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NOT LIVING UP TO THEIR BILLING: A POPULATION SURVEY OF SOCIAL PURPOSE BUSINESSES IN ONTARIO, CANADA

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ABSTRACT

This paper reports results from the first population survey of social purpose businesses ("SPBs") ever undertaken. In Ontario, Canada, Based on a survey of 82 organizations which fit the operational definition of our research, we found a relatively small number of "typical" or definitional SPBs and a larger number of variant types. Within the core SPB population, we found relatively small organizations with relatively low financial and organizational stability, and a surprisingly high reliance on and competitive locus towards, governmental grant funding. Overall, in this survey SPBs do not fit stereotypes as innovating, revenue generating new wave problem solvers, and do not profile as significantly distinct from smaller community-based nonprofit human service organizations.

INTRODUCTION

Social purpose businesses are one important form of social enterprise (Dees, 1998). They are an organizational form of wide interest in both entrepreneurial and nonprofit sector research fields (Seelos & Mair, 2004; Sadownik, 2007). Even so, they remain under-documented. Their status for both researchers and thoughtful practitioners is nearly myth-like as they are often described through anecdotes or short cases, or through hopeful description of what they could or should be. These laudatory terms suggest this form of organization is an important and emerging breakthrough innovation in civil society.

The empirical findings documented in this study challenge this characterization, showing that this organizational form is neither as important, nor as financially or socially successful as we might believe.

This research is based on the preliminary findings from the first population survey of social purpose businesses ever undertaken in a specific geographic area. The research describes a specific subpopulation of 'social purpose businesses' in Ontario, Canada. The particular organizations studied are types of social purpose businesses - first described by Emerson and Twersky (1996) as businesses which are founded (often by nonprofit human service parent organizations) with a "double bottom line" mandate of both producing economic returns as well as providing training and employment opportunities for some kind of socio-culturally marginalized groups (e.g., homeless, street youth, chronically unemployed).

What are the population characteristics of this type of social purpose business? How important is this type of organization, as a supposedly new, emerging and frame-breaking organizational form? How successful are social purpose businesses in financial and in "social purpose" terms? What are their population characteristics and major strategic issues? What are their organizational dynamics? This paper provides some of the first systematic engagement of these questions.

SOCIAL PURPOSE BUSINESSES IN MYTH AND FACT

While there are few extant population maps of social enterprise organizations (c.f. a comparison study from Canada – McBain and Thompson, 2008), there are already several important expectations regarding these organizations to be taken from the literature. Social enterprises in general, and social purpose businesses in particular are regarded as

- Any important development in the nonprofit/civil society sector, and an emerging and significant trend (Dart, 2004,);
- An innovative organizational form (Bornstein, 2004);
- Organizations which represent breakthroughs or at least positive developments in terms of both social problem solving as well as financial viability and self-sufficiency (Dees, Emerson and Economy, 2001, Leadbeater, 1996).

While some studies treat these organizations as if there were basically one organisational form (eg McBain and Thompson, 2008), they are more commonly understood as plural in form and existing within a "social enterprise spectrum" (Dees, 2000) which straddles the nonprofit/for-profit sectoral divide. There are several types of social enterprise: (1) social purpose businesses which can be non-profit, for-profit or a hybrid; (2) earned income businesses such as revenue-generating activities started by non-profits or "for-benefit" businesses that are created to generate profits for non-profits; and (3) business partnerships between for-profits and non-profits and/or governmental agencies (Dees, 1998, 2007). In social enterprise, values commonly associated with the for-profit sector (competition, entrepreneurship, and

importance of the bottom line) are believed to coexist with more traditional or typical non-profit sector values (responsiveness to users and communities, serving the public interest, and delivering a social good). While the new for-profit values are not intended to supplant traditional non-profit values, they do introduce a new set of organizational tensions.

