The Undivided Self: Are the Business Body and the Nonprofit Soul Separable?*

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Introduction

In September 2006, the founders of Google, who had just made a splash with a highly successful public stock offering, garnered headlines once again by setting up a foundation, appropriately named Google.org with about $1 billion in funding. What captured the public's attention, however, was not the creation by newly-wealthy dot.com entrepreneurs of a foundation with a mission to address problems of poverty, disease, and global warming. Rather, it was that Google.org was to be established not as a traditional grant-making foundation but as what many would regard as an organizational oxymoron: a for-profit, taxpaying charity.

Google.org was one of several examples in 2006 that led the *New York Times* to remark that "this year, as never before, the line between philanthropy and business is blurring" (Strom 2006). Although Google.org may be the most prominent recent instance of such blurring, those familiar with the recent history of the nonprofit sector in the United States will recognize it as one of many examples of how the boundaries between nonprofit and for-profit activities continue to shift, redefining that it means to be a nonprofit organization and forcing new attention to existing laws about public policy, taxation, and business regulation.

So what exactly is going on? Traditionally, economists and legal scholars have argued that what differentiates nonprofit from for-profit organizations is a legal distinction sometimes called the "non-distribution constraint."

Though the non-distribution constraint that goes with nonprofit status is a meaningful one for the vast majority of nonprofit organizations, it has also always been somewhat arbitrary. For instance, although managers cannot directly appropriate profits, any surplus generated by providing nonprofit goods and services can be indirectly captured in wages. Indirectly, there may also be capital returns to nonprofit activities, as in the case of interest payments made to banks – payments that owners and depositors in the banks then earn.

Today, however, there is a growing sense that the boundary is becoming much more permeable.

Is this merely a matter of charities or businesses pushing the edges of a legal boundary or anecdotal examples that are not indicative of a systematic change? We suggest and offer evidence here that the answer is a resounding "no," that the blurring of boundaries between organizational forms is a natural response to a number of changing social and market forces. Here we focus on how evolving economic factors have redefined the boundaries between for-profit and nonprofit organizational forms.

Organizational Forms

The choice of nonprofit or for-profit form as a means of organizing the production and provision of a good or service is often perceived as a simple choice between two alternatives. The canonical nonprofit is widely seen as an entity that: focuses on its mission of providing services or serving clients; has imposed on itself the non-distribution constraint, prohibiting the distribution of any economic surplus to its owners; relies primarily on contributions and grants for its revenue; and is accountable to multiple stakeholders including its clients, donors, and "the public." In contrast, the canonical for-profit enterprise is assumed to be an entity that focuses on profit; intends to distribute any economic surplus garnered to its owners; relies on sales of goods and services and access to private capital markets to finance its operations; and is accountable in the marketplace to its shareholders and creditors.

In practice, however, the reality is more complicated. It is widely documented that many nonprofit organizations rely as much or more on revenue earned from sales of goods and services as they do on contributions and grants; this is not a new development. What has changed, however, is that the concept of combining business and charitable activities has moved beyond a type of niche activity by a few types of nonprofits, toward one undertaken by a wide range of traditional nonprofit organizations.

Thus, although one still finds organizations conforming to the canonical ideal types of nonprofit vs. for-profit organizations, among organizations classified as nonprofits, one is apt to find entities that combine tax-exempt status with commercial activities that, as Dennis Young notes, "are seen either as a *strategic* means of generating income to support the mission, or as a *strategy* to carry-out mission-related functions" (Young 2008).

A set of case studies undertaken by Cordes, Steuerle, and Poletz, provides some indication of the range of different organizational models. These cases represent four different examples of how entities with an avowed social purpose have embraced important features of for-businesses as elements of their core operating model.

Job Training

One model involves the operation of a commercial business as a direct means of fulfilling an organization's charitable mission. The most prevalent examples are to be found in the area of job training, where nonprofits create and operate businesses as means of providing training, rehabilitation, and employment to groups such as paroled criminals, drug addicts, and the disabled. In this case, there is a direct relation between mission and earned income. The businesses are run as training schools, and jobs are an integral part of the rehabilitation the nonprofit provides. Meeting market tests is regarded as enhancing the self-esteem of clients and providing them with marketable skills. A side financial benefit, which is increasingly recognized as important, is that if the business generates a steady and predictable flow of earnings, this revenue stream can be leveraged through outside investment.

Nonprofit Ventures and Double Bottom Line

A more recent model is that of so-called "double-bottom-line" social ventures. In this case, unlike the job training model, where the for-profit business is an intermediate input in the production of the charitable activity, the charitable mission and earned income are directly related through the goods or services the nonprofit produces. The good or service has a commercial/private bottom line equal to the organization's profit (or loss) from sale of goods and services in the marketplace and a social bottom line equal to the social value of its activities that are not reflected in market sales. Sales of the good or service thus create a socially desirable outcome, although private returns based strictly on market sales are unlikely to pass a standard for-profit test. Together, the business and social bottom lines create a double bottom line that is the blended value of the nonprofit organization. (Blended Value.org 2006)

Those familiar with the literature on public finance will immediately recognize this example as that of a private good which has external benefits. A traditional conceptual remedy for providing such a good would be to have a for-profit firm produce it, receiving a public subsidy in addition to revenues garnered from the market sales.

However, there is no reason why a good or service with positive externalities needs to be produced by a for-profit business or by government. It could just as well be produced by a nonprofit enterprise that combines revenues from market sales with revenues that reflected the social value of output not captured in the marketplace from sources such as private contributions or government grants.

Nonprofit Conglomerates

Some nonprofits have made a strategic decision to reduce their dependence on any single income source by diversifying. They have experimented with new program activities and taken advantage of considerable flexibility allowed by law to create complex structures involving nonprofit subsidiaries, for-profit subsidiaries, and partnerships with for-profit organizations. In addition to providing revenue diversification, such structures sometimes provide perfectly legal ways in which nonprofits can exploit their tax-exempt status by allocating costs and revenues among the various organizational entities in ways that minimize any taxes that might be owed on profitable earned income opportunities.

Quid Pro Quo

Quid Pro Quo defines another type of relationship whereby nonprofits are able to exploit certain unique assets for financial gain in collaboration with for-profit businesses. Several analysts have noted that imposing the non-distribution constraint can be a means of signaling to potential customers that an organization can be trusted to produce goods of a certain level of quality. Such labeling can be of high value in situations where quality is both important and difficult to verify. In addition, because nonprofits are widely perceived as producing goods that benefit society, for-profit businesses have the opportunity to differentiate their brand through good corporate citizenship through partnerships with nonprofits.

For-Profit Socially Responsible Business

Each of the previous examples centers on nonprofits that operate like businesses in how they acquire resources or on nonprofits that avail themselves of opportunities for transforming mission-related assets and competencies into earned income that can then support the organization's core mission (Sagawa and Segal 2000). However, the blurring of organizational boundaries can also run in the opposite direction from for-profit businesses as a number of owners and managers of for-profit businesses see pursuing social purposes as good business strategy.

This recognition can take the more traditional form of for-profit firms donating funds to charity, although a new twist is that donated funds come not only from corporate foundations. A number of corporations have also committed publicly to donating a specific percentage of sales or profits to charities.

The implication of the examples is that between the organizational poles of the pure nonprofit and the pure for-profit, one finds a continuum of different hybrid organizational models (table 1).

Economic Factors Influencing Organizational Choice

An economic approach to studying organizations focuses less on classification of activity or legal form and more on identifying the comparative economic advantages and disadvantages of the different organizational forms. In the case of the nonprofit form, scholars have recognized that an organization accepting the non-distribution constraint provides valuable signals to two potential sources of finance: (1) potential donors and contributors, for whom imposing the constraint provides at least some assurance that contributions will finance public goods and (2) potential customers who seek important but hard-to-verify quality dimensions in certain types of goods and services (Bilodeau and Slavinski 1998; Glaeser and Schleifer 1998). The state attorneys general recognize the signaling role of the nondistribution constraint when, as a matter of consumer protection, they monitor the actions of nonprofits to ensure that there is truth in advertising behind the use of the nonprofit designation.

These advantages of the nonprofit form come at a price, however. Although the non-distribution constraint might make it easier to secure donations, grants, and contributions, it also limits access to capital markets in two ways. First, although some nonprofits can secure debt financing of their activities, nonprofits do not have access to equity capital. Second, when seeking debt financing, some nonprofits may encounter resistance from lenders wary of treating contributions, grants, and donations as bankable revenue. In addition, heavy reliance on contributions and grants can create dependency on these sources of finance among nonprofits.

Similarly, the for-profit organizational form has advantages that mirror the disadvantages of the nonprofit model. The acceptance of owners seeking profits for themselves limits access to contributions, donations and grants, but does provide access to capital markets, and to retained earnings. Potential customers of goods and services with important but hard-to-verify quality dimensions are also less likely to trust for-profit providers of such goods and services.

These differing features of organizational form suggest potential ways in which there are "gains from trade" by matching advantageous features of the for-profit form with the nonprofit form. We term such mixing and matching of organizational attributes "organizational arbitrage" because of its analogy to arbitrage in economics and finance, which involves taking advantage of price differentials between two markets. For nonprofits, pursuing organizational arbitrage provides opportunities to retain "trust" but gain access to capital markets, develop activities that are easier to collateralize, and reduce dependency on uncertain grants and contributions. Conversely, the potential benefits to for-profits of establishing business relationships with nonprofits are the ability to use the "trust attributes" of nonprofits to market commercial goods and services, and perhaps to move into markets where the ability to attract grants and contributions, when combined with revenue from business operations, may pose attractive financial opportunities.

