Social Entrepreneurship and the Financing of Third Sector Organizations

Dennis R. Young and Mary Clark Grinsfelder
Andrew Young School of Policy Studies
Georgia State University
September, 2008

Prepared for presentation to the conference on *Social and Solidarity-based Economy: New Practices and Territorial Dynamics,* Nantes, France, September 29-30, 2008

DRAFT: Not for Quotation without authors' permission

ABSTRACT

Third sector organizations in the United States finance themselves through a variety of sources including gifts and grants, government funding, earned income in the form of fees and commercial ventures, and returns on investments. Many of these organizations are led by individuals who can be characterized as social entrepreneurs, individuals who create new ventures and new ways of addressing social missions. The concept of the social entrepreneur is patterned after the conventional model of the business entrepreneur who creates and develops new commercial ventures. However, there are limits to this comparison. Business entrepreneurs are expected to have sharp business skills, be facile operators in the private market place for goods and services and generate financial profits on the basis of market revenues. Alternatively, successful social entrepreneurs would seem to require a somewhat different mix of skills, compatible with the fact that they must often seek support from non-market sources of revenue. While business acumen is likely to be an important part of the skill set of social entrepreneurs, these individuals may also require political skill, fund raising expertise, and other abilities consistent with the synthesis of economic supports required for both social mission achievement and financial sustenance. A narrower view of social entrepreneurs as developers of ventures entirely dependent on business skills and market revenues would therefore appear to be seriously limited and unproductive.

In this paper, we review the literature on entrepreneurship and the skill sets required by entrepreneurs operating in different sectors of the economy. Case studies from the social enterprise literature are examined in some detail. We search for distinctions between entrepreneurship in the business sector and entrepreneurship in the nonprofit sector and relate this to the variations in financial support found among nonprofit sector organizations. We conclude that third sector social entrepreneurs are likely to require a different mix of skills than business entrepreneurs and indeed that there is substantial variation in skill set requirements within the realm of social enterprise. In particular, political skills broadly defined, and the ability to secure and maintain charitable support, appear to be common to successful social enterprise ventures. That said, we suggest that taking too narrow a view of social entrepreneurship and social enterprise by confining it to the traditional business model of entrepreneurship constrains the potential benefits of developing social entrepreneurship in the third sector.

Introduction

While the concept of entrepreneurship has a long history in the commercial sector, it has been embraced relatively recently in the social economy or third sector. Nonetheless, "social entrepreneurship" is now one of the hottest topics for policy makers and practitioners seeking new solutions to social problems, in the United States, Europe and other parts of the world. However, there is not yet conceptual clarity on the nature of social entrepreneurship and how it is similar and different from business sector entrepreneurship. Indeed, Dees and Anderson (2006) argue that the concept of social entrepreneurship represents a confluence of two schools of thought - the idea of generating earned (market) income in support of social purposes (e.g., through commercial activity by nonprofit organizations) and the undertaking of innovation for social change.

The latter idea is generic and sector-agnostic, and consistent with the ideas of Jean Baptiste Say, Joseph Schumpeter and Peter F. Drucker. Say (1803) is credited with associating the French term entrepreneur (one who undertakes) with venturesome individuals who stimulate economic progress by finding new and better ways of doing things. Schumpeter (1934) wrote of entrepreneurship as the bringing about of "new combinations of means of production". Schumpeter's emphasis was on innovation, leading to new kinds of economic goods and services, new ways of producing them, the opening of new markets, development of new sources of raw materials or the creation of new organizational structures. Drucker (1995) characterized entrepreneurs as searching for change, responding to it, and exploiting change as an opportunity. Young (1983) and later Brinkerhoff (2000) adapted these notions of entrepreneurship specifically to nonprofits and social entrepreneurship, respectively.

The proper conceptualization of social entrepreneurship in the third sector – in particular the nature of its link with the commercial marketplace – matters because it defines the skill sets that will be sought by third sector organizations to address their social missions. If social entrepreneurship is primarily about marketplace success then the traditional model of the business entrepreneur is appropriate. However, if the broader concept of innovator and catalyst for social change is adopted, then a different skill set may be required of social entrepreneurs.

In this paper, we argue that the broader conception of the social entrepreneur is appropriate because social enterprise does not depend solely on marketplace success. Indeed, the financial foundations of third sector organizations are quite varied and this variation is likely to be reflected in the financing packages for new ventures, implying that social entrepreneurs must be able to negotiate public sector and philanthropic environments as well as markets. Assuming that these environments require different knowledge and skill capacities, social entrepreneurs will require capabilities that are somewhat different from those of the typical business sector entrepreneur.

The next part of this paper reviews the financial foundations of various parts of the third sector in the United States and elsewhere. Subsequently we review the literatures on social and business entrepreneurship with an eye towards identifying similarities and differences in required skills. We approach this by recognizing entrepreneurship as a generic phenomenon involving innovation and change applicable to all sectors, but whose manifestations vary from one sector context to another. We then analyze the match between skills and capacities associated with entrepreneurial success in different sectors and the economic foundations of various third sector environments, in particular the dependence of nonprofits in different fields of service on sources of income derived from the market, government and philanthropy. Reviewing a set of published case studies of social enterprise reveals the variety of financing sources and entrepreneurial skills required for successful social enterprises. We conclude that social entrepreneurship is not only distinct from business entrepreneurship in its skill requirements, but also that these requirements vary substantially within the third sector. In the final section we reflect on the implications of this analysis for selection and education of successful social entrepreneurs.

Economic Foundations of the Third Sector

At the sector level, comparative studies clearly demonstrate that the revenue base of the third sector varies widely from country to country (Salamon, Sokolowski and Associates, 2004). On average, a 34 country compilation attributes over half of financial support of nonprofit organizations to fee income, another third to government revenue, and 12% to philanthropic sources. However, as illustrated in Table 1, individual countries vary widely in their mixes of revenues from different sources. This suggests that social entrepreneurs operating in different countries will encounter substantially different economic environments in which to find support for their initiatives.

Country	**%Fees**	**%Government**	**%Philanthropy**
Mexico	85%	5%	3%
Sweden	62%	29%	9%
U.S.	57%	31%	13%
Japan	52%	45%	3%
France	35%	58%	8%
U.K.	45%	47%	9%
South Africa	32%	44%	24%
34 Country Average	53%	34%	12%

Table 1: Sources of Revenue of Third Sector Organizations in Selected Countries
Source: Salamon, Sokoloski and Associates (2004)

Within countries, substantial variation exists among different parts of the third sector. This is well illustrated by data from the United States. Overall, in 2005 some 70% of the revenue of reporting public charities derived from fee income broadly defined, consisting of a combination of privately paid fees and charges as well as fee and contract revenues paid to nonprofits by government (Wing, Pollak and Blackwood, 2008). Another 12% of revenue derives from charitable contributions, 9% from government grants, 5% from investment income, and 3% from other sources. However, these overall proportions vary widely by sub-sectors within the nonprofit sector, and indeed among individual organizations within sub-sectors.

Table 2 illustrates some of these differences. Organizations in health care, for example, are very largely dependent on fees (substantially through government insurance programs) while those in the arts, environment and international work depend more on gifts and grants. Social services and education are also highly fee dependent. Government sources are particularly important in human services, health care and international work.