METHOD

This paper reports on the preliminary results of a quantitative and qualitative survey administered to the full population (approximately 80) of social purpose businesses (of this specific type) identified in Ontario, Canada. These organizations were identified through existing lists, online searches and both academic and practitioner referrals and through ongoing "snowball sampling".

We surveyed these social purpose businesses using a 100-item questionnaire that was administered via the internet on SurveyMonkey.com. The particular survey instrument was adapted from one used in Ontario, Canada to map other populations of social economy organizations, which has produced reports on Ontario's nonprofit sector (Hall, 2008) and cooperative sector (Guy, 2008). (The results from all three studies are intended to provide a broad population profile of Ontario's social economy as part of a Canadian Social Science and Humanities Research Council initiative. Social purpose businesses were believed to be the "small sibling" population of Ontario's large social economy, which is led by nonprofit and cooperative organizations.) Results in this paper are descriptive statistics from the findings, as well as broader impressions derived from the more basic experience of data collection.

FINDINGS

Exhaustive search and research yielded a population sampling frame of only 82 possible organizations fitting our specific operational "social purpose business" characterization in all of Ontario. Our online survey yielded 22 respondents (ie a response rate of 27%), despite numerous telephone prompts and offers to assist with survey completion. Many organizations were quite small and had marginal resources and were simply incapable of committing the time required to complete our survey. Others did not consider their actual organizational profile to fit the need and focus of the research. (In other words, the actual population of viable social purpose businesses which employ clients or members of specific client groups in Ontario is well under 82 and may be as low as 40.)

These finding needs to be placed within their Ontario, Canada context. Ontario is Canada's second largest province, with a total land mass of approximately 1.1 million square kilometres (i.e. approximately twice the size of Spain), and a total population of approximately 12.1 million (Government of Ontario, 2008). It is Canada's wealthiest province and is built around the vibrant and multicultural region of southern Ontario, the centre of which is Toronto. In line with its population, Ontario has Canada's largest nonprofit sector (Hall et al, 2006) and its density of nonprofit organizations approximates the Canadian average. There is no reason to expect that Ontario might be atypical in terms of Canada's social economy. One major difference between the Canadian and American experience with the social economy has been Canada's acceptance of the role of government as a major funder and leader in terms of social economy, particularly in terms of service provision.

The paper profiles Ontario social purpose businesses in terms of

- Size (based on revenue and employment);
- Finance and financial capacity (e.g., funding stability and issues, funding sources – grants, earned income, donations);
- Organizational goals (e.g., the relative importance of financial, training and organizational stability to these organizations);
- Governance;
- Target groups (in terms of clients and also in terms of customers);
- Organizational dynamics (e.g., rates of growth and decline, major concerns or opportunities); and
- Strategic issues (e.g., patterns of focus or diversification, patterns of balance between financial and service provision goals, etc.).

Some of the most striking findings from this research are not specifically from the quantitative data, but more from the experience of gathering and interpreting the data. Even with strict criteria for participation in the survey, the quantitative findings remain a number of basically incompatible data sets because of the apples and oranges and pebbles and clouds involved.

Our most fundamental finding, then, is that "social purpose businesses" are not a clear organization type, despite interesting case studies (eg. Emerson and Twersky, 1996, Boschee, 2000) to the contrary. Thus, while the survey did not produce definitive results about a clear SPB organization type, they do provide an excellent "sense" of the broader "social purpose business field". The difficulties of collecting data in this field raise several interesting issues and highlight some important thematic findings:

- There is a complex and plural relationship between social purpose "businesses" and the "social purpose business field". This results in the empirical difficulty of characterizing "the" organization in a population study of this kind. Very few social purpose businesses are the small, stereotypical stand-alone entities for which the survey was intended (based on case studies characterizations in Emerson and Twersky, 1996 etc.) – many more are complex amalgams of organizations (or, more accurately, an organizational system) where the social purpose business is usually formally part of other entities such as a nonprofit "parent", a nonprofit supporting or facilitating organization, a field advocacy organization etc. Most SPBs are in fact program components of nonprofit human service organizations. The following table charts the most important organization types documented. It is important to note that the classic SPB (i.e. independent, earned revenue based) is actually the least common organizational form observed.