Table 1: A Continuum of Organizational Forms

Organizational Form	*Examples/Organizational Features*
A. Pure Nonprofit	All receipts from contributions, not operations
B. Nonprofit whose core charitable activities are financed by fees and charges	Nonprofit healthcare and education
C. Nonprofit that operates businesses in areas related to its charitable mission	University bookstores; hospital laundries and catering services; job training programs
D. Nonprofits in partnership with for-profit business	Cause-related marketing, corporate sponsorships
E. Nonprofits with active stakes in for-profit businesses	Nonprofits with substantial shares in for-profit affiliates
F. Not-for-profit Firms	Organizations legally organized as private businesses or corporations but distribute everything as wages
G. For-profit businesses contributing pre-announced shares of profits to charity	Ben and Jerry's, Target Stores, Newman's Own
H. For profits in direct competition with nonprofits	Hospitals, for-profit education providers
I. Pure for-profit business	No outputs defined as education, health, or other product that could also be defined as charitable

Changes in Organizational Culture

Though incorporating business activities within nonprofit organizations is not new, there is evidence that the attitude has shifted from one of reluctant acceptance to one of need to supplement traditional revenue sources with income from commercial activities, to perhaps even one of actively embracing of businesslike activities and organizational forms.

As some observers have noted, "nonprofits increasingly feel compelled to launch earned-income ventures, if only to appear more disciplined, innovative, and businesslike to their stakeholders." (Foster and Bradach 2005). An important set of stakeholders in this respect are private foundations that have become more apt to treat grants as forms of seed capital rather than as operating revenue and strongly encourage nonprofits to develop sustainable and bankable sources of financial support (being able to serve as at least limited collateral for private-sector financing.

The Rise of Social Entrepreneurs

Estelle James notes that the desired mix of business elements in a nonprofit will depend both on the attitudes of nonprofit managers and on nonprofit entrepreneurs (James 2005). Although the term nonprofit entrepreneur may appear an oxymoron, there is considerable evidence that the growth and evolution of the nonprofit sector is shaped by individuals who fit the definition of an entrepreneur as "someone who organizes, manages, and assumes the risks of a business or enterprise" (Cordes, Steuerle, and Twombly 2004). James emphasizes that there is likely to be some self-selection into the roles of nonprofit manager and nonprofit entrepreneur. In the past, people selecting into these activities were more likely to have traditional notions of how nonprofits ought to be structured. Today the formal education that potential nonprofit managers are receiving makes them more open to identify potential opportunities for nonprofit-for-profit arbitrage. Additionally, as discussed more fully later, a changing economy presents potential entrepreneurs with a wider array of attractive opportunities for their talents in both sectors, often at the same time.

External Economic Factors

Perhaps the most wide-reaching factor that is creating a more porous border between nonprofit and profit-making organizations and activities is an economy-wide shift in consumer demand toward the kinds of goods and services that nonprofits can and do provide, which leads profit-making organizations to compete more in these realms (Cordes et al. 2004; Tuckman 2004). Thus, the current economy produces more products of the sorts associated with organizational models B and H in Table 1 – i.e., that could but need not qualify as charitable under the IRS 501c(3) definition.

A striking example is health care, which used to make up 1/30th of the economy and now is 1/6th. Similarly, the production of knowledge or information is a rapidly growing sector of the economy that, though often associated with the nonprofit sector, can be sold for profit or not. Perhaps just as important, as information-related goods have become more valuable, nonprofits also find themselves possessing potentially valuable assets that are produced jointly with their primary mission-related activities, and exploiting the revenue potential of such assets may require creating hybrid forms or partnerships with for-profits as in organizational models D, E, and F.

The data in tables 2, 3, and 4 provide statistical evidence of some of these trends. Table 2 shows that industries that produce "potentially charitable outputs" – which we define to be goods or services that traditional nonprofit organizations could provide – have grown much faster than industries in other sectors, and are projected to continue doing so. These trends are mirrored in table 3, which shows that occupations with significant nonprofit penetration have grown more rapidly than other occupations between 1983 and 1999, and table 4, which shows a 23.2 percent projected growth in jobs in nonprofit-oriented occupations between 2004 and 2014, compared with a 13 percent growth in jobs in all occupations over the same period.

As these inputs and outputs of production become more and more alike in both sectors, one should not find be surprised to find more overlapping organizational structure through, for example, more subsidiaries (or related organizations) in one sector controlled by a member of the other sector, and more partnerships between nonprofits and for-profits producing related or complementary goods and services. At the individual level,

workers in each sector would also be more apt to have easily transferable skills, permitting them move back and forth between sectors not only at different points in their careers, but even daily on the job.

This "new economy" is also likely to be more conducive to creating a pool of potential entrepreneurs whose skills could be used to found either for-profit businesses or nonprofit-organizations. Entrepreneurial skills are also more portable between the nonprofit and for-profit sectors.

To offer a concrete illustration, compare a world where the typical industry is based in manufacturing, such as steel, to one where it is based on information goods, such as information technology and communication. In the former environment, the worker or manager of a steel company might live a divided life: making steel during the day and then going home and putting on his civic (i.e., nonprofit) hat. The inputs needed to make steel likely differ from those required to provide charitable services, as do the outputs of the two activities. In such a setting, a potential entrepreneur with a charitable impulse would be well advised to focus first on amassing wealth by engaging in the for-profit activity (steel manufacture) and then using such wealth to support charitable activities.

This situation may be contrasted with the case of a modern-day firm producing information goods and services. Because forms of intellectual capital figure heavily as both inputs and outputs for such enterprises, the inputs and outputs in the for-profit sector may be quite similar to those in the not-for-profit activity. Marketing and computer skills are also more likely to cut across sectors. Thus, changes in the economy create an environment in which it is only natural for nonprofit entrepreneurs to found for-profit ventures, for workers in profit-making firms to handle their nonprofit activities on the phone during the day, and for managers in both types of organizations to look to each other for ideas, sources of partnership and cooperation, and opportunities to compete.

Table 2. Relative Growth of Industries with Potentially Charitable Output

Industry title	NAICS	Jobs*1000			Projected Change		Average Annual Growth Rate	Projected
		1994	2004	2014	1994–2004	2004–2014	1994–2004	2004–2014
Charitable Industries								
Computer systems design and related services	5415	531.4	1147.4	1600.3	616	452.9	8	3.4
Management, scientific and technical consulting	5416	416.8	779	1,250	362.2	471.2	6.5	4.8
Social assistance	624	1,382	2,132	2,872	750.5	739.5	4.4	3
Internet and other information services	519	317.8	470	600	152.5	129.6	4	2.5
Museums, historical and similar institutions	712	81.8	117.1	140	35.3	22.9	3.7	1.8
Educational services	61	1,895	2,766	3,665	871.6	898.1	3.9	2.9
Ambulatory health services	621	3,579	4,946	7,031	1367.4	2085.1	3.3	3.6
Performing arts, spectator sports and related	711	296.1	364.8	443.2	68.7	78.4	2.1	2
Membership organizations	813	2,285	2,929	3,310	644.5	381.3	2.5	1.2
Scientific research and development	5417	475.8	547.6	612.9	71.8	65.3	1.4	1.1
Other professional scientific and professional	5419	367.8	503.4	646.1	135.6	142.7	3.2	2.5
Software publishers	5112	136.8	238.7	400	101.9	161.3	5.7	5.3
Legal Services	5411	965.6	1161.8	1,340	196.2	178.1	1.9	1.4

Advertising	5418	375	425	520	49.9	95.2	1.3	2
Subtotal		13,105	18,529	24,431	5,424	5,902	3.5	2.8
Other Industries								
Other services	Not included above	14,615	17,978	22,198	3,363	4,221	2.1	2.1
Utilities	22	689	570	562	–119	–8	–1.9	–0.1
Transportation and warehousing	493	3,701	4,250	4,756	548.9	505.9	1.4	1.1
Construction	23	5,095	6,965	7,757	1869.6	792.4	3.2	1.1
Retail trade	44,45,48,492	13,491	15,035	16,683	1543.4	1648.7	1.1	1
Wholesale trade	42	5,248	5,655	6,131	407.4	475.9	0.8	0.8
State and local government	N.A.	16,257	18,891	21,019	2634	2128.2	1.5	1.1
Federal Government	N.A.	3,018	2,728	2,771	–290.5	43.4	–1	0.2
Finance, insurance and real estate	52, 53	6,867	8,052	8,901	1185	849.4	1.6	1
Agriculture	11	2,891	2,140	1,910	–750.2	–229.9	–3	–1.1
Nonagricultural self-employed and unpaid family	N.A.	9,360	9,556	1,012	196.4	455.5	0.2	0.5
Goods producing	31,33	22,692	21,817	21,787	–874.3	–30	–0.4	0
Mining	21	576.5	523.2	477.4	–53.3	–45.8	–1	–0.9
Subtotal		104,500	114,159	115,965	9,660	10,807	0.9	0.2
TOTAL, Nonagricultural wage and salary		114,984	132,192	150,877	17,208	18,685	1.4	1.3
GRAND TOTAL		129,246	145,612	160,795	16,366	15,183	1.2	1.2

Source: Adapted from Berman (2005).