	Fees	**Private Gifts**	**Govt grants**	**Invest Income**	**Other**
All	*70.3%*	*12.3%*	*9%*	*5.4%*	*2.9%*
Arts	31.3%	40.8%	12.5%	7.7%	7.7%
Education	55.9%	14.9%	11.9%	14.1%	3.1%
Environment	25.1%	48%	14.1%	5.8%	6.9%
Health	87.5%	4%	3.4%	2.9%	2.2%
Human Services	53.1%	16.4%	22.7%	2.9%	4.9%
International	7.6%	67.3%	21.9%	2.2%	1%

Table 2: Sources of Revenue for U.S. Nonprofit Organizations by Field of Service
Source: Wing, Pollak and Blackwood, 2008

The degrees to which revenue portfolios within subsectors are varied also differ among fields of service. Table 3, which reproduces data from Chang and Tuckman (1994) using a Herfindahl index, indicates that average concentration of revenue from particular sources among organizations within a field, as well as the variation of this concentration, differ from field to field within the U.S. nonprofit sector. The Herfindahl index varies between 0 and 1, the latter signifying total concentration in one source of revenue. Hence, the lower the index, the more diversified is the revenue portfolio of a given organization.

Subsector	Mean concentration	Standard deviation	Coeff. of variation
Arts/Culture	0.50	0.22	0.44
Education	0.67	0.22	0.33
Health	0.71	0.22	0.31
Human Services	0.65	0.23	0.32
Total	0.66	0.24	0.36

Table 3: Concentration of Nonprofit Revenues by Field of Service
Source: Chang and Tuckman (1994)

Thus, revenue sources in health care are much more concentrated from one source (fees) than they are for education and human services, with arts and culture nonprofits the least concentrated in one source. However, arts organizations tend to vary more widely in their concentration as measured by the coefficient of variation that compares the mean of the concentration index to its standard deviation. Overall, Chang and Tuckman found the nonprofit sector's revenue concentration to be 0.66 on average, a value that would be obtained by having roughly 75% of revenue from one source and 25% from another.

Most of the research on income sources for third sector organizations in the U.S. has been based on data from Internal Revenue Service Form 990 which focuses almost entirely on money income. It is well to note for purposes here, however, that a substantial proportion of the economic support for nonprofits in the U.S. derives from volunteer labor and that this too varies substantially by sub-sector. Estimation of the money value of volunteer labor is not without controversy but reasonable estimates suggest that, overall in the U.S. nonprofit sector, it is roughly equal to the value of private charitable contributions; moreover, volunteering tends to be concentrated in particular fields of activity, especially religion and educational or youth services (Wing, Pollak and Blackwood, 2008).

If the entrepreneurial skills needed to acquire and sustain fee income, charitable contributions, government funding, investment income and volunteer support, differ, then the forgoing data suggest that social entrepreneurship capacities required for success in different parts of the third sector will also vary. As reviewed next, the literature is somewhat imprecise on this issue but seems to suggest that there are both commonalities and differences in entrepreneurial skills carried out in different sectors of the economy. The implications for social entrepreneurship may be subtle, however, because the sources of support in the third sector both overlap with business and government sources, and vary more widely than they do for government or business ventures. Moreover, the sources of support for new ventures may be different from the average patterns of support for third sector organizations in their various fields of activity. Furthermore, venture support may vary over the life cycle of social enterprises to which social entrepreneurs devote themselves. Social entrepreneurs may thus require skills both common to business sector and public sector entrepreneurs, and other skills that are distinct.

Entrepreneurial Capacities

The modest but growing literature on social entrepreneurship must be put into the context of a much more robust overall literature on entrepreneurship, most of which is implicitly focused on the business sector but which is often generic in its approach to entrepreneurship as a phenomenon. An interesting overview is provided by Cunningham, Barton and Lischeron (1991) who review six schools of thought about entrepreneurs: the *great person* school which focuses on intuition, instinct and natural ability; the *psychological characteristics* school which emphasizes personal values, risk-taking propensity, need for achievement and other personal proclivities; the *classical school* which focuses on the process of entrepreneurship, including the creation and exploitation of opportunity and innovation; the *management school* which emphasizes that entrepreneurs need certain kinds of management skills to successfully run and grow their organizations; the *leadership school* which emphasizes abilities to adapt to change, assume responsibility, and inspire and motivate people; and the *intrapreneurship school* which emphasizes the special capacities to recognize and exploit opportunities within existing organizations, including the ability to set up new units, services and programs. Cunningham and Lischeron (1991) integrated all six schools of thought into one generic entrepreneurial process with four iterative stages: evaluating self; recognizing opportunities; acting and managing; and reassessing the need for change.

Various recent contributions to entrepreneurship research elaborate on one or more of these different ideas about entrepreneurship. For example, Smilor and Sexton (1996) emphasize leadership characteristics, capacities and skills of entrepreneurs, while Hisrich (2006) and Stevenson (1999) study how entrepreneurs make managerial decisions compared to other managers. Some economists have reintroduced entrepreneurs into economic theory. Baumol (2002) focused on the relationship between independent entrepreneurs and large corporations seeking to engage them for purposes of innovation, while Kirzner (1979) illuminated how entrepreneurs exploit market dislocations to help markets readjust to new equilibrium conditions.

Several scholars have compared entrepreneurship in the public sector to entrepreneurship in the business sector. Kearney, Hisrich and Roch (2008) compare public and business (corporate) intrapreneurship, i.e., entrepreneurship undertaken within corporate or bureaucratic organizations in government vs. business. First, in business, entrepreneurship tends to take place in smaller, more flexible organizations with clear goals, compared to larger, hierarchical and more rigid organizations in the public sector which feature conflicting goals and less control over internal resources. Second, the public sector environment is less conducive to entrepreneurship in various respects, including administrative pressures, short term budgets and planning horizons, lack of rewards and incentives to innovate, cultures of risk aversion, lack of skill sets pertaining to change and risk management, political reluctance to close down failing organizations and programs, turf and coordination issues among bureaucratic entities, resistance to change of unions and middle management groups, limits on public resources, resistance from competing private sector organizations or other groups that would be affected by a new government program, and lack of public confidence. These issues require public sector entrepreneurs to be skilled in persuasion, compromise and accommodation, and associated talents including problem solving, vision articulation, resource development, alliance and coalition building, navigating the legislative process, and sharing credit with program participants and supporters.

Some important differences are also salient between business entrepreneurs and social entrepreneurs. First, for social entrepreneurs, mission is central. Thus, mission impact rather than wealth creation is the overriding criterion of success for such entrepreneurs. It follows that business entrepreneurs can more easily use the market to judge their success, whereas social entrepreneurs must often depend on non-market resources to achieve their missions. Nonetheless, survival and growth of their ventures are only weak measures of effectiveness for social entrepreneurs because much of the social value they produce may not be captured by payments (reflecting willingness to pay) by beneficiaries.

The specialized literature on social entrepreneurship identifies a number of important skill sets required for success. Some authors focus on "nonprofit entrepreneurs" while (more recently) others specify "social entrepreneurs" as the objects of their study. Young's (1983, 1985) early work on nonprofit entrepreneurship identified a number of generic capacities including problem-solving ability, ingenuity and creativity, analyzing risks, identifying opportunities, consensus building, mobilizing resources and persistence. In later work, Young (1990) elaborated on some of these dimensions: Risk-taking included jeopardizing professional reputation and secure employment. Political skills included negotiating grants and contracts, securing sponsorship of key supporters, working to pass enabling legislation, and satisfying regulatory authorities. Persistence included the patience to overcome financial, regulatory, political and bureaucratic barriers, especially in the context of government funding.

