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## SELECTED PAPERS SERIES

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### **SOCIAL PURPOSE BUSINESSES IN THE UNITED STATES: ORGANIZATIONS IN FLUX**

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## **ABSTRACT**

Over the past two decades, social enterprise organizations utilizing in-house businesses to provide job training for disadvantaged populations have proliferated in the human services and workforce development arena in the United States. The rise of social enterprise organizations raise questions regarding the compatibility of social mission and commercial goals, particularly in social purpose businesses where clients are simultaneously receiving services and contributing to business production. Using neo-institutional theory to frame these social businesses as operating in two different organizational fields, this study builds on existing research to examine a range of social purpose businesses (SPBs) in terms of the models they develop to integrate business and social service technologies and the strategies they employ to compete successfully in product markets while maintaining commitment to social goals. Data from semi-structured interviews conducted with 15 directors or managers of SPBs located in different regions of the U.S. show that: slow growth, cross-subsidization, diversification, and flexible staffing are key strategies utilized across a range of SPB organizational models. The analyses highlight the ongoing importance of social sector subsidies in keeping these models afloat.

## INTRODUCTION

Social purpose businesses (SPBs), that is nonprofit organizations that are launching in-house earned income ventures and using those businesses for workforce development with disadvantaged populations, are a growing subset of organizations operating under the broad moniker of social enterprise. In the U.S. nonprofit sector, earned income projects such as SPBs are part of a larger trend of commercialization that also includes activities such as fee for services and corporate partnerships (Salamon, 1999). In the wake of welfare reform and the Workforce Investment Act, social purpose business venturing proliferated in an era where "work first" approaches were emphasized across the social service sector. Studies show that nonprofit commercialization in general, and social purpose business venturing in particular, are trends that accelerated throughout the 1990s and early 2000s (Adams & Perlmutter, 1991; Community Wealth Ventures, 2008; Lipman & Schwinn, 2001; Massarsky & Beinhacker, 2002; Strom, 2002; Young & Salamon, 2002).

In the United States, SPB organizations are operating businesses in a wide range of industries in the manufacturing, retail and service sectors (Boschee, 1998; Massarsky & Beinhacker, 2002). These businesses provide job training to some of the most disenfranchised members of society, including: formerly incarcerated adults, individuals who are homeless, at risk youth, developmentally disabled individuals, folks in recovery from substance abuse addiction, welfare recipients, and the general underemployed, low income population. Social purpose businesses involve a particularly "embedded" form of social enterprise where the business activities and the social programs are synonymous in that the work performed by clients is both rehabilitative and revenue generating (Alter, 2006, p. 212). The rapid expansion of these practices raise questions regarding the compatibility of social mission and commercial goals (Cooney, 2006; Perlmutter & Adams, 1990; Weisbrod, 2004; Young & Salamon, 2002), particularly in social purpose business organizations where clients are simultaneously receiving services and contributing to business production.

Nonprofit scholars have cautioned that embarking on a commercial route involves risks that include: the potential shift toward serving more advantaged client populations (Salamon, 1993), the reduction of investment in programs that are not profitable (Weisbrod, 2004) and the movement away from fostering community ties as business networks are nurtured (Eikenberry & Kluver, 2004). The potential for a reprioritizing of organizational focus away from social mission as nonprofits engage in business enterprise is seen by some scholars as being potentially mitigated by managerial discretion (Bode, 2003; Young, 2004) or organizational structure (Cooney, 2006) while others instead view this shift as the (almost) inevitable evolution of organizations that are now competing with a new set of for-profit counterparts in the business niches where they operate (Tuckman, 1998; Weisbrod, 2004).

As more nonprofits in the United States consider social enterprise as a strategy for diversifying financial revenue streams and for fulfilling the workforce development aspects of their social mission, more information is needed about the experiences of those organizations in the vanguard of this trend to understand how they are grappling with the set of risks and opportunities that social businesses present. Using neo-institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) to frame these social businesses as operating in different organizational fields (Bode, Evers, & Schulz, 2006; Cooney, 2006; Garrow, 2009), this study builds on existing

research to explore the range of organizational models for integrating business and service technologies, and to identify strategies for fostering sustainability and growth in the U.S. political and economic context.

## **1. OVERVIEW OF SOCIAL PURPOSE BUSINESS VENTURING IN THE U.S.**

Although the social purpose business trend can be seen as having roots in the sheltered workshops prominent in the early 20th century, organizations that also operated with a mission to train and employ marginalized populations, newer U.S. based social purpose businesses (SPBs) have a set of distinguishing characteristics that set them apart from their predecessors. First, many SPBs are launched by existing nonprofit organizations that have embraced business venturing as a resource generating strategy in the face of nearly three decades of government retrenchment (Massarsky & Beinhacker, 2002). The business revenues are attractive due to their unrestricted nature, which allow the organization to initiate mission-oriented services unhindered by the rules and regulations that accompany government and, to a lesser extent, foundation funds. In SPBs, the businesses are also sites of training and job creation, making the SPB worksites locations where mission and business goals are intimately joined.