Note: Subcategories of industries sum to grand total because of chain weighting. See Berman 2005

Table 3. Change and Growth in Charitable and Noncharitable Occupations

Occupation	Category	1983 (*1,000)	1999 (*1,000)	Change 1983–99	Percent change: 1983–99
Occupations with significant nonprofit penetration					
Managers: medicine and health	Health	91	716	625	686.8
Computer scientists	Information/Technology	276	1,549	1,273	461.2
Teachers' aides and early childhood education	Education	348	1,198	850	244.3
Recreation and related workers	Social Service	131	270	139	106.1
Social workers	Social Service	407	813	406	99.8
Adminstrators: education and related fields	Education	415	821	406	97.8
Athletes	Entertainment	58	110	52	89.7
Child care workers	Social Service	408	764	356	87.3
Managers: marketing and public relations	Financial	396	739	343	86.6
Social scientists	Professional—other	261	460	199	76.2
Health assessment and treatment (therapists, pharmacists)	Health	528	891	363	68.8
Natural scientists	Science	357	578	221	61.9
Teachers: higher education	Education	606	978	372	61.4
Mathematics scientists (not computer)	Information/Technology	187	298	111	59.4
Writers, authors, and entertainers	Entertainment	1,486	2,344	858	57.7

Teachers: pre-k through 12	Education	3,365	5,277	1,912	56.8
Registered nurses	Health	1,372	2,128	756	55.1
Health technologies	Health	1,111	1,701	590	53.1
Lawyers and judges	Law	651	964	313	48.1
Protective services (police, fire)	Protective services (police, fire)	1,672	2,440	768	45.9
Health diagnosing occupations (physicians, dentists)	Health	735	1,071	336	45.7
Health services (not doctors or nurses)	Health	1,739	2,521	782	45
Librarians	Education	193	264	71	36.8
Welfare aids	Social Service	77	97	20	26
Clergy	Social Service	293	352	59	20.1
Education counselors	Education	213	247	34	16
Computer equipment operators	Administrative support	605	356	–249	–41.2
Subtotal		17,981	29,947	11,966	66.5
Other occupations					
Adjustors and investigators	Administrative support	675	1,802	1,127	167

(continued)

Table 3. *(Continued)*

Occupation	Category	1983 (*1,000)	1999 (*1,000)	Change 1983–99	Percent change: 1983–99
Data entry	Administrative support	311	746	435	139.9
Financial managers	Financial	357	753	396	110.9
Architects	Professional—other	103	194	91	88.3
Information clerks, including receptionists	Administrative support	1,174	2,143	969	82.5
Executive, administrative and managerial (other)	Professional—other	8,408	14,897	6,489	77.2
Accountants and auditors	Financial	1,105	1,658	553	50
Sales—other including supervisors and proprietors	Sales	6,331	9,267	2,936	46.4
Other technicians (engineering, science)	Other	1,942	2,654	712	36.7
Construction	Production	4,289	5,801	1,512	35.3
Engineers	Professional—other	1,572	2,081	509	32.4
Transportation and material moving occupations	Operators, fabricators, and laborers	4,201	5,516	1,315	31.3
Other administrative support	Administrative support	1,642	2,087	445	27.1
Handlers and laborers	Operators, fabricators, and laborers	4,147	5,265	1,118	27
Material recording, scheduling (dispatchers)	Administrative support	1,562	1,959	397	25.4
Food workers	Personal services—other	4,860	6,091	1,231	25.3
Sales workers—retail and personal services	Sales	5,511	6,866	1,355	24.6
Mail and message distribution occupations	Administrative support	799	990	191	23.9
Records processing	Administrative support	866	1,047	181	20.9

Mechanics	Production	4,158	4,868	710	17.1
Cleaning services	Personal services—other	2,736	3,021	285	10.4
Other personal services	Personal services—other	1,793	1,936	143	8
Precision production occupations	Production	3,685	3,793	108	2.9
Supervisors—administrative support	Administrative support	676	675	–1	–0.1
Statistical clerks	Administrative support	96	94	–2	–2.1
Machine operators	Operators, fabricators, and laborers	7,744	7,386	–358	–4.6
Other private household care workers	Personal services—other	572	536	–36	–6.3
Mail clerks	Administrative support	68	63	–5	–7.4
Farming	Farming	3,700	3,426	–274	–7.4
Financial recording keeping (book keeping, record clerks)	Administrative support	2,457	2,181	–276	–11.2
Secretaries	Administrative support	4,861	3,457	–1,404	–28.9
Extractive occupations	Production	196	130	–66	–33.7
Communications operators (i.e., telephone operators)	Administrative support	256	158	–98	–38.3
Subtotal		82,853	103,541	20,688	25
Total		100,834	133,488	32,654	32.4

Sources:
1983 and 1993 figures adopted from "Statistical Abstract of the United States, 1994," Table 637
1999 figures adopted from "Statistical Abstract of the United States, 2000," Table 669

Table 4. Change and Growth in Charitable and Noncharitable Occupations: 2004–2014

Occupation	Category	2004 (*1,000)	2014 (*1,000)	Change, 2004–2014	Percent change, 2004–2014
Occupations with significant nonprofit penetration					
Managers: medicine and health	Health	248	305	57	22.8
Computer scientists	Information/Technology	3048	4,003	957	31.4
Teachers' aides and early childhood education	Education	601	782	181	30.1
Recreation and related workers	Social service	514	623	104	21.2
Social workers	Social service	562	686	124	22
Adminstrators: education and related fields	Education	442	515	73	16.6
Athletes	Entertainment	17	21	4	21.1
Child care workers	Social service	1280	1456	176	13.8
Managers: marketing and public relations	Financial	646	777	131	20.3
Social scientists	Professional—other	492	580	88	17.9
Health assessment and treatment (therapists, pharmacists)	Health	739	934	195	26.3
Natural scientists	Science	482	561	79	16.3
Teachers: higher education	Education	1628	2153	524	32.2

Mathematics scientists (not computer)	Information/Technology	107	117	10	9.7
Writers, authors and entertainers	Entertainment	142	187	25	17.7
Teachers: pre-k through 12	Education	4,270	5,051	781	18.3
Registered nurses	Health	2,394	3,096	703	29.4
Health technologies	Health	2,494	3,086	592	23.7
Lawyers and judges	Law	783	897	114	14.6
Protective services (police, fire)	Protective services (police, fire)	3,138	3,578	440	14
Health diagnosing occupations (physicians, dentists)	Health	717	873	156	21.7
Health services (not doctors or nurses)	Health	3,492	4,656	1164	33.3
Librarians	Education	159	167	8	4.4
Welfare aids	Social service	352	456	104	29.7
Clergy	Social service	422	474	52	21.4
Education counselors	Education	248	285	37	14.8
Computer equipment operators	Administrative support	149	101	–49	–32.6
Subtotal		29,566	36,420	6,854	23.2
All Occupations		145,612	164,540	18928	13

Source: Hecker (2005)

Changes in Government Policy

Changes in government policy have in some cases reinforced these shifts in the economy. One is the move toward third party government in which many public responsibilities are shared by government with a range of nongovernmental actors (Salamon 2002).

The third-party government model has increased opportunities for nonprofits and for-profits, acting jointly and separately, to provide government services. Government has influenced the business-nonprofit relationship through its increased tendency to contract out work. Steuerle and Hodgkinson document how the decline in government employment in recent decades is matched by an increase in nonprofit sector employment (Steuerle and Hodgkinson 2006). Because charitable contributions have not increased as a percentage of GDP during this time and government spending has not decreased, the nonprofit employment growth can be traced to government's increased tendency to contract out work.

The clearest case, of course, is health care. Medicare and Medicaid tend to contract with doctors and hospitals to provide services to patients. But government has also attempted more and more to contract out all sorts of activities ranging from social services to the running of prisons. This expansion of government activity quickly leads to expansions of nonprofit activity, which then can prompt entry and competition from for-profit firms. Such privatization also tends to create revenue streams for which some reporting on outputs and performance measurement is required, leading further to nonprofit organizations adopting businesslike attributes.

In addition, tax policy, which has traditionally served as the principal mechanism for defining the legal boundaries between nonprofit (tax-exempt) activity and for-profit (taxable) activity has shown itself to be quite flexible in permitting a wide variety of organizational arrangements involving traditional nonprofits and various profit-making ventures.

Issues Raised

As with any new development, exploitation of the organizational arbitrage possibilities at the boundaries is not without costs alongside the benefits. A major issue is the potential impact of organizational arbitrage on the credibility of the non-distribution constraint. Indeed, as this paper is being presented, other types of "arbitrage," inadequately monitored, have led to a financial crisis.

In many respects, it has been the presence of a credible non-distribution constraint that gives the nonprofit organizational form its distinctive economic character, and is the source of many of its advantages. Does the increased adoption of business practices and development of commercial activity reduce this advantage? It mainly depends upon the institutions and actors involved.

It really has never been clear that the absence of a profit motive has prevented some people from exploiting charity for their own private gain. There always have been and remain strong economic incentives for the stakeholders in nonprofits—such as wage earners, managers, and lenders—to seek to appropriate any surplus and, at times, convert charitable contributions into forms of private inurement. To the extent that businesslike practices become the norm rather than the exception among nonprofits, the scope of such self-interested behavior is likely to grow. But paradoxically, as this becomes known, the economic value of imposing the non-distribution constraint may also decline if people determine that a legal nonprofit is simply a for-profit in disguise (Weisbrod 1998). Attempts to wrestle with this issue have, for example, motivated the IRS to establish guidelines for determining the tax consequences for the nonprofit partner in a joint venture with a for-profit partner in the hospital sector. As Brody notes, the guidance provided is that to preserve its status as a 501(c)(3) organization, the nonprofit participant needs to ensure that the joint venture (a) furthers the organization's charitable purpose, (b) permits the exempt organization to act exclusively in the pursuit of its charitable mission, and (c) is not primarily formed for the benefit of the for-profit partners (Brody 2008). Such guidelines, while reasonable in principle, may be complex to administer and monitor in practice.

Future Trends and Policy Issues

There are several trends that favor further movement on the continuum away from pure nonprofit form. Among the economic factors that have been identified are the following:

- Shifting demand of society toward goods and services with attributes similar to charitable outputs
- Shifting of inputs and human skills toward activities that are valuable in either sector
- Changing attitudes about how nonprofits should behave
- Changing attitudes about how for-profits should behave

As with the mythical story of King Canute trying to turn back the ocean, it may make little sense for public policy to buck economic and social forces that are beyond government control. Rather, the task facing both tax and regulatory policy will be to monitor the performance of organizations, both individually and collectively, to achieve the best social outcome, however hard that is to define. This task has become more challenging because it no longer reduces to a simple question of monitoring the behavior of a traditional nonprofit. It now includes monitoring that of nonprofit-for-profit hybrid organizations, along with commercial activities within nonprofit organizations, to ensure a proper balance between mission and pursuit of revenue to finance mission among entities that benefit from the use of the charitable or "501(c)(3)" brand. Future challenges may arise as more for-profit enterprises become involved in social goods.