Waddock and Post (1991) argued that social entrepreneurs required the ability to understand extremely complex problems and to form a convincing vision for solving them. Social entrepreneurs required the personal credibility to secure critical resources, build networks of support for their initiatives and frame a sense of collective purpose for those who support them. Pilz (1995) found that nonprofit entrepreneurs needed the ability to discern community needs, take risks, develop innovations and focus on what they could do for others. Brinkerhoff (2000) viewed social entrepreneurs as stewards of the public interest who must be able to identify new ways of serving constituents and adding value to existing services; take reasonable risks; understand the difference between wants and needs; understand social and financial returns to investments; and focus on mission as well as financial feasibility.

Dees (2001) focused on the role of nonprofit entrepreneurs as change agents in the social sector, noting that they had the ability to adopt a mission to create social (not just private) value; recognize and relentlessly pursue new opportunities to serve the mission; engage in continuous innovation, adaptation and learning; act boldly even without resources currently in hand; and demonstrate a sense of accountability for desired outcomes for the constituencies served. Citing various contributions to the literature, Dees also noted that social entrepreneurs have much in common with business entrepreneurs, including drive, ambition, leadership skills and a sense of how to make maximum use of resources. Thompson, Alvy and Lees (2000) also argued that skills and characteristics of social entrepreneurs mirror those of business entrepreneurs but require an extra dose of "visionary ideas, leadership skills, and a commitment to helping others" (p.328). In particular, they must be able to discern unmet public needs and mobilize resources and people (including money and volunteers) to address those needs. Alvord, Brown and Letts (2004), using data from seven well established organizations, suggest that social entrepreneurs need the capacity to bridge diverse stakeholder communities and adapt in response to changing circumstances over the long term. Light (2006) identified problem solving skills, use of high performance management techniques, and ability to build new programs and organizations from scratch as key defining characteristics of social entrepreneurs. Handy, Kassam and Ranade (2007) saw strong parallels between nonprofit and business entrepreneurs in their ability to overcome challenges and constraints, identify new opportunities, promote innovative ideas, mobilizing resources and bearing risks. Wei-Skillern, Austin, Leonard and Stevenson (2007) found both substantial similarities and differences between social and commercial entrepreneurs. Both must be able to engage the human talent they need for their ventures; both must know the industries within which they work and they must be known by others for their abilities within these industries; and both must maintain robust networks of contacts that gain them access to funds, human talent and other resources. The differences, according to Wei-Skillern, Austin, Leonard and Stevenson, pertain largely to how they raise and utilize capital: Commercial entrepreneurs can draw on a much more robust and competitive field of commercial investors that often provide a substantial proportion of relatively long term funding for their ventures, with a wide range of financial instruments to meet needs at different stages of organizational development once viability is demonstrated. Social entrepreneurs faced a much more diverse field of potential funders ranging from individual contributors and volunteers, to foundations and government sources, each with different interests, preferences and motivations. Moreover, investors in social enterprise tend to cover smaller proportions of overall resource needs for shorter periods of time. This requires social entrepreneurs to spend much of their time cobbling together numerous grants, contracts and contributions, over longer periods of time, while responding to the diverse requirements and constraints of each source of funding. Finally, Helm and Andersson (2008) argued that nonprofit entrepreneurship consists of three fundamental factors that constitute the basis of a scale of entrepreneurial orientation: innovation, proactiveness and risk taking. Innovation is the creation of new programs, services, processes, policies or other outputs through a new combination of existing inputs or the application of an existing activity to a new area. Proactiveness is action in response to perceived opportunities that are not yet proven or manifest. And risk taking is the willingness to engage in behavior that disrupts existing internal or external norms.

In sum, the literature on social and nonprofit entrepreneurship is not precise in its determination of how third sector entrepreneurship is different from its counterparts in the business or government sectors. But there is some consensus about the generic dimensions of entrepreneurial capability across sectors and as well as how the manifestation of these differences may vary across sectors. One of the key reasons cited for differences between social, business and public sector entrepreneurship is the different kinds of resources entrepreneurs need to be able to mobilize in order to be successful in alternative sectors, and fields within sectors. In the next section, we consider how the resources required for social entrepreneurship deriving from different sources – markets, government or philanthropy – help determine the necessary skill sets required for entrepreneurial success.

Resources and Entrepreneurial Skill Sets

Broadly speaking, in order to mobilize resources for their ventures, social entrepreneurs operate in one or more of three different environmental settings: the economic marketplace, the political arena and the world of charity and philanthropy. Indeed, these arenas overlay one another but they require somewhat different sets of entrepreneurial skills – including business skills associated with securing capital and selling products and services in a marketplace, political skills associated with garnering the support of various constituencies and stakeholders, and management skills associated with making wise and responsible use of the various kinds of resources needed to sustain ventures. It is fair to say that entrepreneurs require a mix of these skills, no matter what sector they operate within. For example, a business entrepreneur obviously needs market skills, but also political skills to secure necessary permissions, licenses and perhaps even funding from government. That same business entrepreneur will need to ensure that resources are wisely and honestly spent and accounted for, and may also need to demonstrate good citizenship in the community, for example, by sponsoring a youth club, volunteering on a board, or heading a fund raising campaign for United Way, in order to create an ambiance for business success. By and large, however, the relative importance of market, business, and managerial skills is likely to be different for business versus social entrepreneurs, because these groups rely on different sources of support for their ventures. Table 4 sketches out some of the differences in the nature and importance of market, political and management skills associated with the mobilization of different categories of resources. The premise here is that these three categories of skills are generic but their manifestations and relative importance are likely to be different, depending on the nature of the resources social entrepreneurs require to support their particular ventures.

	Market Skills	**Political Skills**	**Management Skills**
Earned Income	Business planning Product marketing and pricing *Venture capital acquisition from commercial and philanthropic sources*	*Cultivating relationships with business partners, suppliers and investors* Maintaining good customer and community relations Maintaining networks of colleagues and professionals within the industry addressed by the venture	*Financial planning and management* Maintaining workforce morale and productivity
Government Funding	*Assessing political needs and opportunities* Framing ideas and proposals Identifying grant, contract and partnership opportunities Competing for grants and contracts	*Cultivating relations with government officials and politicians* Advocating for favorable legislation Maintaining a positive public image Developing a good reputation within industry and community	Evaluation and performance assessment skills *Adherence to government regulatory and reporting requirements*
Charitable Giving and Volunteering	*Prospect research* Grant writing Donor solicitation through annual and capital campaigns Cause marketing and branding Developing and projecting vision	*Cultivating potential and current donors* Cultivating volunteers Cultivating foundation and corporate officials Developing a favorable public image	Strategic and business planning *Volunteer management* Fund accounting *Coordinating diverse performance assessment requirements*

Table 4: Alternative Entrepreneurial Skill Sets for Mobilizing Venture Resources

Implications for Social Entrepreneurship

If we juxtapose the diverse requirements associated with different funding sources described in Table 4 (especially those highlighted in italics) with the variety of funding mixes exhibited by third sector organizations in different fields of service, it is tempting to prematurely conclude that social entrepreneurs require different skill sets according to the organizational circumstances of their ventures. However, this analysis must be further nuanced because it does not necessarily follow that the funding mix for a new entrepreneurial venture will mirror the funding mix of the organization or subsector in which the venture is embedded. In the first place, many social ventures manifest themselves in the form of new organizations which have no previous history of reliance on particular sources of income. Furthermore, entrepreneurial ventures emanating from established organizations are commonly activities *at the margin* which add incrementally to the pre-existing programming of the organization in which they are undertaken. Hence, they are not necessarily intended to continue the existing pattern of programming and funding. Indeed, third sector organizations which are heavily dependent on a given type of revenue, say foundation grants, might specifically seek to pursue social ventures for the purpose of *diversifying* their revenue bases into earned income. Conversely, organizations heavily dependent on earned income might seek to diversify their revenue through philanthropic support. This was the case, for example, of the Steppenwolf Theater in Chicago which began as an "edgy" performance group that supported itself solely on ticket sales and the sweat equity of its founders. This social enterprise eventually grew by establishing a solid donor base to support itself as it evolved into a mature organization (Proscio and Miller, 2003). More generally, a recent study by Miller (2008) suggests that most individual nonprofit organizations have either one or two major revenue sources and that organizations funded by two sources tend to be financially healthier than those with only one source. A probable scenario is that organizations (like Steppenwolf) tend to start with one source and later acquire a second source. It is not clear which particular sources social entrepreneurs rely on to get started – this may vary by circumstances. It is clear, however, that ultimately many social entrepreneurs need to be well versed in the skills associated with acquiring and managing more than one source of resources to sustain their ventures.