Second, nurtured during the 1990s at a time when private sector, business-minded solutions to economic and social problems were championed (Martin, 2000), these organizations are generally very market oriented. They operate with well-honed business plans and utilize a range of competitive strategies including: market forecasting, product and service diversification, and branding. These new SPB competitive practices are a departure from the older business strategies of sheltered workshops, which inhabited a protected space in the market where consumers were motivated to engage with sheltered businesses as a form of philanthropic behavior. The SPB businesses operating in the 1990s and 2000s are more aggressively competitive, aim for market share, and are increasingly reliant on business revenues for the success of the social mission of their organizations.

SPB organizations exist along a continuum, defined by some as flowing from dependency (on philanthropy, grants and subsidies) to self sufficiency (e.g., complete reliance on earned income) (Anderson & Dees, 2006, p. 146). While much of the rhetoric on social enterprise describes a steady march toward self sufficiency, many scholars and practitioners are coming to recognize that for social purpose businesses, the high risk of small business failure combined with the high costs of their job training/ work integration social mission, require that SPBs, in particular, remain somewhere along the continuum juggling mixed sources of revenues rather than in a state of total self sufficiency (Alter, 2006; Anderson & Dees, 2006).

## **2. USING A NEO-INSTITUTIONAL FRAMEWORK FOR EVALUATING SPB MODELS**

Using the construct of the "organizational field" from neo-institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977) to conceptualize SPBs as operating in two different external organizational fields is emerging as a key lens for understanding the external pressures that must be accommodated by social enterprises utilizing mixed resource strategies (Bode et al., 2006; Cooney, 2006; Garrow, 2009). Recent research on SPBs employ this two organizational field framework to explore how the hybrid organization coordinates two different internal operating technologies necessary for success in the two external fields (Cooney, 2006); to examine the competing institutional logics imported from the external fields and the resulting power struggles among staff within SPB organizations (Garrow, 2009); and to assess the external

field forces that contribute to organizational stability on one extreme and those that may, on the other, lead to institutional isomorphism (e.g., radical transformation of goals and/or program activity) in different national contexts (Bode et al., 2006, pp. 238, 241).

Even in SPB models that do not rely heavily on the commercial revenues for overall organizational operation, the situated nature of client training inside operating business ventures still necessitates the ongoing negotiation of commercial and service logics within the organization. Cooney's (2006) work argues that this central tension is made visible in the worksites where the integration of two different organizational technologies (1) a loosely coupled service technology (Glisson, 1992; Meyer & Rowan, 1977) that is flexible and allows the organization to process client populations with varying sets of skill levels, presenting needs and disadvantages into appropriate skills training activities and (2) a tightly coupled business technology that closely monitors product quality, service standards, and production schedules to maintain profitability in their niche markets. In SPB hybrid organizations, the service technologies must be coordinated with tightly coupled business technologies in the worksites that simultaneously compete to be successful in the market while providing disadvantaged client populations with relevant job training that will allow them to transition to stable jobs in the labor market.

However, there is limited research on the structural choices U.S. based SPB managers make in configuring these hybrid models and the strategies they employ for managing their resource flow while mitigating economic risk and retaining a commitment to their social mission.

### **3. DATA AND METHODS**

Data is taken from a pilot study testing a survey instrument that will be used in a national survey of SPBs in the United States. The pilot study used a sample from the nonprofit organizations advanced to Round II of the Yale School of Management-The Goldman Sachs Foundation Partnership on Nonprofit Ventures business plan contest over three years of its duration (2002-2005). All 29 nonprofits in this pool that were using the businesses for employment purposes were approached to participate in the study, sixteen (16) organizations agreed to participate, although only (15) organizations fully completed the interview protocol for a 52% response rate. Most frequently the reason listed by those who declined to participate was that the length of the interview instrument and/or the time required for the interview were prohibitive. Using 990 data publically from Guidestar, comparisons between the SPB organizations that participated in the study with those who declined show that there were no significant differences between the two groups on measures of income, program expenditures, administrative expenditures, funding expenditures, assets and liabilities. Because the data is taken from a particular universe of organizations (those that entered the business plan contest), to assess how representative the sample is of the larger population of SPBs, both groups were also compared to 118 parent organizations operating 238 SPBs listed in the Community Wealth Ventures social enterprise database (a comprehensive data base of U.S. based social enterprise) and there were no significant differences on the same measures.