In exploring these issues, this paper and a related book examine the blurring of the boundaries between nonprofit and for-profit organizations from an evolutionary organizational perspective (Aldrich and Ruef 2006). A key organizing theme is that nonprofits, like other organizations, have natural tendencies to adapt to changes in their environment as well as to changes in organizational culture caused by shifts in attitudes and norms. The organizational propensity for adaptation creates a natural, dynamic process of change in the boundaries between nonprofit and for-profit sectors.

Further Definitional Issues

One source of confusion in this evolving landscape is the definition of social enterprise. Dennis Young deconstructs the concept of "social enterprise" – the type of venture many regard as symbolic of the blurring of the lines between nonprofits and business – to show how and why this broad concept may be compatible with a number of organizational forms.

Young proposes that a social enterprise be defined as "activity intended to address social goals through the operation of private organizations in the marketplace," noting that this definition is consistent with any number of different types of private organizations, from a traditional nonprofit to a socially conscious for-profit business and a number of hybrid arrangements in between. Like the elephant in the famous story of the blind men, different insights about the concept of social enterprise, emerge as it is viewed from different perspectives.

Among scholars who study the nonprofit sector, historians remind us that there has been a long-standing involvement of nonprofit organizations in commercial activity in the United States, suggesting that the blurring of the boundaries is an evolutionary development – albeit an important one – and not a discrete break with the past. Economists and management theorists emphasize the comparative benefits and costs of relying on the nonprofit and for-profit organizational forms as a means for achieving the broad aims of social enterprise as potential explanatory factors.

Among practitioners, entrepreneurs are likely to see "the mold-breaking reflected in for-profit activity within nonprofits or social ventures in for-profit form" as a "natural kind of experiment that entrepreneurs undertake in seeking new ways of doing things." From a comparative perspective, Young notes that what is viewed as social enterprise is context-dependent, so that in both Europe and the developing world, social enterprise is considered to be almost any new, nongovernmental approach to social problems, whereas in the United States the concept is somewhat less encompassing, referring instead to recent innovations in how private entities, especially nonprofits, organize to meet various social needs.

Last, but not least, Young notes that organization theorists focus on the dual

importance of organizational culture and organizational identity in determining the proper match of organizational form with social mission. The concept of organizational identity is especially important because specific organizational identities are more likely to be compatible with particular organizational forms than with others.

A general implication of Young's analysis is that changes in the environment will prompt adaptations in organizational form when such changes alter organizational identities or will open up the range of possible structures that may be compatible with particular organizational identities.

Can the law be counted on to solve our confusion over boundaries and definitions of "nonprofit" and "profit-making"?

Brody notes that the laws that govern business activities of nonprofits stem from several different sources (Brody 2008). There are rules and laws that govern the operation of business activities that apply to specific sectors of the economy (e.g., hospitals) without regard to nonprofit status. A classic example is that of hospitals, where the day-to-day operations of nonprofit hospitals are governed by rules that apply to health care organizations generally, regardless of whether the entity is public, for-profit, or nonprofit.

State laws also define and regulate the formation of nonprofit organizations, but as Brody notes, these laws generally say little about whether and what business activities are acceptable for a nonprofit organization. Instead, the task of establishing and enforcing appropriate boundaries between business and other activities of nonprofit organizations usually falls to federal and state rules governing tax-exemption, which provide the principal constraints on what nonprofits can and cannot do under a tax-exempt status. Strengthening such constraints reduces opportunities for nonprofit organizations to undertake business ventures in the traditional nonprofit form or in hybrid forms. Conversely, relaxing such constraints, as when nonprofits receive royalty income from corporations for using intangible assets, such as organization names and logos by corporations, has the opposite effect (Varley 2003).

In the end, Brody cautions that there is no obvious right way to allocate business activities between the for-profit and nonprofit sectors; hence, the use of the law to regulate the conduct of businesslike activities should be targeted to specific and narrow

cases. Because of such limits, the law by itself cannot define completely or adequately the boundaries between the two sectors. Instead, the outcome will depend on the combined impact of legal constraints, economic opportunities, and the internal culture of nonprofits.

Crossing Boundaries

Three examples help clarify the organizational arbitrage that involve combining aspects of nonprofit and for-profit structures to exploit the comparative advantages of each. Howard Tuckman focuses explicitly on the role of hybrid structures consisting of at least one for-profit or equivalent entity and one nonprofit organization (Tuckman 2008).

A number of nonprofits now own for-profit subsidiaries. In some cases, the subsidiary's activity is clearly unrelated to the nonprofit's mission and the main rationale for creating a separate, taxable subsidiary is to facilitate segregation of accounting for an activity that would be taxable in any case. But often the story is not so simple. A number of nonprofits are setting up profit-making organizations even when they are not required to do so.

Tuckman's essay examines why nonprofits form hybrid organizations, how these organizations can facilitate the strategies of their nonprofit parents, and how these entities operate in the real world. Echoing Young's point about the need for organizational form to match organizational identity, Tuckman notes that in successful organizations there is a match between organizational structure and strategy. An important implication is that changes in strategy may call for adaptation in organizational form.

A number of strategies that are consistent with the central mission of certain types of nonprofits lend themselves well to hybrid organizational forms. These strategies are conditioned in part by financing needs, legal constraints, and the opportunities for nonprofits to legally exploit their unique assets through commercialization.

Empirical evidence on the use of hybrid arrangements is limited to data reported on the Internal Revenue Service form 990 return on the ownership of for-profit subsidiaries by nonprofit organizations. As Tuckman and Chang note, creation of and participation in hybrid organizational structures may not make a great deal of sense for smaller nonprofits,

and hence it is not surprising that such structures are more likely to be found among larger nonprofits (Tuckman and Chang 2006).

As one would expect, the relative frequency of ownership of for-profit subsidiaries also varies with nature of the tax-exempt activity. Nonprofits with for-profit subsidiaries are more likely to be engaged in activities such as provision of health, education, and research services, where the nonprofit parent, as part of its mission-related activities, is apt to generate valuable goods or services that have the potential to be exploited profitably in the marketplace. This latter point is important, however, because it suggests that hybrid structures may become more prevalent as a changing economy creates more possibilities for nonprofits engaged in a wider range of missions to exploit potentially valuable commercial opportunities.

Despite the potential advantages of creating hybrid structures, Tuckman sounds a note of caution about potential pitfalls. Operating a hybrid properly can compete for the time and energy of the nonprofit's senior management, especially as the complexity of the hybrid relationship grows. Continuously operating a hybrid structure may alter management's ways of thinking, potentially diluting commitment to the nonprofit's original mission. Governance of a hybrid raises further questions of whether the same individuals can and should serve as directors of both the nonprofit and the for-profit entities, an issue likely to rise in importance as a consequence of such legislation as the Sarbanes-Oxley Act, which has been applied by analogy from the for-profit to the nonprofit sector (Ostrower and Bobowick 2006).

A final issue is that of public perception. Tuckman notes that the public may often be unaware of whether the nonprofit that receives their private contributions is part of a hybrid structure. Becoming aware may influence their giving behavior. These effects can be positive (if donors are prompted to give more because participation in a hybrid structure is seen as a sign of innovative and effective leadership) or negative (donors may give less because participation in a hybrid is seen as diluting the central mission of the parent nonprofit).

Hybrids are just one of several ways nonprofit organizations can form partnerships with for-profit enterprises. Alan Andreasen examines an arrangement that has become

quite popular in recent years: alliances between corporations and nonprofits in the marketing arena (Andreasen 2008).

The economic value of branding creates potential economic gains from trade between for-profit and nonprofit enterprises. These partnerships, which are often described under the rubric of "cause-related marketing," allow nonprofit organizations to derive economic benefits from the value that the public may attach to their charitable activities by trading with private corporations.

The corporate partner in such partnerships benefits from the ability to use its affiliation with the nonprofit organization to achieve certain specific marketing objectives and to garner economically valuable goodwill that leads to increased sales and profits that offset the cost. On the other side of the transaction, the nonprofit partner receives a number of benefits in exchange for allowing its name and reputation to be used in connection with a marketing campaign, including increased corporate contributions, sponsorship, or licensing agreements.

Andreasen identifies what he terms first-order and second-order benefits to each party from such partnerships. First-order benefits to the corporate partner include the additional sales generated from marketing goods by, for example, linking a set contribution to a charity or charities per dollar of sales. First-order benefits to nonprofits include financial payments and contributions of goods, services, and volunteers from the corporate partner.

In addition to these immediate benefits, one or both partners may also derive important second-order gains from participation. On the corporate side, being "socially responsible" may improve corporate image and branding, improve company morale, and aid in recruiting new employees. On the nonprofit side, participation may bring in additional donors (as a result of the corporate marketing campaign) and leave the impression of innovation and effectiveness.

Andreasen cautions, however, that there may also be costs to the parties on each side of the transaction. For corporations, potential buyers may view an alliance as a cynical corporate attempt to buy respectability. In the case of nonprofits, people may legitimately question whether payments from a corporate partner augment revenues or

merely substitute for revenue that would otherwise have come from traditional contributions. Reduced contributions from donors who disapprove of corporate alliances with nonprofits may offset in part or entirely the increased donations from the corporate marketing effort.

Moreover, there is a question of which partner captures most of the potential gains from trade in the partnership. Andreasen summarizes the results of a financial analysis of the first- and second-order benefits accruing to Toyota and to the Sierra Club from a cause-related marketing venture. This partnership provided $12 million dollars in benefits, of which Toyota captured $10 million and the Sierra Club $2 million. The author is careful to note that whether this division is "fair and economically favorable" to the nonprofit partner depends on a number of factors, including the portion of the alliance costs borne by each party.