It seems fair to speculate that social entrepreneurial ventures are launched mainly with the intent of developing strong streams of earned income. However, such ventures also need to raise venture capital which is likely to derive from philanthropic sources; moreover social ventures, even if successful in achieving mission-related goals, are not necessarily sustainable on the basis of market income alone. The only way to determine the required resource-related skill set is to examine the financial underpinning of social enterprise ventures from their inception, relative to their parent organizations if they are launched in this way, and in the context of the fields of service in which they arise. Moreover, as suggested above, the organizational life cycle of a social venture is likely to influence the funding mix and hence the requisite entrepreneurial skill sets.

Indeed, one suggestive, preliminary study in Ontario, Canada by Dart, Armstrong, and Clow (2008) finds that so-called social purpose businesses depend very little on earned income and in fact struggle to obtain their main source of sustenance, government grant funding. This result may not be surprising in the Canadian context. However, the dependence of social enterprise on other than earned revenue, and hence the requirement that social entrepreneurs be skilled in securing non-market sources of revenue, appears to be a more general phenomenon. In the next section we examine some examples of social ventures launched in different fields and organizational contexts, mostly in the U.S., to investigate this issue.

Cases

The following cases are varied both by field of service and whether they are start-ups of independent organizations or ventures within existing organizations. They constitute an illustrative but small and non-representative sample, gathered from several recent published compilations, namely Wei-Skillern, Austin, Leonard and Stevenson (2007), Wolk (2008), Oster, Massarsky and Beinhacker (2004), and Dorsey and Galinsky (2006).

National Foundation for Teaching Entrepreneurship (NFTE). The NFTE developed from the South Bronx Entrepreneurial Project led by teacher Steve Mariotti of Jane Addams Vocational High School in the Bronx (Wei-Skillern, Austin, Leonard and

Stevenson, 2007). The project allowed students to start their own businesses, with small grants from Trickle Up, a charitable 501(c)3 charitable organization that addresses poverty through support of micro-enterprise projects. Mr. Mariotti also invested his own money in the project. In 1987, Mariotti founded NFTE as an independent 501(c)(3) educational nonprofit organization whose mission was to promote entrepreneurial literacy among high-risk, disadvantaged minority youth and to help them start their own businesses. Eventually NFTE obtained a contract from the Boys and Girls Club of Newark, New Jersey to teach in the program of the READY scholar foundation, an after-school program. NFTE also began to solicit contributions from a variety of sources including individuals and foundations, totaling $189,000 in its first year of operation (1988). In addition, 32 businesses were started, grossing over $40,000. Revenue doubled in 1989, constituted mostly from small restricted short-term contributions earmarked for specific programs, many aimed at starting new businesses. Gross business revenue increased to $150,000. Ultimately, NFTE expanded to become a $15 million national operation by 2007, but still highly dependent on (mostly private) grants and contributions for almost 80% of its income.

<u>Newman's Own, Inc.</u> This is a contrasting tale of a for-profit food company established by a well known actor and his associates, based on ideas for new products. It was taken up initially as a business challenge with the intent of being profitable. Early on, however, the owner decided to allocate all profits to benefit social causes. In a sense, the creation and growth of Newman's Own is no different from other business sector entrepreneurship – it required all the skills required to earn income in a competitive market place, since all of its income consists of sales revenue. Indeed, the enterprise was organized as an S corporation with Paul Newman as the sole stockholder. What distinguishes Newman's Own as a social enterprise is what the owner chooses to do with his profits. As a successful brand, Newman's Own grew from a modest $40,000 investment in the late 1970s to a $100 million (total sales) operation in 1998, enabling it to distribute $90 million in grants to almost 1000 nonprofit organizations (Wei-Skillern, Austin, Leonard and Stevenson, 2007). Several factors appear to be responsible for Newman's Own's market success, including the quality, wholesomeness and

distinctiveness of its products, the assistance it leverages among its business partners stemming from its charitable intent, and customer loyalty and goodwill resulting in part from its philanthropic investments, which include camps for children with cancer.

Ka-BOOM! Established in 1995 as a nonprofit organization by social entrepreneur Darell Hammond, KaBoom! builds safe playgrounds for children in low income neighborhoods in the U.S. By 2002, its annual budget had grown to $5 million and had engaged more than 65,000 volunteers to build 338 playgrounds (Wei-Skillern, Austin, Leonard and Stevenson, 2007). In 2006, KaBOOM's revenues swelled to $18 million, almost entirely in the form of gifts and grants, with less than 3% from other sources, mainly interest income (Guidestar, 990 form). Starting with a $25,000 initial investment, Hammond's business model was to leverage partnerships with business corporations, foundations, major nonprofits and individual donors, in order to build each playground. Funding partners provide financial resources, marketing services to assist with fund raising, and in-kind donations of management assistance and materials; community partners provide land and help mobilize community volunteers to plan, raise funds and build the playgrounds. Ka-Boom! itself provides overall project management. Major corporations and foundations such as Home Depot, Target, Ben & Jerry's and the Packard Foundation became long-term sponsors associated with building particular groups of playgrounds and helping the organization over the long term. From the start, Ka-Boom! depended largely on gift income and volunteer resources rather than earned or government income.

Hammond's entrepreneurial skills included communicating his vision for a unique social venture, building relationships and partnerships with businesses, other nonprofit organizations and with the residents of local neighborhoods. Considerable management finesse has been required to coordinate multiple partnerships, manage construction projects, build and maintain a unique program brand and manage organizational growth.

STRIVE (East Harlem Employment Service). STRIVE is an employment training and placement program for at-risk youth in low income communities. It was established in 1984 by Sam Hartwell, a successful Wall Street executive who had served on nonprofit social service agency boards, was impressed with a program of the Henry Street Settlement program on the lower eastside of Manhattan and wanted to apply that program in Harlem. He took a year off and partnered with Lyle Gerts, former head of Henry Street's program to start STRIVE in donated space in a public housing project (Wei-Skillern, Austin, Leonard and Stevenson, 2007). Hartwell raised $120,000 from friends to start the project, organize the board and incorporate. The organization hired Robert Carmona, a social worker, as its executive director in 1986. By 1988 it had a $278,000 budget, mostly from foundation and corporate funding and was making over 200 job placements per year. By 1996 it had grown to a $3 million operation, still mostly from foundations and corporations, and its program model had been replicated in several U.S. cities including Chicago, Boston, Pittsburgh and Philadelphia. The number affiliates grew to 20 by 2006, placing some 3000 individuals per year. By 2006, STRIVE had also diversified its funding sources to include government grants representing approximately half of it $6.5 million in revenue. (The source of these latter grants, as listed on the 990 tax form but not in STRIVE's annual report, are somewhat of a mystery.)