The interview protocol consisted of 101 closed and open ended items covering areas of: sources and stability of financial revenues to the organizations, questions about the business ventures (e.g., the types of businesses launched by the nonprofit organizations, reasons cited for the decision to pursue business venturing, sources of funding for business start up, issues related to competition, market share, and bringing the businesses to scale), organizational structure,

business and service technologies, goal relationships, and a final set of questions about business and market risk. The protocol was emailed to each participating organization using an online application called Survey Monkey. Eight of the 15 organizations opted to answer the questions through a phone interview during which both the participant and the Principal Investigator followed the interview guide by concurrently viewing the questions online through Survey Monkey. These interviews were taped and transcribed. Eight organizations consented to be identified by name, the others will be identified descriptively.

The data from the closed ended questions were converted into categorical variables and analyzed in SPSS using basic frequency counts. The phone interview texts were transcribed and imported into a qualitative analysis software program called Atlas.ti along with the text from the open ended questions from those organizations that did not opt for a phone interview. Using a multiple case study analysis approach (Yin, 1994), the data underwent three stages of analysis, moving from descriptions to themes to assertions (Creswell, 1998; Stake, 1995). First, holistic descriptions of each case were developed. These case descriptions were 2-3 page organizational profiles that summarized the key data (both quantitative and qualitative) for each element of the survey. Then, through open coding and focused coding techniques (Charmaz, 2006), themes that emerged across cases were identified.

A deductive method of qualitative analysis was employed whereby the categories of codes related to organizational level variables (e.g., organizational structure, service technology, business technology) and field level variables (e.g., economic risk, social service funding stability) were constructed from the data through pattern matching (Yin, 1994) to refine and extend previous understandings of how these different aspects of the organization and environment shape each other.

#### **4. FINDINGS**

The analyses show a range of strategies employed by these organizations for structuring business and social service functions into integrated, sustainable practice models. After a brief overview of the organizations in the study, these key findings will be explored in depth.

##### **4.1. Organizational demographics**

While all organizations in SPB survey (n=15) identified themselves as belonging to the social service/ human service sub-sector of the nonprofit sector, the organizations served a range of target populations (see Table 1). As would be expected, given the fact that social enterprise accelerated as a trend throughout the 1990s, most of the SPB organizations in this study had been in existence for 10 years or less. That said, 4 were mature organizations over twenty years old, with 2 of these having been in existence greater than 50 years. It is interesting to note that the two oldest organizations in the sample both serve developmentally disabled populations, a population for whom sheltered workshops have long been a traditional mode of rehabilitative treatment.

There was no distinct pattern of funding for the SPB organizations, many of the organizations depend primarily on government funds, but a sizeable number of organizations rely heavily on donations or on foundation funds (see Table 1). Even among those relying heavily on government monies, there was no single source of funding, sources ranged from welfare to work monies, workforce investment act funding, housing and urban development grants, and funding from state and local bodies. The data show that administrators viewed government funds as increasingly less predictable and requiring quite a bit of work to maintain. Foundation funds were seen as stable up to a point but then "running their course" or "sort of drying up". Many talked about diversifying

funding by maintaining a broad base of government sources of revenue or cycling back and forth between foundation and government funding to, as one respondent described, "give the foundations a rest and then go back to them again." Although many were not currently generating a lot of resources from their commercial ventures, several organizations reported plans to increase reliance on business incomes in the future both because they did not see the social sector funding as reliable and to generate unrestricted funds that they could use more flexibly than government and foundation funds.

SPBs in the study were involved in a wide range of business enterprises, including: low income housing, publishing, horticulture, agriculture, farming, retail, construction, pest control, light manufacturing, restaurant, food service, arts and crafts, furniture upholstery, and maintenance. A closer look reveals that a substantial number of the SPBs are involved in the organic food and horticulture industry, an emerging market. The data also show that these SPBs serve a broad range of target populations, including many with multiple vulnerabilities such as homelessness, mental illness, and substance abuse history, but it is important to note that a substantial number of these organizations simply target unemployed or underemployed individuals suggesting these organizations are emerging as a force in the workforce development arena more generally.

#### **4.2. Organizational models for business and social service**

In considering the range of SPB practice models, Alter's (2006) work describing the relationships between social enterprise, target population, nonprofit organization and market offers a useful typology of operating models. These operating models serve as ideal types that may exist independently in simpler organizations or that mix and join together in complex organizations. Alter's typology includes: entrepreneur support models, such as microfinance banks, market linkage models, such as fair trade associations, and the employer models where clients work within productive businesses, which are the most relevant for this paper (Alter, 2006).