Overall, Andreasen concludes that cross-sector marketing alliances can yield an important new source of revenue for the nonprofit sector. However, important questions about the impact of such partnerships on the sector remain to be answered. These include the degree to which revenue from such arrangements simply substitutes for traditional forms of corporate philanthropy, and, perhaps as important, whether some types of nonprofits benefit more than others from this organizational innovation. Also, gains to individual organizations could be offset by losses to the nonprofit sector as a whole.

A recent New York Times article (Santora 2006) highlights another potential dilemma that may confront some sponsorship arrangements: the possibility that the economic benefits from sponsorship may need to be weighed against potential conflicts with the stated mission of the nonprofit. Santora discusses how the American Diabetes Association has been criticized for its endorsement of certain sugar-free yet high calorie food products. In response, the American Diabetes Association has allowed some sponsorships to expire and has turned down new sponsorship opportunities. Critics, however, maintain that the organization has not gone far enough.

Yet another form of organization arbitrage is reflected in social investing by foundations. Private foundations have access to substantial pools of capital through their endowments. These endowment funds can be put in traditional investments; income

earned from these investments may then be used to support nonprofit organizations through traditional means such as grants. Increasingly, however, some foundations have embraced a different model in which capital from endowments is invested directly in enterprises that combine profit-making activities with social purposes, generating what is commonly described as a "double bottom-line" consisting of the profit from the investment plus social benefits from the investment.

Burton Sonenstein and Christa Velasquez of the Annie E. Casey Foundation provide a case study of how a major urban foundation engages in such double-bottom-line investments (Sonenstein and Velasquez 2008). To preserve its tax-exempt status, a foundation must pay out at least 5 percent of its endowment each year on activities for its social mission. At the same time, foundations also seek to earn an investment return to grow or maintain the corpus of their endowment to increase their ability to support charitable works over time. A traditional approach has been for a foundation to separate its investment and grant-making activities by, for example, investing its endowment to maximize investment return and then distributing these earnings in the form of grants. In some cases, however, a foundation may believe that it can achieve a similar or better outcome by investing endowment funds directly in a social venture with an explicit willingness on the foundation's part to accept a below-market return on the investment in recognition of its social character. The foundation effectively makes an implicit grant by accepting a below-market return on a socially beneficial investment.

The tax law provides foundations with the opportunity to make such investments by allowing a foundation to treat program-related investments as distributions of endowment for the 5 percent distribution requirement. In the past, foundations were reluctant to take advantage of this opportunity because they considered it inappropriate to mix investment with charitable activities.

In recent years, however, there has been considerable growth in the number of foundations making such investments. Between 1990 and 2001, the number of foundations making program-related investments increased from 57 to 205, as did the number of program-related investments by foundations, which increased from 161 in 1990 to 340 in 2001. The annual dollar amount of program-related investments grew

from $91.9 million in 1990 to $246 million in 2001, which on an inflation-adjusted basis represented an increase of more than 100 percent (Foundation Center). A recent Urban Institute survey of foundations found that among respondents with $50 million or more in assets, more than one quarter engaged investments related to their mission (Ostrower 2004).

Foundations have become more open to making program-related investments for a variety of reasons. One motivation relates to the notion of organizational identity Young discussed. A growing number of foundations no longer see themselves simply as fiduciaries whose role is to protect and grow their endowments and to make grants. Instead, they seek to align their investment strategies more actively with their underlying social mission. They see engaging in program-related investments as accomplishing this objective in several ways.

One broad motivation is to use a larger portion of assets to directly support their philanthropic mission, beyond paying out the minimum required 5 percent of endowment in grants. Program-related investments offer an attractive mechanism by enabling a foundation to increase the dollar amount of resources made available for charitable causes without having to reduce the endowment dollar for dollar. As Sonenstein and Velasquez note, program-related investments allow a foundation to meet or exceed payout requirements while getting the money back (plus a modest return) so that it may be used again.

It should be noted that in purely financial terms, receipt of a program-related investment from a foundation (e.g. a below-market-interest-rate loan) by itself may not be of equivalent value to a grant for the affected charity. However, packaging financial support in the form of a program-related investment has the potential to draw in resources from other stakeholders, which may be more advantageous than simply receiving a traditional foundation grant. For example, a charity might have greater access to other sources of financing in private capital markets as result of receiving a below-market-interest-rate loan, or loan guarantee from a foundation, or a package of financing from a variety of stakeholders, including program-related investments from foundations.

Program-related investments may also be a potentially attractive source of financing for for-profit ventures where a significant component of the overall economic return may include social benefits not readily captured in the marketplace (Emerson, Freundlich and Fruchterman 2007). For example, development of technologies to produce and use alternative, nonpolluting sources of energy has the potential to provide significant economic benefits to the overall economy, but many of these benefits may be in the form of public goods that the private market may not value. Traditional sources of private financing will not take such social benefits into account, but a foundation may consider making a program-related investment in such a venture because the social benefits would contribute to the double bottom line.

An important issue for foundations supporting the activities of nonprofits with program-related investments is how to measure and evaluate the effectiveness of the double-bottom-line venture. When the program-related investment invests in an activity valued in the marketplace, a portion of the double bottom can be measured and assessed with standard business metrics such as revenue, profit, and rate of return. In many cases, the financial portion of the double-bottom-line venture may show little or no net return because the program-related investment's activity typically produces a hard-to-measure nonfinancial return (goods or services that may be of social value but that are not bought and sold in the marketplace).

Annie E. Casey and other foundations, have invested resources in trying to develop metrics for documenting social outcomes of program-related investments. But there are considerable practical obstacles to translating such outcomes into measures of social return.

Internal Organizational Change

Another way in which organizations can redefine their boundaries is by changing how they operate while retaining all of the organizational characteristics of a traditional nonprofit entity.

Twombly examines potential effects of the changing character of nonprofit organizations on the labor market for nonprofit staff (Twombly 2008). In the parlance of

economists, pressures for nonprofits to operate in more businesslike ways are likely to shift labor supply upward (e.g., cause potential employees of nonprofits to expect higher wages).

An important driver of change in nonprofit labor markets is the increasing professionalization of nonprofit staff. Organizations are paying more attention to managers' professional skills. Increasing numbers of universities offer degrees and courses emphasizing skills for the nonprofit sector, and professional degrees with business and management training have become more commonplace in many nonprofit organizations. Many, though not all, of the managerial skills taught in these nonprofit management programs overlap with those taught in business management courses. In addition, the changing culture of nonprofit management places a higher premium on the ability of nonprofit management and staff to think and act in more managerial and entrepreneurial terms.

A consequence of nonprofits becoming more businesslike is that prospective employees of nonprofit organizations may become less likely to accept lower compensation in exchange for the altruistic benefits of working for a nonprofit. As noted earlier, the skills needed to work in nonprofits also can be put to use in the for-profit sector. At the same time as donors and foundations are requiring nonprofits to operate in an ever-more cost-effective manner, nonprofits' ability to meet increased demands for higher overall levels of compensation may be challenged.

Because of both the increased demands of public (or quasi-public) institutions for greater accountability and the increased openness of nonprofit staff to systematic approaches to deploying scarce resources, nonprofits are increasingly measuring and evaluating performance. Lampkin and Hatry examine how nonprofits assess the effectiveness of what they do and how they set operating priorities, efforts which nonprofit donors and clients are apt to perceive as making nonprofits more businesslike (Lampkin and Hatry).

Economists argue that competition in a variety of markets – most notably the markets for goods and capital – will generally force businesses to adopt strategies and processes that produce the greatest value at the lowest possible cost. Thus, we might say

that nonprofits act more like their for-profit counterparts when they strive to produce the greatest value at the lowest cost (though social value would be defined more broadly than just what is valued in the private marketplace).

One important difference between nonprofits and for-profits is that market competition generally provides individual for-profit enterprises with the incentive to produce maximum value for minimum cost. Shareholders demand that share prices perform well, and there are incentives and mechanisms for mergers and acquisitions of noncompetitive organizations.

Nonprofits also have to compete for resources, but the actors and the venues for competition are different (e.g. stakeholders vs. stockholders, donors and individual contributors vs. financial institutions). As a result, competition among nonprofits need not create organizational incentives for nonprofits to strive to maximize value while minimizing costs. Nonprofits have the incentive to act in ways that approximate this operating goal depends on whether (1) key stakeholders of nonprofits – individual donors, foundations, the government, and private donors – believe it is useful to behave in this manner; (2) nonprofit managers and staff also believe this to be the case; and (3) it is possible to establish benchmarks for assessing performance on these goals.

Pressures for more systematic evaluation of performance are coming from a variety of sources including government (which at the federal level has launched its own ambitious effort at more systematic outcome assessment), private foundations, and organizations such as the United Way. In a 1997 survey cited by Lampkin and Hatry of over 600 nonprofits, almost half of the organizations reported that they regularly collected data on how their programs have affected clients. There was, however, a clear divide between small and large organizations in that less than one-third of small organizations reported keeping such data compared with four out of five larger organizations. Moreover, the authors note that the 1997 survey has not been updated, and so there is no way of knowing whether there has been an increase in the proportion of nonprofits that make some systematic effort to measure what they are doing.

There is also relatively little evidence on the usefulness of outcome measurement. On the positive side, a survey of almost 400 health and human service managers

conducted in 2000 indicated that more than four out of five respondents felt that engaging in more systematic outcome measurement and assessment provided benefits such as clarifying program purpose and improving service delivery. At the same time, many nonprofit organizations have decried the investment of dollars and staff time on outcome assessment.

Profit-making enterprises are able to use a bottom-line measure of profits, and until recently it was widely believed that there is no equivalent measure for the nonprofit sector. Recently, however, under the broad rubrics of "social impact analysis" and double bottom-line investing, there has been a recognition of some similarities: obtaining the maximum *social* return on investment may reflect the goals of a nonprofit, and that return can be related, at least in part through a form of cost-benefit analysis, to the returns that a profit-making enterprise would derive.