The social entrepreneurial skills needed to establish STRIVE again clearly emphasize the ability to mobilize and maintain support from charitable sources, especially foundations and corporations. The connections and ability of the founder, Mr. Hartwell, to negotiate in the world of business was clearly invaluable to getting STRIVE started, with resources and management expertise. Still, none of STRIVE's support derives from earned revenue per se, although relationships with private and public sector employers are extremely important both for financial support and for placement of STRIVE's graduates. In addition, assuming the figures in the 990 form are correct, STRIVE's entrepreneurial leadership in recent years has featured a capacity to work with government to secure support. Finally, STRIVE appears to be a media darling and its ability to convert press attention into support for imitation and expansion of its model has been key to its most recent success.

<u>Triangle Residential Options for Substance Abusers, Inc. (TROSA).</u> TROSA is a two-year residential substance abuse treatment program located in Durham, North Carolina known for its entrepreneurial approaches to vocational training (Wolk, 2008).

TROSA residents operate several earned-income ventures as part of their rehabilitation. These include the largest privately-owned moving business in the Triangle area, performing 5,000-6,000 moves per year and grossing $3-4 million in annual revenues; a catering business which prepares 6,000 meals each week; and an award winning construction business that renovates housing units in Durham. Other businesses include landscaping, picture framing, contract labor, eBay auctions, and holiday sales. Residents also operate and maintain a fleet of 200 vehicles, provide food services and office support, carry out property rehabilitation and maintenance, and solicit and warehouse in-kind donations valued at approximately $3 million per year. TROSA is now the largest state licensed residential therapeutic community in North Carolina.

A coalition of people working with substance abusers loosely known as the Durham group, hired Kevin R. McDonald to build TROSA in 1994. The group recognized Kevin's "dynamic personality" and "proven track record" with the Delancey Street Foundation. TROSA started with an $18,000 grant from the Triangle Community Foundation and an abandoned elementary school leased for $1 per year from Durham County. By 1996, TROSA's annual cash and in-kind contributions budget grew to $880,000. Computers and supplies donated by IBM, GTE, and Duke supported TROSA's education program. And TROSA served 100 residents, employed six staff, and operated three businesses – vegetable processing, selling construction industry products, and moving.

In this successful venture, Mr. McDonald demonstrated a combination of critical skills and knowledge, including professional knowledge of the therapeutic model on which TROSA was built, commercial business acumen, community relations and a talent for charitable fund raising from community and corporate sources.

<u>ReServe</u> is an innovative nonprofit volunteer placement service in New York City that manages a pool of skilled retirees interested in volunteer stipend-paying jobs in nonprofits and public agencies (Wolk, 2008). ReServe matches nonprofit organizations with appropriately skilled volunteers and coordinates the placement of these volunteers. More than 100 nonprofits in New York City hold contracts with ReServe. In addition, the organization contracts with the City of New York and the City University of New

York (CUNY) to fill a total of 170 slots. For the city, ReServe places lawyers, social workers, writers, organizational management consultants, and community relations experts. For CUNY, the organization provides mentors, small business advisors, photographers, writers, and human resources professionals.

Jack Rosenthal and Herb Sturz, New Yorkers deeply engaged in philanthropic activities and dismayed by the lack of post-retirement public service opportunities for educated older adults, had the initial idea for ReServe. The Open Society Institute and the Blue Ridge Foundation provided initial funding in the amounts of $200,000 and $100,000 respectively. In 2005, ReServe launched its program with nine pilot sites. In fiscal year 2006, contributions totaled $314,000 and donated services reached $93,000. In fiscal year 2007 contributions increased to $1,056,730, donated services amounted to $76,694, and other revenues in the amount of $12,233 (program service revenue and interest on savings) were secured. Part of the growth in funding came from increasing payments for stipends from host organizations which were pleased with the quality of service and were willing to pay the volunteer stipends if ReServe would take over the payroll function. To enable this shift, ReServe created a paymaster service, incorporating a nonprofit subsidiary to administer the payroll for ReServists.

In ReServe's case, the entrepreneurs displayed critical abilities to negotiate for public sector contracts as well as philanthropic funding. And they demonstrated impressive business acumen in growing the enterprise in a manner that was self-sustaining and able to expand in response to a clear market demand for the services of older adult professional volunteers.

<u>The Independent Transportation Network, (ITNAmerica</u> is a nonprofit transportation service for seniors and the visually impaired. The organization employs a mix of paid and volunteer drivers to provide "door-through-door" service to any destination, 24 hours a day year-round. ITNAmerica currently operates in several locations including Charleston, South Carolina; Orlando, Florida; Portland, Maine; and Los Angeles, California. ITNAmerica stemmed from Katherine Freund's passion to improve transportation options for seniors which began when her three year-old son was hit by a car driven by an 84 year-old driver. Freund determined that crashes caused by

older people resulted from a transportation system that wasn't meeting the needs of an aging population. Freund founded the Independent Transportation Network in 1995. In 2000, she was selected as a National Transit Institute Fellow, a program paid for by the federal government and administered by Rutgers University. Through the fellowship, Freund was able to meet with leaders of transportation services in 13 states, which have made improvements to their services based on ITNAmerica's model. One of ITNAmerica's innovations is its customized software, ITNRides™, which boosts member and volunteer management, ride scheduling, and innovative payment programs. The software system enables ITNAmerica to leverage its expertise and to simplify operations for its affiliates.

ITNAmerica has built a financial model that essentially funds itself by securing nominal fees from customers and leveraging private resources through volunteer time and philanthropic support. Although ITNAmerica prides itself on making minimal use of public funds, the organization might not have succeeded without government support. For example, the Transit IDEA program, administered by the Transportation Research Board of the National Academies of Science and funded by the Federal Transit Administration, provided two early venture grants. The first enabled the organization to explore senior citizens' consumer behaviors related to fee-based automobile transportation services, while the second grant funded a study that helped the organization develop its innovative payment plan and its approach to information system technology. In 2007, ITNAmerica's total revenue reached over $1 million, including $953,139 in contributions, program service revenue of $76,060 and interest on savings of $28,147.

Clearly, the entrepreneurial skill set that enable ITNAmerica's success included the ability to secure initial public sector funding, negotiate voluntary, cooperative and business arrangements with partners, and devise a self-sustaining business model based on fees and significant levels of philanthropic funding and volunteer support.

College Summit. College Summit is a nonprofit organization established to address the college enrollment gap between students from low vs. higher income families by building the capacity of selected high schools to increase the numbers of students applying to college. Since it began working with high schools in 2003 - 2004, College Summit has seen a significant increase in the percentage of students at its schools applying to college, and college registrars report increases in college enrollment rates from those schools, as well. In 2000, College Summit served 2,000 students. By 2008 the organization expects to have served more than 17,000 students.

J.B. Schramm founded College Summit in 1993 while directing a teen center in the basement of a low-income housing project in Washington, D.C. and watching talented youth leave the teen center to hang out on the streets. In 1997, he received a three year Echoing Green Fellowship which helped him launch College Summit and build partnerships with school districts in 12 states. College Summit consists of an intensive college workshop, and teacher training for college mentoring. Recognizing that colleges have limited resources to review all student information, College Summit reviews students from its participating school districts against the admissions criteria of its partner colleges. Partner colleges pay $8,000 in-kind for a College Workshop on campus, in turn receiving pre-screened information from a desired target population. Several foundations currently support College Summit including the Skoll Foundation which is giving $500,000 per year over three years. The U.S. Department of Education has also allocated several hundred thousand dollars over a three period. In 2007, College Summit reported over $8.5 million in contributions out of $10.3 million in total revenues.