In this study, the operating models for incorporating business enterprises into the core functions of the organization varied substantially. While some of the operational models described in the interviews fit the ideal type of an "Employer Model" (see Figure 1) where working in the businesses is central to the core program for workforce development, training and job creation, many had well established nonprofit parent organizations that existed separately from the social enterprises and fit a more complex configuration combining "Employer model" with what Alter (2006) refers to as an "Organizational Support Model" (see Figure 2). For those organizations in the former category, the businesses are the locations of the central service that the organization provides. There may be ancillary social services provided either in-house or through referrals, but the work done in the businesses is the primary programmatic element around which all the other services are organized. In these organizations, a client would not be receiving services from the organization unless he/she is also working in one of the businesses due to the fact that employment and job creation is the unifying mission. Organizations using this approach include Growing Home, an SPB operating organic farming businesses on the South Side of Chicago, a nonprofit training formerly incarcerated individuals in maintenance and sanitation jobs, and a nonprofit employing homeless individuals in jobs in a range of in-house businesses.

Organizations using the more complex "Employer + Organizational Support" operating model varied in the nature of the level of integration between the businesses and the social programs. In some organizations, the businesses are used for job training but essentially run as small add-ons to the parent nonprofit, remaining only loosely connected to the other training programs. Within

this group, one approach incorporates an "add on" business into the array of training options. For example, a nonprofit training low income women for a number of industries (including certified nursing assistant, pharmaceutical technician, and culinary arts), also operates a furniture upholstery enterprise that recruits a small proportion of women passing through the programs to work in their in-house business. In other models, these "add on" businesses are used post-training program as a short term placement prior to job search, as is the case with West Virginia Women Work!, which plans to operate a construction business where graduates from the training program can be placed as an intermediate step between finishing the program and finding work in the construction industry. As this business is currently imagined, only a select few of the graduates of the training program might choose to work at the in-house business for additional experience while large numbers of others might head straight into the open labor market. Similarly, a nonprofit culinary school, which operates a catering business on the side, provides short term work opportunities for graduates from its training program in food preparation, but a large majority of the clients at the program never work for the catering business.

In other models, the clients from programs within the parent organization are funneled in greater numbers through the businesses as a key component of their training. In some of these SPBs, most or all clients worked in the businesses, as is the case with the nonprofits that have created a number of business enterprises to employ their developmentally disabled clientele. These organizations have a dynamic portfolio of businesses that employ hundreds of their agency clients, providing vocational rehabilitation and work integration activities.

A number of the SPBs in the study launched business enterprises to employ client populations as a component of existing housing programs. According to the motto of one of these housing/employment hybrids, this arrangement offered their clients "an apartment and a job to pay for it." This approach was used by nonprofits working with homeless individuals, as a multi-pronged approach to moving folks off the streets, by nonprofits working with individuals in recovery from substance abuse as part of a residential treatment plan, and by housing programs working with a range of client populations, such as the nonprofit providing housing for homeless veterans, individuals living with HIV/AIDS, mental illness and survivors of domestic violence that is launching a horticultural business to employ their residents.

#### **4.3. Resource management strategies for fostering sustainability and growth**

As detailed in the first half of the paper, SPB organizations face a balancing act between developing highly productive and profitable business technologies with minimal economic risk while retaining flexible, client-centered service technologies that provide relevant training for individuals with a range of presenting needs. Across each of the broad organizational models outlined above, organizations take different approaches to fostering sustainability and growth while protecting social mission, including: slow growth, cross-subsidization, diversification, and flexible staffing.

##### *Slow growth*

A challenge for SPB using competitive businesses as locations for client training is maintaining a careful balance between recruiting the numbers of clients to the program to meet demand for labor in the businesses so that the businesses are able to fulfill their work orders (when business booms) and ensuring that the clients enrolled in the program have enough work to do (during a slow cycle). Some organizations feel that the key to this balance is maintaining control over the numbers of clients enrolled in their programs. In organizations using the "Employer model"

where all clients are workers, this slow growth is carefully managed since the businesses must absorb every worker employed in meaningful work. Growing Home, the nonprofit offering seven month training slots to underemployed individuals in an organic agriculture business, purposefully serves smaller numbers of clients stating that they "could get additional funding if we were to work with more clients, but the quality of the program would decline." SPBs using the "Employer + Organizational support" operating model, particularly if the business is an "add on" and only plays a small role in the overall service technology, have more flexibility in that the parent organization provides a ready pool of potential workers for the business. For example, the nonprofit operating an upholstery shop (among many other training programs) recruits those best positioned to succeed in the intensive training on an as needed basis from the client pool at the parent nonprofit.