Social Purpose Business System Types

Type	Type Specimen	Description	Comments
"A la carte"	A Way Courier, Toronto	Simple social purpose business	Classic SPB, and not very common – generally an evolved version of next category
"Mothership and satellite"	Eva's Initiatives, Toronto	Nonprofit parent organization (in either CED or employment area) and mission-related business	Typically, the SPB is relatively small compared to the nonprofit human service organization
"Brood mother" ("Multiple satellites and mothership")	COIN, Peterborough	Nonprofit parent and a number of quasi-independent businesses	Nonprofit parent administers and directs numerous usually marginal SPB's
"Gardener"	PARO, Thunder Bay	Nonprofit parent supporting and facilitating a number of community-based businesses, also having one or more of their own	Community economic development and micro-credit models, businesses are primarily economic organizations

- Revenue sources for all of these organizations are complex and confusing from an outsider and population perspective. "Business" revenue can be considered funding from governmental sources for training, even though it is quite (structurally, strategically) distinct from "business" revenue through the stereotypical retail sale of goods and services. Furthermore, a number of organizations who employ people from various mission-focused service areas (i.e. at risk youth, psychiatric survivors) did not consider them "clientele" in the context of our survey, so our data was further muddled. Many organizations receive governmental support in the form of organizational grants, purchase-of-service contracts, subsidies for "client" employees and are even the major "customers" of the SPB commercial service!
- Much of the "community economic development" (McBain and Thompson, 2008) field does not fit within our survey population because our project is part of a larger one mapping the social economy in Canada – and the "nonprofit sector" project includes the CED organizations (which are generally nonprofit organizations in microfinance or microenterprise development which support and facilitate the development of businesses). The organizations and organizational systems – a "social purpose" nonprofit helping support and create for-profit businesses – do not fit in our survey criteria, even though they are a common Canadian social purpose organizational form related to business.

- From the data so far, it seems as if most SPB's are not organizations separate from the nonprofit parent (and therefore part of our survey) unless they are relatively big – our research is having difficulty including and capturing the smaller (and likely more common) organizations. Also, the resource constraints of smaller and more marginal organizations inhibits their ability to participate in the survey, which seems to be resulting in a sampling bias in our study.

ONTARIO SOCIAL PURPOSE BUSINESSES – SIZE AND BASIC DEMOGRAPHICS

The organizations surveyed have an enormous range in size. The average number (mean) of employees is 27, but the standard deviation of the sample is a daunting 38.9. This suggests the mid-figure is not a real central tendency, but simply a midpoint. The mode (perhaps a better model of central tendency, with a sample biased by a few large organizations) is 9 employees. Several organizations reported no full time employees, and a few (which were actually support organizations, or larger service organizations) had up to over 110. Generally, those which appeared to be either grassroots CED organizations or "classic" SPBs had fewer than 10 employees. Organization size tends to a function of organization type – larger organizations are those with an SPB as only a part (often a small part) of the overall organization.

Of these organizations, 82% characterized themselves as nonprofits, and only 12% as for-profit.

Virtually all characterized themselves as local/city/region serving. The most common clientele groups (noting that there is overlap) were at-risk youth, "economically disadvantaged", newcomers/immigrants, "mentally ill"/psychiatric survivors.

Because we are having a difficulty differentiating the SPB entity and its hosting or supporting context, we will not present organizational revenue profiles as of yet. The plurality of organization types in this field make revenue summaries misleading and ungrounded. We need to segment the population of "simple" SPB's from the larger "SPB" systems which include nonprofit parent organizations, training units, service delivery units etc.