The entrepreneurial capacities demonstrated in the development of College Summit include negotiating skills to form the partnerships with school districts and colleges, the ability to raise grant funds from major philanthropic institutions, and the capacity to secure substantial government funding commitments.

<u>Louisiana ArtWorks</u> is a 93,000 square foot facility which enables economic development through culture and commerce (Oster, Massarsky and Beinhacker, 2004). It is a mix of an arts incubator with its artists' studios, a marketplace with its retail stores and galleries, and a public space with an education center, two exhibition spaces and tourist appeal. The project grew out of the successful Arts Business Center opened in 1992 by the Arts Council of New Orleans as Phase I of a long-range incubator program designed to serve the needs of artists and arts organizations. The Louisiana ArtWorks

complex represents Phase II of this program, designed to serve the public, individual artists and arts organizations while strengthening community economic development.

Shirley Trusty Corey, longtime president and CEO of the city's official arts agency, Arts Council of New Orleans (ACNO) was the driver behind the project. Corey resigned from ACNO in May 2008 to dedicate herself full-time to ArtWorks, currently spearheading the Artworks' Capital Campaign. Building on the twenty-eight-year old revenue raising base of the ACNO, ArtWorks relies on sponsors such as the Entergy Corporation, Bank One, Freeport-McMoRan, BellSouth Telecommunications, Inc., Chevron-Texaco, Shell Oil Foundation, the Zemurray Foundation, Harrah's Jazz Casino Company, LLC, and many other corporate and individual contributors. In addition, the State of Louisiana provided $6.75 million and the City of New Orleans $750,000, for the construction of the ArtWorks facility.

ArtWorks has faced several challenges since breaking ground in 2003. The morning after a gala was held to welcome supporters to new facility in November 2004, ArtWorks was locked shut due to $2 million in unpaid construction bills. Construction did not resume for more than two years. ArtWorks received only minor damage during Hurricane Katrina. In May 2007, Joy Glidden was appointed director of ArtWorks; her position was financed for three years by the Joan Mitchell Foundation. Louisiana Artworks recently announced a $1M gift from Shell to resume construction of the facility following Hurricane Katrina. A partial opening of the facility is scheduled for 2008. The price tag for building the facility is expected to total over $30 million. Once in operation, ArtWorks will diversify its income strategy through two retail stores. The stores will pay "rent" to ArtWorks and generate commercial profits.

Artworks clearly has required a complex mix of entrepreneurial skills, including negotiating commitments for major support and approval at several levels of government, substantial funding from large corporations, sophisticated and transparent financial management, and a successful commercial business plan that will accommodate public cultural and economic development goals.

Benetech is a nonprofit organization based in Silicon Valley that provides technological solutions to address social issues such as human rights violations, access to information, literacy and environmental biodiversity (Oster, Massarsky and Beinhacker, 2004). One of its initiatives is Bookshare.org, the world's largest online digital library for people who are blind or have print disabilities. Others include Martus, a secure, computer-based reporting system to assist the human rights sector in collecting, safeguarding, and disseminating information about human rights violations, and a Landmine Detector Project with the goal of placing state-of-the-art detection devices in the hands of humanitarian de-miners in war-torn countries.

An electrical engineer-turned-entrepreneur, Jim Fruchterman founded Benetech in 1990. He already had over a decade of experience applying cutting-edge technologies to develop affordable devices for the visually impaired and others underserved by traditional commerce. Benetech's funding mix is heavily weighted towards earned income. Total revenue in 2007 was $2,820,958 which included earned income of $783, 882 from Bookshare, $226,133 in Human Rights Data Analysis Group fees, and $88,475 in royalties. In 2007, Benetech also received $467,324 in contributions.

Benetech's entrepreneurial capacities reflect those of traditional business enterprise somewhat more closely than most other projects described here. The model leans heavily towards devising marketable products for underserved populations and groups which, to a substantial degree can pay for these products. Nonetheless, Benetech's success has also required an acute understanding of extant social needs and the capacity to supplement market revenues with substantial charitable funding.

Mental Disability Rights International (MDRI). MDRI is a nonprofit organization in Washington D.C. which documents and publishes reports on human rights enforcement, and promotes international oversight of the rights of people with mental disabilities (Dorsey and Galinsky, 2006). Drawing on the skills and experience of attorneys, mental health professionals, human rights advocates, people with mental disabilities and their family members, MDRI trains and supports advocates seeking legal and service system reform and assists governments to develop laws and policies to promote community integration and human rights enforcement for people with mental disabilities.

Founder Eric Rosenthal, having lived and worked in various places around the world, was deeply disturbed by the treatment of people with mental disabilities outside of the United States and frustrated by the lack of advocacy efforts on their behalf. As a student at Georgetown Law, he wrote a law review article exploring the relationship between mental disability rights and international human rights. He reached out to established organizations, but large human rights groups such as Amnesty International told him the issue was "outside their mandate," and U.S.-based mental health advocacy groups hesitated to involve themselves in international affairs. Upon graduation from law school in 1993 and after an eye-opening trip to Mexico, including a jarring visit to Ramirez Moreno, a psychiatric facility on the outskirts of Mexico City, Rosenthal returned home to found MDRI, based on a novel way of defining the problem. In a departure from United Nations conventions, Rosenthal applied international human rights standards to the treatment of people with mental disabilities. This allowed patient abuses to be classified as inhumane and even torture. Since MDRI's inception, Rosenthal has advised the United Nations and the World Health Organization. After MDRI documented abuses in several Mexican psychiatric institutions, the Mexican government closed Ramirez Moreno and hired an MDRI advocate to design new government-funded programs. MDRI seeks donations and grants that it hopes to use for unrestricted purposes. In 2007, MDRI received $683,911 in contributions and $138,755 in government grants out of $830,407 in total revenues.

The entrepreneurial skill set that enabled MDRI's establishment clearly included intimate professional familiarity with the clinical and legal nature of the issue as well as the capacity to negotiate with governments, to generate funding from concerned donors and to involve committed volunteers in the relevant fields of mental health, law and human rights. Of greatest importance was Rosenthal's ability to view problems in new ways based on his own professional and personal frame of reference.

<u>Men on the Side of the Road (MSR)</u> is a nonprofit organization with nationwide networks in South Africa and Namibia that targets unemployed men (Dorsey and Galinsky, 2006). The organization assesses men's skills, implements training programs, and provides mentored work opportunities in focused teams.

Before founding MSR, Charles Maisel concentrated mostly on the issue of domestic violence, pioneering a project called "5 in 6," based on the belief that if one in six men is abusive, then the other five can do something about it. That program involved workshops at corporations, on farms, and in government to help men understand their power relations with women, to build self-esteem, and to deal constructively with difficult domestic situations. Maisel founded MSR in 2003 and in 2004 was awarded a two-year fellowship by Echoing Green. Revenues for MSR come from government funding, corporations in South Africa, and local and international donors. The projected 2008 operations budget is 5.5 million South African Rand.

The entrepreneurial capacities reflected in MSR include professional expertise to work with abusive men in their social contexts, negotiating skills to gain entree and cooperation in both public and private sector workplaces, as well as fund development skills for securing support from government, corporations and internationally focused foundations. It remains to be seen if these are sufficient to create a sustainable base for the program.

International Bridges to Justice (IBJ) is a nonprofit organization dedicated to ensuring the basic legal rights of ordinary citizens in Asia, specifically the rights of all citizens to competent legal representation, protection from cruel and unusual punishment, and fair trials (Dorsey and Galinsky, 2006). IBJ supports governmental legal efforts in Asia to protect citizen rights and implement existing criminal laws by providing training partnerships, legal and administrative structural support and material assistance.