In these slow growth models, which offer fewer spots for longer term and more intensive training, the process for integrating the client-workers can be very formal. Participants in job training at Growing Home are expected to work the entire seven month growing season during which they systematically learn both agricultural skills such as planting, cultivating, and harvesting organically, and the business skills such as marketing and sales. The nonprofit operating a furniture upholstery business utilizes a tiered ladder of training for a very few select number of recruits who, over the course of three years through a combination of classroom training, work experience and apprenticeship, become skilled laborers. This approach allows the businesses to maintain high levels of quality and productivity with a core staff of paid professional staff while providing in-depth, valuable skill development to clients in lucrative fields. However, due to the highly selective processes for recruiting to the businesses, there are fewer job training slots available and the clients employed may be higher skilled and therefore less in need of the sheltered work experience that these SPBs provide (although this is not necessarily the case).

### *Cross-subsidization*

Another strategy for bolstering the ability for the businesses to provide client-centered training in competitive businesses is the on-going subsidization of the businesses with funding from the social sector. While social enterprise in the United States is talked about primarily as a resource development strategy, interestingly, many SPBs in this study actually subsidize the businesses with other organizational revenue streams rather than vice versa, so revenues flow from the social enterprises to the parent organization (as depicted in Figure 2), but also flow in the other direction from the parent to the social enterprise. The interview data show that about 50% of the businesses continued to require subsidies to remain afloat.

For SPBs, the decision to continuously subsidize the businesses is most often cited as a mission related decision as the subsidies allow the organizations to provide more supportive working conditions than the market would allow. As the associate director of one such SPB explains, "we weigh things, for example our farm has not made money but the social value of the farm is just incredible and we'll informally weigh it and in our heads we've got (a bottom line)...we don't want to lose more than this amount of money, but look at what it's doing for our reputation in the community, look at the change it's made in people's lives." This "weighing" of social benefits is echoed by the director of business development from another nonprofit that also plans on continuously subsidizing one of their business lines explains, the subsidies are maintained "due to several strategic choices" including paying "above minimum wage so that (the clients) can earn

and save money" and operating a business that allows their client population to "start immediately with very little education and training."

These subsidies most often come from general nonprofit revenues (in those SPBs using the "Employer + Organizational Support operating model) and foundation funds, but other sources include (in order of prevalence): government funds, bank loans, board support and corporate funding. In one of the more innovative approaches, Trinity Services, a multi-venture organization serving developmentally disabled individuals, created a foundation with an endowment to finance the businesses, which allows the organization to "subsidize (the businesses) out of the foundation probably up to a year" during a time of financial stress. In addition to keeping the actual businesses in the black, social sector funding is also used to provide ancillary skills training, to staff partnerships with community based organizations such as community colleges, and to provide (or refer to) supportive services that address barriers to work (such as substance abuse and mental health issues).

### *Diversification*

A third strategy used to foster economic stability and growth is to diversify, both in terms of the products and services offered by a single business venture and by establishing multiple ventures. In terms of product diversification, many of the SPBs develop niches in multiple retail markets or in both retail and wholesale markets. For example, a number of the SPBs operating organic farms also run cafes, restaurants and/or retail stores selling related organic products. SPBs also diversified by operating multiple business ventures. Although operating more than one business increases management and coordination issues, the strategy has significant benefits for both the commercial and social goals. First, maintaining a portfolio of businesses rather than just one makes it easier to justify (from a business standpoint) the ongoing subsidy of a business that is losing money when the SPB operates other enterprises that are money makers.

Secondly, multiple businesses offer a broader range of training experiences for the clients; as the business manager of a nonprofit operating multiple businesses where they employ developmentally disabled individuals explains, "[we did it] to give our folks choices about employment, not everyone wants to be a janitor." SPBs can also use the businesses to create training experiences that progress in skill level. For example, a nonprofit training homeless folks in a landscaping and maintenance business (which they plan to perpetually subsidize) has just launched a second business that is expected to be self sustaining within a few years. The second business, which features higher skilled work, will provide training placements for clients who have already proved themselves and built skills in entry level positions in the street cleaning business.

### *Flexible staffing*

For those programs operating large scale businesses, ongoing calculations must be made to maintain the worksites so that the businesses have the staff they need to meet high levels of productivity during demand cycles and the ability to provide meaningful work activities for clients when business slows. A common structure found in these SPBs involves organizing the worksite into "training crews" made up of a ratio of paid staff to clients in training. Maintaining a skeleton crew of paid non-client workers allows the organizations to accommodate fluctuations in the business cycle and build in flexibility to account for tardiness or absenteeism in the client-workforce. For example, an organization operating a street cleaning and a pest extermination business working primarily with homeless adults, approaches this calculation with an

understanding that the client-employees may not always be available for work. Part of being "mission-driven" according to their approach includes making "provisions for a certain percentage of men to be out on any given day, i.e., if they relapse, if they are in class, if they are interviewing for an outside job."