Finance and financial capacity (e.g., funding stability and issues, funding sources – grants, earned income, donations)

Survey results presented below, while preliminary, highlight several important patterns in the data. Most particularly compelling, in terms of finance and financial capacity is that Social Purpose Businesses regard government as the most important and difficult source of funding, and regard competition with other organizations for government funding more of an "issue" than competition in the marketplaces with other "businesses" for commercial revenue.

This may be correlated with the finding that sales revenue from business activity accounts for only a small percentage of total organizational revenue. While are findings in this regard are only evocative because of the size of our sample, there was an interesting pattern found where nine organizations reported less than 25% (several near and including 0%) revenue from "business and sales activity" while six organizations reported nearly 100% revenue from "business and sales activity". Four of these six were quite small, and had an average total revenue of approximately \$30,000.

For your organization, is earning revenues through such things as the sale of goods and services:

	Response Percent
Not a problem	52.9%
A small problem	17.7%
A moderate problem	23.5%
A serious problem	5.9%

For your organization is obtaining funding from other organizations such as government, foundations or corporations:

	Response Percent
Not a problem	16.7%
A small problem	11.1%
A moderate problem	38.9%
A serious problem	22.2%

For your organization is competition with other organizations to obtain funding:

	Response Percent
Not a problem	11.1%
A small problem	16.7%
A moderate problem	33.3%
A serious problem	22.2%

For your organization is competition with other organizations to earn sales revenue:

	Response Percent
Not a problem	22.2%
A small problem	50.0%
A moderate problem	16.7%
A serious problem	5.6%

Organizational goals (e.g., the relative importance of financial, training and organizational stability to these organizations)

The findings presented below indicate a few important patterns in terms of organizational goals of Social Purpose Businesses:

- That, as predicted by the concept of the "double bottom line", training goals and sales (business revenue) goals are regarded as comparably popular;
- That training and sales goals were both seen as less important to SPB's in the past than at present, perhaps due to recent development and clarification of the field, or due to the increased focus governmentally sponsored training funding on specific outcomes of importance;
- That, as predicted by resource dependence theory, the goal of grant and funding procurement is framed even more highly than that of training or sales revenue;
- That less readily quantifiable or observable "life skills" training is given a lower priority than more specific labour market training;

For the following set of questions, "very important" is coded as a "1", "important" as a "2", down to "not at all important" as a "5".

How would you rate the importance of <u>sales goals</u> to your organization?	Rating Average	
At present		1.89
In the past		2.71
In the foreseeable future		1.72
How would you rate the importance to your organization of <u>job training goals</u> for clients?	Rating Average	
At present		1.89
In the past		2.18
In the foreseeable future		1.72
How would you rate the importance to your organization of <u>life skills training goals</u> of clients?	Rating Average	
At present		2.56
In the past		2.47
In the foreseeable future		2.28
How would you rate the importance to your organization of <u>employment of clients</u> ?	Rating Average	
At present		1.83
In the past		2
In the foreseeable future		1.78
How would you rate the importance to your organization of <u>getting funding and grants</u> ?	Rating Average	
At present		1.61
In the past		1.76
In the foreseeable future		1.78

Governance

The board of Social Purpose Businesses, at a basic quantitative level, seem to have a size which is comparable to many nonprofit human service organizations. Organizations without a board are either proto-organizational or privately owned for-profit.

Do you have a board? (check which best describes your situation)	
We have no board	27.8%
We have a board	55.6%
Our parent organization has a board which governs us	5.6%
Our parent organization has a board and we have an advisory board	11.1%

Average number of board members – 6.9 – with a range from 3 to 16.

Target groups (in terms of clients and also in terms of customers);

Social Purpose Business organizations, like nonprofit human service organizations, and like most simple small businesses, are overwhelmingly focused on localities rather than larger geographical or sociocultural catchments.

Which of the following best describes the geographic area that your organization primarily serves?