Founder Karen Tse is a human rights lawyer and Unitarian Universalist minister, with a calling for global criminal justice system reform. In 2000, she chose to establish International Bridges to Justice in Geneva, Switzerland in order to be near other international nongovernmental organizations, quasi-governmental agencies and human rights organizations. Tse used her own money and donations from friends to get IBJ started. Then she partnered with Echoing Green and the Open Society. In 2002 and 2003, Tse focused on China's legal system and soon negotiated a ground-breaking Memorandum of Understanding with the Chinese government to institute a criminal legal development program with the Chinese National Legal Aid Center. IBJ has since expanded into Cambodia and Vietnam. In 2006, IBJ received $1,351,632 in total revenues, with $878,051 in private contributions and $474,802 in government grants.

The entrepreneurial capacities demonstrated by Tse included her ability to convince friends to join her in her strong personal commitment of time and resources. Securing resources from institutional philanthropy was also instrumental to IBJ's early development while the ability to negotiate with governments permitted the organization to establish its programming, secure additional resources and demonstrate its social value.

Gay-Straight Alliance Network (GSA Network) is a youth leadership organization that connects school-based Gay-Straight Alliances (GSAs) to each other and community resources. Through peer support, leadership development, and training, GSA Network supports young people in starting, strengthening, and sustaining GSAs and building their capacities to create safe environments, educate the school community about homophobia, gender identity, and sexual orientation issues, and fight discrimination, harassment, and violence in schools.

In 1995, founder Carolyn Laub established a support group for lesbian, gay, bisexual, and transgender youth in the California Bay Area. As stories of discrimination in schools persisted, Laub reset her focus to reforming the schools themselves. In 1998, she created the GSA network as an infrastructure-building organization to provide support and resources for students involved with GSA clubs. Today more than forty percent of California high schools have GSA clubs. In October 1998, the Gay-Straight Alliance Network became a fiscally sponsored project of The Tides Center which provided 501(c)(3) non-profit status, allowing GSA Network to receive tax-deductible donations from individuals, businesses and foundations. In 2008, GSA Network became incorporated as its own 501(c) (3) non-profit organization. Recent funding includes $200,000 over two years (2007-2009) from the Evelyn and Walter Haas, Jr. Fund.

The entrepreneurial capacities demonstrated by Laub included the ability to organize volunteer efforts, negotiate with schools and with a network of voluntary groups, and contract with a nonprofit fiscal agent to provide official legal status with which to secure philanthropic funding. Further organizational development required cultivation of institutional philanthropies to secure operating funds and venture capital.

Overview

While these varied cases in social entrepreneurship are similar in many ways to entrepreneurship in the business sector, they also vividly illustrate some key differences with business entrepreneurship. While most cases do begin with the grit and determination of an entrepreneur willing to invest "sweat equity" in building the enterprise, few of these cases mirror the typical business scenario of private venture capital investment followed (hopefully) by the generation of a stream of sustaining earned income from market sales. Concomitantly, the entrepreneurial capacities required in these social enterprise ventures vary considerably in the degree to which they emphasize marketplace skills, political skills and skills of organizing and managing a formal organization. Table 5 offers a rough prioritization of the importance of these skill sets for each of the above cases.

A few patterns stand out in the table. First, philanthropy is by far the most common principal source of sustaining funding for the selected social enterprise ventures. Only three of our fourteen selected cases depend principally for their sustenance on earned income. This is not to imply that these ventures are failures, merely that it appears to be a serious misconception that social enterprise is just about earned income. These ventures generate substantial public benefits but they are generally not sustainable or best supported by the marketplace but rather by some combination of sources among which philanthropy stands out.

Second, the most common skill set for these social enterprises involves political skills such as coalition building, persuasion and negotiation with key parties including volunteer groups, funders, government agencies and others. Market skills per se, including the ability to find market niches and promote products and services, which would tend to dominate in business entrepreneurship, generally take second place to these political skills, although these ventures commonly start with an intuitive and well-conceived idea focused on some unmet social need. The ability to manage an organization and its stakeholders is also an important skill set in many of these ventures, although this does not seem to rise to the level of top priority in any one instance.

Case	Market Skills	Political Skills	Management Skills	Principal Funding Source
NFTE	3	1	2	Philanthropy
Newman's	1	3	2	Earned Income
Ka-BOOM!	2	1	3	Philanthropy
STRIVE	2	1	3	Philanthropy
TROSA	1	3	2	Earned Income
ReServe	3	1	2	Philanthropy
ITNAmerica	2	1	3	Philanthropy
College Summit	2	1	3	Philanthropy
La.Art Works	3	1	2	Government
Benetech	1	3	2	Earned Income
MDRI	2	1	3	Philanthropy
MSR	2	1	3	Government
IBJ	2	1	3	Philanthropy
GSANetwork	2	1	3	Philanthropy

Table 5: Entrepreneurial Skills for Selected Social Enterprise Ventures

Conclusion

In some ways, social entrepreneurship is no different than business entrepreneurship – both are varieties of entrepreneurship generically defined as establishing a programmatic or organizational venture that offers something new and path-breaking. There are various elements, skills and motivation to all entrepreneurship. However, social enterprises develop in different economic contexts and for different purposes than new business ventures. Their sources of support both in terms of initial capital investment and long term operating income are likely to be quite varied and only rarely exclusively reliant on conventional investment capital or a sustaining level of earned revenue from market-place sales.

The fact that the third sector environments in which social enterprises develop are themselves quite varied in terms of sustaining sources of income argues that social entrepreneurs either require a wide range of business, philanthropic and government-related skills or that they need to become specialized to the particular subsectors in which they work. The latter may hold to a certain degree, as social entrepreneurs often begin with an insight built on special knowledge, experience, and expertise in their chosen fields of service. However, it also appears to be the case that most social entrepreneurs need to be conversant with more than one institutional source of support – usually some combination of earned income, philanthropy and government funding, as well as the mobilization of volunteer effort.

The case studies reviewed here suggest a surprising result – that philanthropy not earned income – may be the principal sustaining source for contemporary social enterprise ventures, this despite the fact that philanthropy is generally less important than earned income or government support in the nonprofit sector as a whole. The case studies summarized here are not a representative sample and not too much confidence should be put into this observation. A definitive, representative sampling and study of social enterprises has yet to be made, in the U.S. or elsewhere. (This is an important research challenge for the future.) Still, if the forgoing pattern is anywhere near the truth, it suggests some interesting explanations. First, like new businesses, new social ventures have a difficult time surviving in the market place. Yet they often achieve or promise important social benefits. Hence, their providers of philanthropic capital often help keep them going until they can mature into self-sustaining organizations. Second, those social benefits cannot often be sustained in the marketplace alone; hence, even in the long term, social enterprises are likely to depend on a mix of income sources – earned income supplemented with philanthropy, government support, investment income and volunteer labor.

What are the implications of this for the education of social entrepreneurs? Currently there are essentially two contemporary versions of graduate education addressed to the future social entrepreneur. Some would-be social entrepreneurs study in business schools, e.g., MBA programs with an emphasis on commercial entrepreneurship education. Increasing numbers of such students hope to establish their own "social purpose businesses" that combine material and social goals. Other would-be entrepreneurs are being educated in programs of nonprofit management education – many hoping some day to establish or lead their own nonprofits. If the preliminary observations of this paper hold true, then neither of these educational approaches appear to be sufficiently comprehensive. There is no question that social entrepreneurs require the generic entrepreneurial motivations and business skills for which they are respectively selected and taught in business schools. It also the case, however, that social entrepreneurs must be conversant with philanthropy, government and volunteerism and the skills required to successfully negotiate those institutions. These are areas of expertise now emphasized in the hundreds of programs in nonprofit management education that have developed in U.S. universities, largely in schools of public administration (Mirabella and Wish, 2001).