During times of increased business demand, many SPBs organize production so that paid (non-client) workers in the "training crew" models are responsible for meeting higher output goals, although, most of the SPBs do offer extra work to clients with incentives for extra pay if they volunteer to take it on. SPB organizations also report temporarily shifting around workers from other business sites or even relying on paid workers from the parent nonprofit when needed.

Similarly, when business slows, for those organizations with multiple businesses, most discussed practices of shifting workers from one training site to another within their business enterprises when necessary. Many of the SPBs using the "Employer + Organizational Support" operating model were willing to create "make work" positions temporarily within the parent nonprofit organization during exceptionally slow times until the businesses could absorb the workers again. However, in a prolonged economic slump, more drastic action may be required. Some organizations reported plans to fire paid staff rather than clients when facing a more severe economic contraction, but of course for organizations using a team training approach, this might reduce training infrastructure in the businesses.

Alternatively, some SPBs maintain a pool of reserve workers outside the organization available to meet demand. For example, one nonprofit catering business uses short-term work contracts with program graduates to build in the ability to respond to cycles of work demand. At the time of the interview, the catering company was in the midst of an unexpected up tick in business. As the executive director explained, "right now, this month, we thought we had a break and we're so busy now... we're having to call people in, August was supposed to be slow." To manage, they rely on people who are willing to come in to work on short notice and without long term guarantees of work. This staffing structure assists in allowing the organization to grow quickly with demand and cut back on hours when business slackens.

These data show SPBs actively respond to shifts in the business field to chart a path of economic growth (by diversifying products and services, launching multiple ventures, and maintaining flexible staffing practices) while strategically using social sector resources (in the form of subsidies) to buffer the training component of the organizational mission from disruptions from the business field.

Finally, many of the SPB organizations reported difficulties with raising capital and expressed the need for expanded skill requirements for managers. These challenges are often intertwined. As organizations grow to scale and move to rely more heavily on commercial resources, there is a need to bring in staff with the requisite business skills to operate in a sophisticated business environment. However, as more business minded staff are hired in key positions in the organization, the stage is set for increased tension between business logics and social logics (see Garrow, 2009).

## **5. DISCUSSION / POLICY IMPLICATIONS**

Social purpose businesses are part of a rapidly proliferating trend in social enterprise. In the U.S. they are most typically emerging as business subsidiaries of existing nonprofits that are, at least partially, responding to the increased instability of government funding to the sector. Because this set of organizations are emerging as innovations on existing nonprofit organizational forms, they

are straddling two external organizational fields (the traditional social service sector funded by government and foundations and the business field where they sell services and products) without any set of direct public funding streams or set of policies to support them. Framing SPBs as organizations operating in two organizational fields, provides a useful framework to analyze the strategic choices these organizations make about organizational structure and resource management in a rapidly shifting environment. The SPB organizations in the study, across the range of "Employer" and the "Employer + Organizational Support" models, creatively mix business revenues with social sector funding to provide supported employment experiences for their disadvantaged client populations.

However, a central dilemma for these organizations in the U.S. context is finding a steady source of social subsidies given that the data suggests that social purpose businesses are one class of social enterprise organizations in which the mission (training those at the end of the labor queue) may require permanent support. Comparatively, the EU countries have a much more developed set of policies both at the national and local levels for supporting work integration social enterprises. These approaches include: temporary subsidies for hiring disadvantaged workers (akin to the employer tax credit available under welfare reform in the U.S.), time limited subsidies for start up costs to accredited WISEs (those officially working in conjunction with labor market policies), and set aside public contracts for WISE production of goods and services (Laville, Lemaitre, & Nyssens, 2006). Because in the U.S, SPBs are not the focus of social sector funding specifically targeted to their hybrid form, they are constantly repositioning themselves in the social service field to generate the revenues to grow from a wide range of sources especially at the early stages of their development when the businesses are not a reliable alternative funding stream.

Given that SPBs are emerging in specific community contexts, one possible source of untapped capital for social purpose businesses in the U.S. is local governments; cities looking for ways to bolster the regional economy and address entrenched poverty. Framing social purpose businesses as locations where disconnected or socially excluded members of society reintegrate into the main stream economy and as engines of neighborhood economic development could open up new sources of public subsidies for these organizations under targeted economic development policies. Direct public support made available under economic development funding streams could address the key challenges these organizations face at this stage of their development by: (1) mitigating internal tensions that arise in SPBs blending public and self generating revenues by reducing the program related restrictions that accompany their current public subsidies, (2) providing capital infusion at key stages of organizational development, and (3) building coordinating mechanisms among SPBs regionally to enhance the training opportunities that SPBs can provide their target populations.