A major constraint on the application of more systematic approaches to outcome measurement and assessment appears to be whether it is feasible to expect a typical nonprofit to have the resources necessary both to measure what they do and to integrate this knowledge into their operations. In this regard, Lampkin and Hatry conclude with a plea that "the best not become the enemy of the good." Even when it is not possible to devise and maintain the perfect indicator of performance, it often will be possible to develop reasonable, if imperfect indicators of performance that can be consistently applied both to measuring and assessing performance over time.

Concluding Thoughts

A recent meeting at the Aspen Institute's Nonprofit Sector Research Fund took up the question of whether a "fourth sector" may be emerging, comprising hybrid entities that incorporate features of traditional nonprofits and for-profits that may require creating new legal forms of organization. Although there was a range of views about whether the current legal structure offers sufficient flexibility to accommodate changing needs, or whether new forms are indeed needed, there was a consensus that separating the efforts of organizations or individuals into the neat categories of business and charity was becoming more difficult. As a consequence, organizations may adopt one form but take on multiple

tasks. For instance, in some cases a group of individuals may simply organize as a not-for-profit corporation that doesn't seek charitable status; in others, social entrepreneurs will try to run charitable and profit-making organizations separately, and in still others (e.g., in the recently highly-publicized case of Google), an entity may be created that will earn profits and pay taxes like any other business but will be otherwise focused on charitable works. Indeed, it has even been suggested that the traditional link between imposition of the nondistribution constraint and the ability to accept tax-deductible contributions be replaced instead by contractual arrangements that would allow for-profit businesses to receive tax-deductible contributions in exchange for undertaking contractually specified charitable activities (Malani and Posner 2006).

In effect, in the broad area of what might be termed social enterprise, there is a continuum ranging from pure nonprofits at one end to socially-motivated for-profit businesses at the other. What is novel is not the existence of nonprofits with important business features per se. Such entities have long occupied selected niches of the nonprofit community. But the expansion of economic activities that can be defined as charitable, as well as the adoption of more business-oriented approaches throughout the nonprofit sector, create new opportunities along with new tensions and is likely to increase the number of firms and individuals who engage in both sectors, some at the same time.

Although the expansion and acceptance of more business-like models has meant that nonprofits have become more actively engaged with the marketplace as an important overall part of their strategy, an increasing number of for-profit businesses have also determined both that their human and financial assets are ripe for engagement in traditional nonprofit activities and, further, that attention to social concerns can be good for their bottom line. The changing economy and the increasingly wide range of goods and services that either sector can effectively produce has led to new formal and informal arrangements that draw upon the distinctive advantages of the traditional nonprofit and for-profit forms of organization.

The laws determining nonprofit status have proved to be quite flexible and permeable in accommodating the desire to create such arrangements. But there is tension. Policymakers charged with regulating the activity of nonprofit organizations must also be

on guard to ensure: that charitable donations do end up going for charitable purposes; that tax-exempt status granted for public purpose does not simply lead to private enrichment; and that nonprofits be held accountable, just like profit-making institutions, if they falsely advertise to the public.

Although the emergence of hybrid forms has occurred in response to real economic incentives, there are potential downsides for nonprofits. Hybrid organizational forms are likely to be more complex and harder to govern than more traditional organizational forms. This has implications for the ability of both nonprofits and for-profits to fulfill their traditional missions. In the case of nonprofits, embracing more business-oriented models can exact a cost in terms of staff time and energy that could be devoted instead to more traditional charitable activities. The concern that increased involvement in profit-making ventures will crowd out organizational commitment to its primary charitable mission remains. As with the American Diabetes Association sponsorships discussed above, there is a risk of potential conflict with mission--not just crowding out.

Increased interest among foundations in supporting investments with a double-bottom-line creates new opportunities for leveraging financial resources in capital markets. However, the double-bottom-line model does not apply as readily to nonprofits engaged in charitable activities incapable of generating enough of a private market bottom line to make a double-bottom-line possible, leaving such organizations at a potential disadvantage. In the case of for-profits with a social mission, there appear to be genuine examples in which it is possible to do good while doing well, but there is also the potential that a social cause can serve as a simple marketing ploy.

These concerns about commercialization pose significant challenges for not only external but also internal regulation of the nonprofit sector. Burton Weisbrod, who has made significant contributions to understanding the commercial behavior of nonprofits, has recently expressed concern about growing commercialization of nonprofit activities and argues that policymakers should consider simultaneously increasing incentives for donations while limiting the ability of nonprofits to engage in commercial activities (Weisbrod 2004). Weisbrod notes, however:

> Mechanisms to encourage donations, by altering tax law, are readily available. Mechanisms to discourage commercial activity, however, are more challenging. Outright prohibition of any activity that generates "sales" would have vast and uncertain consequences, but the use of tax instruments to discourage all commercial activity – not merely unrelated business activity which is already subject to taxation – deserves exploration….But as these issues are examined, we should not forget that nonprofits require some kind of funding for their social missions; it would be counterproductive to constrain commercial revenue-producing activity without also relaxing constraints on donations. Reshaping the pattern of nonprofits revenue should not be a pretext for constricting this valuable economic sector.

As the A.D.A. example demonstrates, internal standards and norms can, to some extent, constrain behavior in ways that reduce the potential for individual nonprofits to lose sight of their primary mission as they pursue profit-making ventures. As Evelyn Brody emphasizes, ultimately, it is likely to be the combination of legal rules and internal norms that will define the effective limits to the pursuit of profit.

Although the pitfalls are real, the reality is that changes in the external environment, as well as changes in the internal culture of how nonprofits operate, will inevitably continue to test the traditional boundaries between the sectors. The task for policymakers and nonprofit practitioners alike is to learn when there are real rather than simply apparent benefits to integrating more businesslike features into their charitable activity's operation and to identify best practices for doing so.

APPENDIX: EXAMPLES OF NONPROFIT/FOR-PROFIT HYBRID BUSINESS MODELS

Joseph J. Cordes, C. Eugene Steuerle, and Zina Poletz

Traditional Job Training Model

Job training programs for less-employable populations are among the oldest and most common types of social entrepreneurship organization. These nonprofit organizations set up and run for-profit businesses to provide the populations they serve with the opportunity to learn and practice marketable skills in a real-world setting. Revenues from the businesses are plowed back into the nonprofits, which generally also offer support services such as counseling, substance abuse treatment and education to the clients/employees.

An example of a job-training nonprofit is the Delancey Street Foundation, a round-the-clock, long-term residential and work facility to rehabilitate former drug addicts and alcoholics. Founder Mimi Silbert began the organization in 1972 with the philosophy that antisocial behavior can only be changed in a mutually supportive, rigidly structured, totally self-sufficient environment in which individual responsibility is the paramount value.

While living in a "family" environment, clients are required to learn three marketable skills, earn a general equivalency diploma, and help other residents master life skills. Delancey Street's for-profit businesses are training schools for the clients to learn job skills. Clients work in several of the following businesses: moving company, restaurant and catering service, print and copy shop, Christmas tree sales and decorating, automotive service center, and retail or wholesales sales. Each company is managed as a subprogram of the organization's overall rehabilitation program. In 2000, revenues from the businesses comprise 23 percent of total revenues. The organization records an additional 23 percent of revenue as the wages that workers would otherwise be paid; in the program, clients receive food, clothing, and shelter, but no wages. The remaining revenue comes from private contributions, government contributions and interest.

Pioneer Human Services takes a slightly different approach. It was founded in 1962 by a disbarred lawyer upon his release from prison. It helps high-risk populations

build a work history and realize personal, economic, and social development. Instead of an all-encompassing "family business," Pioneer reflects its white-collar roots with long-term corporate partnerships (especially Boeing and Starbucks), zero tolerance for drugs or alcohol, pay-for-performance compensation policies, and product quality. Pioneer's motto is "Chance for Change," and to offer its clients the best chance, the organization provides various support services such as substance abuse treatment, prison work release, youth and family counseling, and housing. Programs include support services and "enterprises," the organization's businesses, in manufacturing, laser and water-jet cutting, aerospace machining, silk screening, food buying, subassembly, institutional catering, construction, and property management. Pioneer also owns and operates a café and deli at the Starbucks headquarters and the St. Regis Hotel in Seattle.

Pioneer receives 62 percent of its total revenues from sales of products and services, with another 29 percent coming from government contracts, such as prison work release. Less than 0.5 percent of total revenues are from contributions.

A third variant of the job training program appears at Juma Ventures, a much newer organization, founded in 1993 in San Francisco to provide jobs and services for young people. Juma's businesses are Ben & Jerry's franchises – several stores in San Francisco, a Ben & Jerry's ice cream cart, and concessions at two sports arenas. The Ben & Jerry's businesses are program expenses of Juma Ventures. Juma also supplements the jobs with optional education programs, including financial management training, resume writing, college tours, and two collaborations with corporations. Collaboration with Citibank provides bank accounts and financial literacy for high school students and a program with Merrill Lynch provides financial mentorship.

Juma Ventures' sales revenues are only 18.5 percent of total revenues, and contributions make up 68.8 percent of total revenues. The organization puts less emphasis on jobs and spends more on the additional programs, in part because it is competing with every other business that provides food service jobs for youths; the optional educational programs differentiate Juma jobs from just any job.