In some ways, social enterprise and social entrepreneurship are nothing new – perhaps a repackaging of the entrepreneurial energies that have long characterized social purpose initiatives in the nonprofit sector of the economy in the U.S. and in other third sector manifestations (such as cooperatives) elsewhere in the world. What is new, and seemingly naive, is the notion that business forms can supplant these traditional manifestations (Edwards, 2008) and achieve their goals through profitable earned income activity. No doubt the business entrepreneurship tradition has brought new energy to the field of social purpose enterprise, but business education per se falls short of what is needed to prepare the new social entrepreneurs. A more considered perspective would recognize that social purposes ventures are more complex than pure business ventures and require the knowledge that can be brought to bear by combining business entrepreneurship and nonprofit management education.

References

Alvord, S., Brown, D. and Letts, C. (2004). “Social Entrepreneurship and Societal Transformation: An Exploratory Study”. *The Journal of Applied Behavioral Science*, 40:3, pp. 260-282

Andersson, F. and Helm, S. (2008). *Nonprofit Entrepreneurship in Sweden and the United States: A Comparative Analysis*. Draft paper presented to the International Society for Third Sector Research, Barcelona, July.

Baumol, W. (2002). *The Free Market Innovation Machine: Analyzing the Growth Miracle of Capitalism*. Princeton, NJ: Princeton University Press.

Brinckerhoff, P. (2000). *Social Entrepreneurship: The Art of Mission-Based Venture Development*. New York: John Wiley & Sons.

Cunningham, J.B. and Lischeron, J. (1991). “Defining Entrepreneurship”. *Journal of Small Business Management*, 29:1, pp. 45.

Chang, C. and Tuckman, H. (1994). “Revenue Diversification Among Nonprofits”. *Voluntas*, 5:3, pp. 273-290.

Dart, R., Armstrong, A., and Clow, E. (2008). “Not Living Up to Their Billing: A Population Survey of Social Purpose Businesses in Ontario, Canada”. Draft presented to the International Society for Third Sector Research, Barcelona, July.

Dees, G., 2001, “The Meaning of ‘Social Enterpreneurship’”. Draft paper. http://www.fuqua.duke.edu/centers/case/documents/dees_SE.pdf

Dees, J. & Anderson, B. (2006). “Framing a Theory of Social Entrepreneurship: Building on Two Schools of Practice and Thought”. In Mosher-Williams, R., (ed.), *Research on Social Entrepreneurship*. ARNOVA Occasional Paper Series, 1: 3, pp. 39-66.

Dorsey, C.L. and Galinsky, L. (2006). *Be Bold: Create a Career with Impact*. A publication of Echoing Green.

Drucker, P.F. (1995). *Innovation and Entrepreneurship*, New York: Harper Business.

Edwards, M. (2008). *Just Another Emperor? The Myths and Realities of Philanthrocapitalism*. Demos: A Network for Ideas & Action, The Young Foundation.

Hisrich, R. and Peters, M., (1995). *Entrepreneurship: Starting, Developing, and Managing a New Enterprise, Third Edition*. Homewood: Irwin Publishing Co.

Hisrich, Robert D. (2006). “Entrepreneurship Research and Education in the World: Past, Present and Future”. *Jahrbuch Entrepreneurship* 2005/06. New York: Springer Press, pp. 3-14.

Kearney, C. Hisrich, R. & Roche, F. (2008). “A Conceptual Model of Public Sector Corporate Entrepreneurship”. *International Entrepreneurship Management Journal* 4: 3, pp. 295–313.

Kirzner, I. (1979). *Perception, Opportunity, and Profit*. Chicago: University of Chicago Press, 1979.

Light, P. (2006). “Searching for Social Entrepreneurs: Who They Might Be, Where They Might Be Found, What They Do”. In Mosher-Williams, R. ed., *Research on Social Entrepreneurship*, ARNOVA Occasional Paper Series, 1: 3, pp. 13-37.

Miller, C. (2008). “Truth or Consequences: The Implications of Financial Decisions”, *The Nonprofit Quarterly*, Summer, pp.10-15.

Oster, S., Massarsky, C. and Beinhacker, S. (eds.) (2004). *Generating and Sustaining Nonprofit Earned Income*, San Francisco: Jossey-Bass.

Pilz, D. M. (1995). “A Study of Characteristics and Start-Up Activities of Entrepreneurs in the Nonprofit (Non-Governmental) Organizations”. Unpublished doctoral dissertation, Nova South Eastern University.

Proscio, T. and Miller, C. (2003). “How Steppenwolf Excelled, First on the Boards, Then in the Boardroom, and Ultimately on the Balance Sheet”. Monograph, New York: Nonprofit Finance Fund, pp. 31.
www.nonprofitfinancefund.org/docs/SteppenWolfWebVersion.pdf

Handy, F., Kassam, M., and Ranade, S. (2007). "To Profit or Not to Profit: Women Entrepreneurs in the Nonprofit and For-Profit Sectors in India". Nonprofit Management and Leadership 17 (4), pp. 383-401.

Mirabella, R. and Wish, N. (2001). "University-Based Educational Programs in the Management of Nonprofit Organizations: An Updated Census of U.S. Programs". *Public Performance and Management Review*, 25: 1, pp. 30-41.

Salamon, L., Sokolowski, S., and Associates, (2004). *Global Civil Society, Vol.2: Dimensions of the Nonprofit Sector*, Bloomfield, Connecticut: Kumarian Press.

Say, J.B. (1803). *Treatise on Political Economy, 1st Edition*. Paris: Deterville.

Schumpeter, J. (1934). *Capitalism, Socialism and Democracy.* New York: Harper and Row.

Smilor, R. and Sexton, W. (eds.) (1996). *Leadership and Entrepreneurship: Personal and Organizational Development in Entrepreneurial Ventures*. Westport, CT: Quorum Books.

Stevenson, H. (1999). "A Perspective on Enterpreneurship". *The Entrepreneurial Venture, 2nd Edition*, Boston: Harvard Business School Press, p. 7-22.

Thompson, J., Alvy, G. and Lees, A. (2000). "Social Entrepreneurship: A New Look at the People and the Potential". *Management Decision*, 38: 5, pp. 328-338.

Waddock, S. and Post, J.E. (1991). "Social Entrepreneurs and Catalytic Change." *Public Administration Review*, 51:5, pp. 393-401.

Wei-Skillern, J., Austin, J., Leonard, H. and Stevenson, H. (2007). *Entrepreneurship in the Social Sector*. Los Angeles, CA: Sage Publications.

Wolk, A. (2008). The Aspen Institute and Root Cause report, *Advancing Social Entrepreneurship: Recommendations for Policy Makers and Government Agencies,* http://www.aspeninstitute.org/atf/cf/%7BDEB6F227-659B-4EC8-8F84-8DF23CA704F5%7D/nspp_AdvSocEntrp.pdf

Wing, K., Pollak, T. and Blackwood, A. (2008). *The Nonprofit Almanac*, Washington, D.C.: The Urban Institute Press.

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

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

Young, D. (1990). "Champions of Change: Entrepreneurs in Social Work." In Harold H. Weissman, ed., *Serious Play*. Silver Spring, MD: National Association of Social Workers, pp. 126-135.