These coordinating mechanisms might assist these SPBs in developing career ladders across a pool of social purpose businesses so that trainees can build skills in a variety of different business environments as they move through a training curriculum. As they stand now, even when they have the support to grow to scale, these organizations are only able to offer the skills training available in the businesses that they have successfully launched and maintained.

## **CONCLUSION**

Social purpose businesses are part of a rapidly proliferating trend in social enterprise. As organizations operating at the nexus of workforce development and job creation, social purpose

businesses have tremendous potential to be used effectively as economic development and anti-poverty policy tools. They are not only creating jobs in a range of cutting edge industries (including organic landscaping and horticulture), they also operate with sophisticated service technologies that reach out to the most disenfranchised members of our society and link them back into the labor market.

In the U.S. they are most typically emerging as business subsidiaries of existing nonprofits that are, at least partially, responding to the increased instability of government funding to the sector. As funds from the social sector become more unstable, these organizations appear to be at a crossroads. On the one hand, they may continue down the road of commercialization, relying more and more on their success in the market for operating revenues. Absent the flexible support of social sector subsidies, however, this increased commercialization may make it difficult for SPBs to avoid replicating the labor practices that prevalent in these niches, such as low skill shift work, flex scheduling and lay offs. Or alternatively, given that these SPBs appear quite solidly rooted in a primarily social sector identity, they may increasingly inhabit their own field, complete with their own specific forms of social venture capital, targeted government policies and subsidies that will allow them to grow to scale with more direct supports for their unique synthesis of commercial and social goals.

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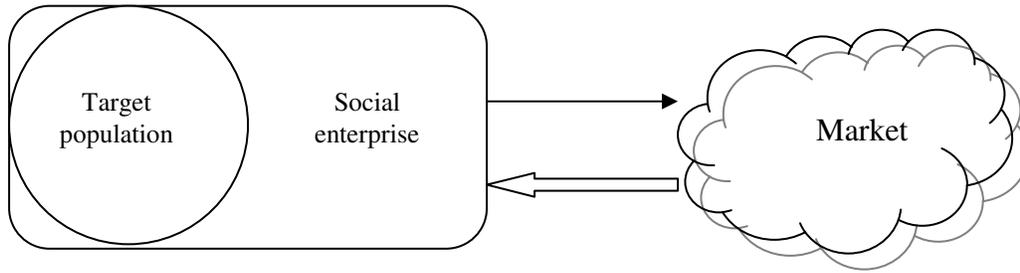
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## APPENDICES

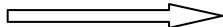
Table 1 - Snapshot of SPB Organizations

	<b>Organization:</b>	<b>Org. age (yrs)</b>	<b>Budget size</b>	<b>Gov funds (%)</b>	<b>Donations (%)</b>	<b>Foundations (%)</b>	<b>Earned income (%)</b>	<b>Target population</b>	<b># of biz.</b>	<b>Operational Model</b>	
1	El Puente Community Development (multiple businesses)	21-30	500,000-2.9 mil	21-25%	0%	46-55%	22-30%	Mexican immigrant women & families	2+	Employment Org. Support	+
2	NP w/ catering biz.	6-10	0-499,999	0%	1-5%	76-85%	6-10%	Unemployed & underemployed	1	Employment Org. Support	+
3	Growing Home (organic farm business)	1-5	0-499,999	6-10%	6-10%	66-75%	11-15%	Individuals with barriers to employment	1	Employment	
4	Wai'anae Community Re-development Corp. (organic farm coop and natural food store)	1-5	500,000-2,999,999	1-5%	0%	56-65%	26-35%	At-risk youth	2	Employment Org. Support	+
5	NP w/ retail clothing store	6-10	0-499,999	6-10%	36-45%	56-65%	0%	Low income women	1	Org. Support	
6	NP w/ technology biz.	6-10	500,000-2.9 mil	86-95%	0%	1-5%	0%	People seeking self sufficiency	1	Org. Support	
7	Trinity Services (multiple businesses)	50 +	25,000,000 +	85-95%	1-5%	0%	1-5%	Developmentally disabled	2+	Employment Org. Support	+
8	West VA Women Work! (construction business)	0-1	0-499,999	86-95%	1-5%	6-10%	0%	Low income women	1	Employment Org. Support	+
9	NP w/ grounds keeping, janitorial, & maintenance biz.	11-20	5,000,000 to 24.9 mil	86-95%	1-5%	6-10%	1-5%	Recently incarcerated individuals	1	Employment	
10	NP w/ multiple biz. incl. restaurant & farm	50 +	5,000,000 to 24.9 mil	66-75%	1-5%	1-5%	21-25%	Developmentally disabled	2+	Employment Org. Support	+
11	NP w/ horticultural nursery	6-10	500,000 to 2.9 mil	66-75%	1-5%	16-20%	0%	Fam. surviving DV; Homeless vets.& fam; Developmentally disabled; Persons w/ AIDS	2	Employment Org. Support	+
12	NP w/ street cleaning and pest control biz.	11-20	25,000,000 +	36-45%	11-15%	6-10%	21-25%	Homeless individuals	2+	Employment	
13	NP w/ furniture related biz.	6-10	500,000-2.9 mil	16-20%	21-25%	11-15%	1-5%	Low income women	1	Employment Org. Support	+
14	NP w/ farm & furniture businesses	6-10	0-499,999	26-35%	46-55%	16-20%	0%	People w/ history of substance abuse	2	Employment Org. Support	+
15	ROSE Community Dev. (construction)	11-20	500,000-2,999,999	6-10%	1-5%	1-5%	27-40%	Working families, seniors & people w/ disabilities	1	Employment Org. Support	+