Relation of Mission and Income Producing Activities

The many job-training programs in existence today speak to the underlying logic of organizing a nonprofit around business activities, as opposed or in addition to receiving government grants or private contributions to teach classes in job skills to these populations. The programs emphasize the duality of the client worker's role, which is especially manifest in Delancey Street's motto, "each one teaches one." Pioneer and Minnesota Diversified Industries (a similarly organized manufacturing and packaging plant for disabled and disadvantaged workers) both stress leadership training among their client workers, try to foster a sense of teamwork, and emphasize the quality of the products they create. Minnesota Diversified Industries boasts of its three plants' 99 percent efficiency rates and is ISO 9000 and 9001 certified. Clearly, an implicit part of the training that takes place generated from the fact that the clients work in actual businesses with customers who have real expectations of quality. The assumption is that this situation provides clients with a more meaningful experience than training alone, or a "workfare" program that requires some welfare recipients to work. These organizations' literature cites the attitude changes and self-esteem of clients as a function of their having a "real job."

Organizational Structure

The job-training programs described above have created affiliates or subsidiaries to increase the amount of mission-related work they can accomplish. Delancey Street's is the simplest. It has two small affiliates in different geographic regions, one in New Mexico and one in North Carolina. These affiliates offer the exact same program and are set up the same way. The only difference is that they are able to reduce the cost of administration through centralization; each affiliate pays the main office an annual management fee for accounting and other administrative services.

Minnesota Diversified Industries follows a different model. Three related 501(c)(3) organizations each perform a specific function. Minnesota Diversified Industries is the administrative arm of the organization and provides all maintenance of equipment and facilities. MDI Commercial Services is a sheltered workshop for socially disadvantaged

individuals that manufactures products and sells them to MDI Government, which employs 600-800 handicapped individuals who produce the products sold to the government.

Juma Ventures attempted to leverage the number of jobs it can provide youths by launching the Enterprise Center, a business incubator for socially responsible businesses. The idea was to help for-profit entrepreneurs get started in exchange for good jobs for youth down the road. Because operating franchises is a time-consuming process that requires a lot of for-profit management skills, Juma's management decided to expand its reach in this way. Two businesses have emerged from the Enterprise Center so far. One, Big Help, was an outsource provider of technical support. In addition to providing office space and utilities, Juma Ventures was also a first-round investor in Big Help. A second business was the Evergreen Lodge in Yosemite National Park. At-risk youth were recruited to stay and work in hospitality, recreation, or construction for a season. Juma discovered that giving up control over an enterprise also meant relinquishing control over risk. Big Help has already closed its doors. Evergreen Lodge is profitable, however, and continues to hire youth through Juma.

Pioneer Human Services also decided to leverage the number of jobs it could offer by investing in other businesses. It created a for-profit investment fund, Pioneer Social Ventures, LLC, in 1999 to allow Pioneer access to private equity from investors interested in supporting the goals of community reinvestment while receiving a reasonable rate of return. Pioneer committed $1.5 million, or 35 percent, to the $4.4 million fund; other investors include banks, development corporations, and foundations. In return for the investment, Pioneer Social Ventures was to acquire businesses in which Pioneer Human Services would train and employ its clients. Pioneer Human Services would be the managing partner of this fund.

Nonprofit Ventures and Social Entrepreneurship

Some nonprofit ventures earn money while achieving their mission, which provides them with more revenue to make further progress on their mission.

Benetech was deliberately formed as a nonprofit venture under the social entrepreneurship model, on the proceeds of the sale of a previous nonprofit venture called Arkenstone. Arkenstone was a 501(c)(3) nonprofit and the world's leading maker for 10 years of reading machines for the blind. During this period, more than 99 percent of the organization's budget came from sales of its products – at a fair price – directly to blind people or to groups serving the visually impaired. Proceeds from Arkenstone's sale to a for-profit company were used to create a new organization, one that would expand on Arkenstone's mission beyond the disability field, to apply technology toward the solution of various social problems.

Benetech's business model was to be an incubator, providing project ideas with seed capital for market and technical feasibility studies, and the necessary infrastructure to bring the products to market. Benetech planned to replicate its success with Arkenstone by developing new technologies, building a market for them, and then selling the technologies to for-profit companies that can build and disseminate them efficiently and affordably. Often research costs for technologies that serve a limited market prohibit private companies from getting involved in the development stage of a socially valuable product. Instead of grant proposals, Benetech's leaders approached large donors with business plans with detailed budgets and quantifiable benchmarks. All of Benetech's projects emphasized a strong social, rather than financial, return on investment; however, they were meant to eventually reach a level of financial self-sustainability.

Some Benetech projects in development have included a subscription-based, online talking library, software for documenting and disseminating information on human rights abuses, a wireless handheld device that allows the visually impaired to use ATMs and vending machines, landmine detection technology, literacy tools for children with autism and Down Syndrome, open-source desktop applications for people in developing countries too poor to buy software, and other innovative technological solutions.

The Green Institute, a neighborhood-based, entrepreneurial group focusing on greening projects, has also used technology in pursuit of its mission. Projects have included pollution prevention and sustainable transportation in the inner city

neighborhood where The Green Institute was founded in 1993 by local activists in response to the proposed construction of a solid waste transfer station.

The Green Institute's programs have provided a model for sustainable development activities nationwide. Its programs have included the following:

- Phillips Eco-Enterprise Center. A green commercial-industrial building located on the site originally intended for a garbage transfer station. The facility has health, energy and material efficiency features, including 100 percent storm water retention and salvaged and recycled construction materials. Among the Center's objectives has been to provide high-quality jobs for neighborhood residents.
- Green Resource Center. Housed in the Phillips building, the Green Resource Center has provided materials and design tools on green technologies and related practices in residential and commercial building.
- Re-Use Center. A 26,000-square-foot retail store selling salvaged building and construction materials so that hundreds of thousands of tons of reusable construction materials could be kept out of landfills.
- Deconstruction Services. Neighborhood workers dismantle buildings by hand to salvage materials. Deconstructed materials are then sold on site and at the Re-Use Center.

Relation of Mission and Revenue Producing Activities

The two above-mentioned organizations are truly nonprofit businesses with a double bottom line. In both cases, the organizations provide socially valuable products and services at a market price; and achieving some measure of a financial return is a prerequisite for a continued social return. Benetech's business model relied almost exclusively on product sales, whereas The Green Institute received half its revenues from public support (mainly construction materials donated from dismantled buildings) and half from earned income. In each case, these organizations charged users for the cost of providing these services to remain viable. *However, these socially beneficial organizational models may not generate enough income to make sense as for-profit businesses.* Thus, the social and financial aspects of these two organizations support each other.

Organizational Structure

Benetech is the umbrella name for three organizations. Beneficent Inc. and Beneficent Technologies are 501(c)(3) public charities. There is also a wholly owned for-profit subsidiary, an engineering firm called Bengineering. The Green Institute consists of one 501(c) (3) public charity.

The two organizations have different missions but many underlying similarities. Both are involved in the dissemination of technology. Both sell products and services that have legitimate monetary value to their users, who also have the means to pay for them. In both cases, the user's consumption of the product or service produced a socially desirable, mission-related outcome. Neither organization would have been likely to survive on contributions alone because of the nature of its mission. Their accomplishments are unlikely to tug at the heartstrings of most contributors. In the case of The Green Institute, there is a natural constituency of potential donors – neighborhood residents, who also happen to be the natural customer base for the Re-Use Center and Deconstruction Services. Benetech has not even accepted donations of less than $25,000 because it doesn't want the administrative burden of processing them. Most of its financial contributions will come from technology companies. Benetech does solicit contributions of time and expertise from technical specialists, entrepreneurs, and inventors.

Nonprofit Conglomerate

Other organizations are best described as nonprofit conglomerates. For example, New Community Corporation (NCC), a large community development corporation, claims to have held assets valued at more than $500 million and served 50,000 people in Newark's Central Ward every day. New Community offered a comprehensive array of services to its target population, including 3,000 housing units, commercial and residential real estate development, a homeless shelter, domestic violence shelter, charter schools and parochial schools, a credit union, nursing home, medical centers, counseling.

New Community also owned and managed a number of for-profit businesses in the Central Ward, including Priory Restaurant; a Pathmark supermarket; Dunkin' Donuts;

NCC Neighborhood Shopping Center; The World of Foods food court, which housed Pizza Hut, Nathan's, Taco Bell and NCC's Southern Kitchen; and the NCC Print & Copy Shop and Fashion Institute, which produces garments, upholstery, and uniforms. Not only did these businesses provide revenue for NCC's community based programs, but they also benefited Central Ward residents by bringing valuable services and jobs into a depressed inner city area. For example, the Pathmark supermarket returned 67 percent of its profits to NCC programs.

Another example examined here is Housing Works, which has provided housing, health care, advocacy, and social services to homeless New Yorkers living with HIV and AIDS. Its services include three clinics, four housing development funds, a thrift shop operation, and food services. Its Social Development Ventures Program housed all of the earned income strategies that Housing Works used. The ventures also provided the organization's clients with employment opportunities. Housing Works ran three thrift shops, a used book café, an institutional food service and catering business, and Gotham Assets property development and management company. In 2000, Housing Works received 34.1 percent of total revenue from earned income; its main source of revenue was Medicaid (47.8 percent).

Yet another example is the Manchester-Bidwell Corporation. Founder Bill Strickland was one of the first people in the country to identify himself as a social entrepreneur. In 1996, he received a genius grant from the MacArthur Foundation for his innovation. In 2001, Manchester-Bidwell ran two schools in Pittsburgh. Bidwell Training Center provided adult vocational training, and Manchester Craftsman's Guild offered a multi-cultural arts program for at-risk high-school students, visual arts classes for adults and a jazz concert series. Manchester-Bidwell programs have been quite entrepreneurial, with multiple sources of earned income. In 2001, MBC's ventures included cafeteria sales, program fees, jazz concert ticket sales, a jazz festival and CD sales from its own record label, and fees from classes and catering. Additionally, a subsidiary of MBC owned and managed an office building. In 2001, the corporation received 28.3 percent of total revenue from earned income. Its main source of revenue (63.5 percent) was from government grants.