	Response Percent
A neighbourhood, small town, or rural municipality	5.9%
A city	52.9%
A region of the province	41.2%
A province	0.0%
More than one province or territory	0.0%
Canada	0.0%
International	0.0%
A building or a complex of buildings	0.0%

Organizational dynamics (e.g., rates of growth and decline, major concerns or opportunities)

Social Purpose Businesses overwhelming frame growth and development through internal expansion and diversification. More complex strategic and structural models of business growth (eg new locations, franchising) are comparatively uncommon. This model is, again, consonant with both nonprofit human service organizations and simple small business.

In the next five years, are there plans for expansion of your social purpose business? Select all which apply.

	Response Percent
No	5.6%
Growth of existing business	88.9%
Increase in the number of locations	16.7%
Increase in the number of business activities	50.0%
Franchising	5.6%

Strategic issues (e.g., patterns of focus or diversification, patterns of balance between financial and service provision goals, etc.)

Responses here fit clearly into a pattern consonant with typical smaller Canadian nonprofit human service organizations which are strongly reliant on governmental funding for operations. Here, this pattern is evinced by stronger concern expressed for governmental funding than commercial revenue, and by extremely strong concerns expressed regarding "contractitus" (ie the lack of core organizational funding) and the inability to achieve financial self-sufficiency (a frequent mantra in the social entrepreneurship movement) without more consistent governmental support.

For your organization, is earning revenues through such things as the sale of goods and services:

	Response Percent
Not a problem	52.9%
A small problem	17.7%
A moderate problem	23.5%
A serious problem	5.9%

For your organization is obtaining funding from other organizations such as government, foundations or corporations:

	Response Percent
Not a problem	16.7%
A small problem	11.1%
A moderate problem	38.9%
A serious problem	22.2%

For your organization is competition with other organizations to obtain funding:

	Response Percent
Not a problem	11.1%
A small problem	16.7%
A moderate problem	33.3%
A serious problem	22.2%

For your organization is competition with other organizations to earn sales revenue:

	Response Percent
Not a problem	22.2%
A small problem	50.0%
A moderate problem	16.7%
A serious problem	5.6%

For your organization is over-reliance on project funding and contracts:

	Response Percent
Not a problem	30.8%
A small problem	23.1%
A moderate problem	15.4%
A serious problem	30.8%

For your organization is unwillingness of funders to provide funding for core operations (e.g. long-term programs, administrative expenses, etc.):

	Response Percent
Not a problem	15.4%
A small problem	0.0%
A moderate problem	30.8%
A serious problem	53.9%

For your organization is achieving financial sustainability without government funding:

	Response Percent
Not a problem	0.0%
A small problem	23.5%
A moderate problem	17.7%
A serious problem	58.8%

For your organization are the reporting requirements of funders, investors, etc:

	Response Percent
Not a problem	23.5%
A small problem	41.2%
A moderate problem	5.9%
A serious problem	17.7%

For your organization are reductions in government funding:

	Response Percent
Not a problem	17.7%
A small problem	17.7%
A moderate problem	11.8%
A serious problem	41.2%

CONCLUSIONS

Overall, the population of SPB organizations in Ontario, Canada, look much more like pluralistic community-based nonprofit organizations than the specific organizational "type specimens" presented in New Social Entrepreneurs (Emerson and Twersky, 1996). The population "reality" of SPB's is far from rosy, and shows neither the entrepreneurial growth nor the independence from nonprofits and from government funding that have been portrayed in numerous influential case studies of this organizational type. The implications of these observations are several:

- That Ontario social purpose businesses are neither a presently importantly organizational type, nor a thriving and emerging organizational type;
- That Ontario SPB's are much less different from "traditional" nonprofit organizations than normatively-driven descriptions would have us believe;
- That the literature on social purpose businesses (portraying them as a dynamic, emerging and competitively compelling organizational type) has either been oversold, selective, boosterist, or misleading in their portrayal of these organizations ... unless the Ontario environment for SPB's is in some ways categorically less favourable than that of other jurisdictions.

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