*Figure 1 - Employer model*

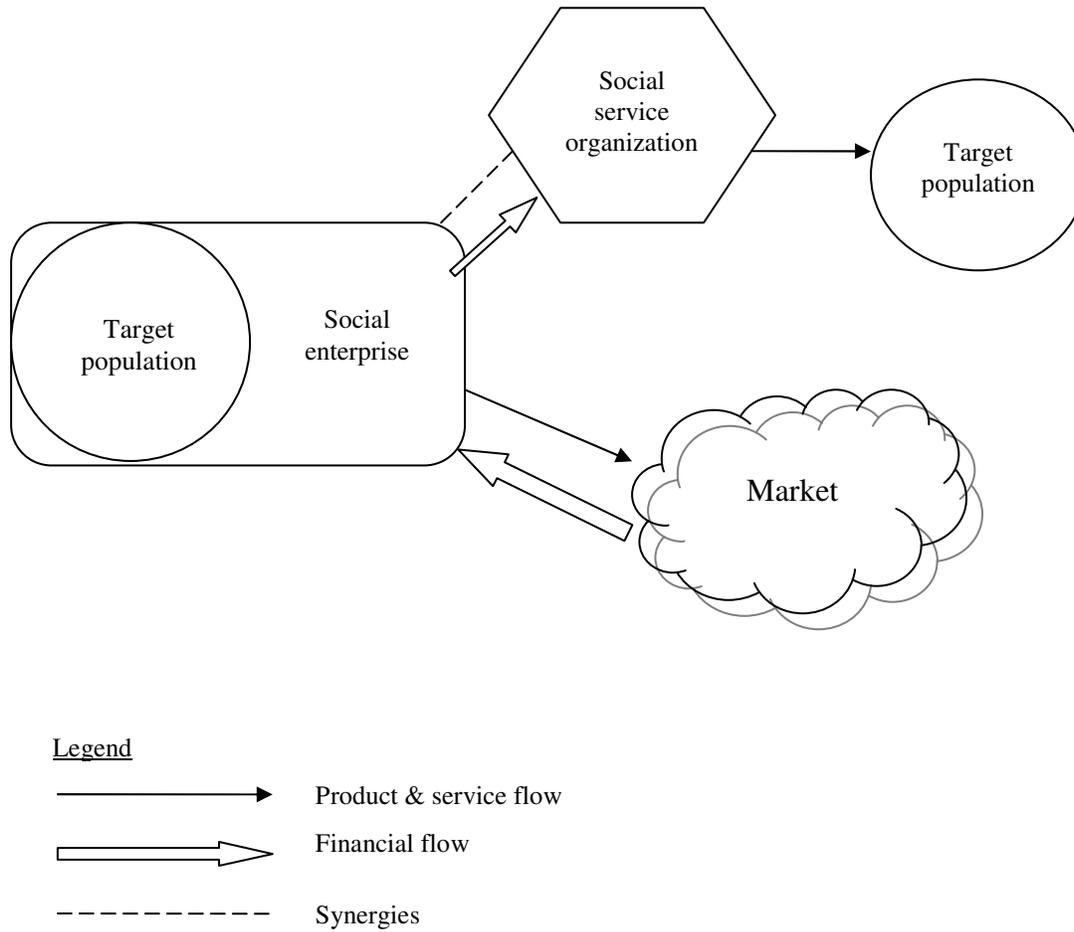


Legend

-  Product & service flow
-  Financial flow

*Source: Alter, 2006*

Figure 2 - Employer model + Organizational support model



Source: Alter, 2006