Organizational Structure

Although the missions and activities of these three organizations are different, their underlying operating structures reveal many similarities. All three had relatively large holdings in real estate. All engaged in intercompany payables and receivables with numerous affiliates and subsidiaries, both for-profit and nonprofit. The organizations within the conglomerate shared board members. In each case, a parent organization provided administrative services to the subsidiaries, which performed separate program and management functions. The organizations actively tweaked their structures in response to changing conditions, adding new subsidiaries and shutting down ones that were no longer necessary.

In the case of New Community Corporation, NCC was the parent corporation, providing administrative services and coordinating the activities of 14 tax exempt (nonprofit) affiliates and 33 nonexempt affiliates, all with interlocking ownership structures. Within this organizational structure, the nonprofits maintained partial or total ownership of the for-profit subsidiaries, invested in outside partnerships, and showed millions of dollars in intercompany receivables and payables on their balance sheets. Internally, New Community was organized into 13 programmatic and administrative departments. The subsidiaries and affiliates report to the parent company along functional lines.

Housing Works was organized along the same lines as New Community, but on a smaller scale. The parent company provided management services to 11 nonprofit subsidiaries, organized by borough and programmatic function. In 2002, Housing Works started its first potential for-profit venture, an AIDS advocacy consulting firm. It was still considered an operating program of Housing Works, but there were plans to spin it off as a separate, but affiliated, entity.

Manchester-Bidwell Corporation was made up of a dynamic mix of nonprofit affiliates and for-profit subsidiaries.

- Bidwell Training Center and Manchester Craftsmen's Guild were the two affiliates that provided program services.

- Manchester Bidwell Corporation provided Bidwell and Manchester with administrative services.
- Manchester-Bidwell Development Trust was organized to establish an endowment to sustain the programs of Bidwell and Manchester.
- Bidwell Industrial Development Corporation was merged into Manchester-Bidwell Corporation in 2001; its original function was to provide technical assistance to minority-owned enterprises in economically disadvantaged areas.
- Bidwell Food Services was a for-profit catering company that was liquidated in 2001.
- Harbor Gardens Park was a for-profit subsidiary of Bidwell Training Center, which owned and managed and office building.
- Denali Institute was founded in 2002 to develop the next generation of social entrepreneurs. Courses of study included a one-year Executive Education program and a three-year Fellowship.

Relation of Mission and Revenue Producing Activities

Each of these three entities engaged in a wide range of loosely related social services and for-profit ventures in pursuit of its mission. In the case of New Community, the for-profit ventures furthered the mission of community development by providing needed services and jobs in the neighborhood. Possibly, without NCC's involvement, business and franchise owners would not choose to locate in the Central Ward. On the other hand, Housing Works uses its ventures primarily to increase its revenue stream, although the jobs created for HIV-positive adults also contributed to its mission. Finally, Manchester-Bidwell's entrepreneurial organizational culture reflects the thinking and optimism of its founder and the belief in unlimited opportunity that he sought to impart to his students.

There are other reasons, not necessarily related to mission, for an entity to organize itself into a conglomerate. It is a very fluid organizational structure, allowing resources to flow between affiliates. Creating separate affiliated entities gives an organization leeway to engage in activities that may be only peripherally related to its stated mission or to

experiment with new program areas. Also, creating a for-profit subsidiary ensures that the organization will not lose tax-exempt status in case of substantial unrelated business income. At the same time, because the administration function remains fairly centralized, the loose program structure remains cost-effective.

Image management is a reason for a high-profit entity to construct a network of for-profit subsidiaries and obscurely named nonprofit affiliates. In the case of Manchester-Bidwell Corporation, the administrative costs displayed on the Forms 990 of Manchester Craftsmen's Guild and Bidwell Training School appeared as a very low percentage of total expenses (16.9 percent and 13.3 percent, respectively, in 2000.) In fact, the separate organization Manchester-Bidwell Corporation existed to provide administrative services and another organization was set up to raise money for the endowment, effectively transferring fundraising expenses for the organization as a whole into support program expenses.

High executive salaries can be divided among several organizations in order to make them seem more palatable. For example, Bill Strickland's salary was divided among three affiliates, with the bulk allocated to the low-profile Manchester-Bidwell Corporation. In the case of an entity with for-profit subsidiaries, executive salaries need not be reported on the returns of the affiliated nonprofits. None of 501(c)(3) affiliates of New Community Corporation with Forms 990 available at GuideStar.org listed *any* executive salaries. Another well-publicized example of transferring executive compensation to wholly owned, for-profit subsidiaries took place in 1995 when a state legislator called on the Minnesota Attorney General to investigate the salary of Minnesota Public Radio's president, Bill Kling. For a time, Kling refused to disclose the salary he was receiving from that organization's for-profit affiliate.

Corporate Quid Pro Quo

The financial statements of a quid pro quo organization look identical to those of a traditional charity. A high percentage of revenue is reported as contributions, with little or no revenue from program services or sales. The similarity disappears, however, when one examines the activities used to generate those contributions. Quid pro quo

organizations generate the majority of their revenue from cause-related marketing. In return for corporate contributions, these charities offer businesses marketing opportunities. It is a win-win situation; the charity is able to finance its mission-related activities with a relatively low investment of time and money spent on fundraising, while the corporation reaps the benefits of having its name linked to a worthy cause, creating a public perception of its civic-mindedness and a boost to employee morale.

First Book is a small organization with a big impact. In 2001, with a staff of only 14, First Book distributed 7 million new books to hundreds of thousands of low-income children nationwide by developing local advisory boards in each of the 700 participating communities to identify local literacy programs, distribute books, and hold special events. The organization also raised $34.7 million dollars toward its mission while spending just over 1 percent of that amount on administration and fundraising through sponsorship and marketing agreements with corporations, nonprofits and government entities.

First Book worked closely with its partners to create memorable cause-based marketing campaigns that "drive traffic, increase sales, and build brand awareness for [the]…partners.[1]" Often, the campaigns involve the participation of several partners. For example, Universal Studios partnered with First Book for the release of its movie *How the Grinch Stole Christmas*. One of the keys to First Book's success has been the close relationships it has developed with five major children's book publishers; their presidents serve on its board of directors, and the companies provide discounts on books, free shipping and other goods for First Book recipient groups.

Whereas First Book has dozens of national and local partnerships, City Year has relied on a handful of major sponsors to support its work. City Year calls itself an action tank for national service, promoting the concept of national service by maintaining a year-long youth service corps in 13 cities nationwide; through large-scale community events; and hosting an annual convention and policy forum on the power of national service.

City Year's largest source of revenue in 2001 was the federal government's Corporation for National Service, which provided 33 percent of total revenue through the AmeriCorps Program. Corporate contributions provided an additional 29.6 percent of

[1] First Book Annual Report 2000-2001

total revenue. Four corporate sponsors each contributed at least $1 million in cash or in-kind contributions. For instance, the Timberland Company's support of City Year's programs included cash and in-kind donations and volunteering from the very highest levels on down. Timberland's CEO served as City Year's board chair. Timberland's global headquarters housed the offices of City Year New Hampshire, and the company outfitted all corps members nationwide with uniforms, boots and gear in addition to sponsoring various national service events and supporting City Year's international efforts in South Africa.

Timberland has received national recognition for its socially responsible corporate citizen, which is a reputation that works to enhance its brand of outdoor gear. Another valuable benefit of its investment in the work of City Year has been high employee morale. Timberland has made clear that its culture includes a commitment to service and social justice. That commitment translates into employee involvement with City Year programs. All employees receive 40 hours of paid leave each year for community service. Timberland's CEO, Jeffrey Swartz, has emphasized that his company's service culture provides a differentiating advantage, and improves the bottom line.

Organizational Structure

City Year and First Book were highly leveraged organizations that were very efficient at accomplishing mission-related work with a minimum of infrastructure and staff. They accomplished this by providing corporate sponsors with the opportunity to visibly associate with their popular, uplifting causes in exchange for resources. The volunteer time, expertise, products and services that they received furthered the mission. Although quid pro quo social entrepreneurs may look like the typical charitable nonprofit in their financial statements and in their simple organizational structure, they are markedly different in their staff composition. Instead of a large program staff with a small administrative department, these organizations' employees work primarily in marketing and outreach. For example, First Book's staff of 14 included 6 positions in community development, two in corporate strategy, a senior vice president of national outreach and a manager of national partnership initiatives. City Year had a larger program staff because it

managed a far-flung operation of volunteer corps, but its staff also included such positions as director of national corporate partnerships.

Relation of Mission and Revenue Producing Activities

Good corporate citizenship is a valuable differentiating factor for companies struggling to define and project their company's brand in a sophisticated, highly competitive marketplace. Brand is useful for attracting and retaining talented employees and loyal customers. During the economic boom of the late 1990s, companies realized that it was important to offer workers not only pay and benefits but also a positive feeling about their work. Companies that engaged in cause-related marketing were able to provide employees with opportunities to make a difference and volunteer for the company's chosen cause, thereby building morale.

Corporate quid pro quo social entrepreneurs have capitalized on the benefits that for-profits can gain by sponsoring nonprofit activities, thereby providing companies with the chance to be perceived as good corporate citizens. It is a classic example of gains from trade – each party benefits from the exchange, as do company employees and the beneficiaries of the mission-related work. These nonprofits act almost as administrative headquarters, delegating program operations to volunteers, while they focus on providing value to the sponsors in the form of marketing opportunities and publicity.

Also, the devolution of government services and the evolution from an industrial to an information economy – offer new opportunities and incentives for existing organizations to explore new modes of operating; new relationships between for-profit and not-for-profit organizations; and new organizational forms. Examples of such adaptations include nonprofits' creation of for-profit affiliates and subsidiaries that incorporate profit-seeking as an integral rather than ancillary part of operations, as well as new institutional arrangements in the form of "double bottom-line" social ventures, in which a nonprofit entity is organized to create economic value both through a traditional commercial bottom line, defined in terms of market revenue and cost, and a social bottom line that identifies and values mission-related outputs that have clear social value not explicitly captured in the marketplace.

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