management, volunteer, education, technology, public service or social worker logics, each of
which has its own core assumptions and beliefs, some of which are compatible with each other, while some are not. For example, the management logic is likely to believe that better management will solve all key problems in the organisation through improved efficiency and effectiveness. Predictability of resources and a clear organisational structure are likely to be pursued. The volunteer logic may counter with a belief that democratic action, relationship focus and creative development of scarce resources is needed (Kreutzer & Jäger, 2011).

Often however, these logics morph into a distinctive dominant logic within an organisation that accommodates differences and serves to provide clarity and consistency in action (Besharov & Smith, 2014). Although multiple logics may exist, this research is focussed on understanding the distinctions of only two logics in a particular setting: the for-profit and not-for-profit logics that coexist within not-for-profits that are developing social enterprises. In this way, the complex transformation undertaken by the not-for-profit will be better understood.

The question remains of whether there is, or ever can be, clearly distinct logics or identities for not-for-profits and for-profits. Certainly, some writers argue that there is no clear or absolute distinction between the social and economic roles of organisations and that all organisations demonstrate commercial and social aspects to some degree on a continuum, rather than in a duality (Battilana & Dorado, 2010; Dees & Elias, 1998). There are significant overlaps in function between not-for-profits and for-profits, including mission focus, governance, strategy, finance, operational management, and personnel development (Dees & Elias, 1998; Drucker, 1989). Nevertheless there is also a strong argument that for-profits and not-for-profits do have fundamentally different motives and methods and we still need to understand these better if we are to explain how not-for-profits can develop social enterprises that endeavour to combine both logics (Battilana & Dorado, 2010; Peattie & Morley, 2008). If simplified to representative archetypes, some generalisations can be made that do not necessarily depict best practice but rather capture the essential differences in approach.

**Sector Focus**

Knutsen (2013) delineates those not-for-profits that can generate sufficient income through charitable fundraising as being the ideal not-for-profit, and are commonly in the form of a
smaller organisation\(^2\) that is run by volunteers. Well established or entrenched larger not-for-profits, on the other hand, are more likely to have mainly paid staff, a bureaucratic infrastructure and have expanded through government funding or developed independent business income (Billis, 2010; Guo, 2006). Of interest to this research are these larger not-for-profits that in many cases have adopted some public and private characteristics and are not a pure organisational form (Billis, 2010; Knutsen, 2013). The not-for-profit parent of each social enterprise within this research fits this category.

Not-for-profits’ social enterprises are created to develop an alternative revenue stream or a self-funding programme, are often significantly smaller than the parent organisation, and may be peripheral to its core functions (Battilana & Lee, 2014; Besharov & Smith, 2014). Nevertheless, they are expected to operate as an “organisation that has a social, cultural, or environmental mission, that derives a substantial portion of its income from trade, and that reinvests the majority of its profit/surplus in the fulfilment of its mission” (Department of Internal Affairs, 2013). Because they are both mission and market focussed, social enterprises sit at the intersection of the for-profit and not-for-profit sectors that are thought of as distinct but often incompatible (Besharov & Smith, 2014). Therefore the dual logics of the social enterprise are important, but of particular interest to this research is how the logics of a social enterprise are configured within an organisation that has a primary social remit.

**Contribution**

The purpose of the proposed paper is to contribute to theoretical and practitioner understanding of the complex challenges not-for-profits experience as they endeavour to establish a social enterprise and manage potentially contradictory institutional logics. It will acknowledge the contribution of the institutional logics literature and the overlapping construct of organisational identity. Then, to assist distinguishing between not-for-profits, for-profits and social enterprises, this paper builds on existing literature to develop four key characteristics of values and mission, market orientation, resource capacity and the number of stakeholders to satisfice. In addition, it will draw on four illustrative case studies that are part of this PhD research, and will present a multidimensional typology that builds on existing literature to delineate options to consider when structuring a hybrid social enterprise that is recently created and still peripheral to the not-for-profit’s services.

---

\(^2\) In New Zealand, small and medium enterprises in any sector are defined as having less than 20 staff (Ministry of Economic Development, 2011).
References


