

# **The Continuing Relevance of *If Not for Profit, for What?* in Today's World of Blurring Boundaries, Globalization and New Policy Changes**

by Marthe Nyssens

The concepts of social enterprise and social entrepreneurship are making amazing breakthroughs all over the world. Indeed, their use is now spreading in most regions of the world: after a first decade of literature development on both sides of the Atlantic, since the late 1990s, research communities are emerging in Eastern and Central Europe, in most countries of Eastern Asia (including China), in India, Australia, Israel and in several Latin American countries. Most of those who were using the notions of social entrepreneurship or social enterprise a dozen years ago today share the feeling that they would have been totally unable to foresee the overwhelming interest such concepts are now attracting.

More than ever, in this context, Dennis' book *If Not for Profit for What? A Behavioral Theory of the Nonprofit Sector Based on Entrepreneurship* appears as a pioneering work, well ahead of its time. Indeed, even though phrases such as social entrepreneurship or social enterprise are not used in the book, the central issue is to understand and to analyse the motivations and dynamics that support nonprofit entrepreneurship: "... this book is fundamentally concerned with the nonprofit sector, particular illustrations from that part of the economy are useful to provide a specific sense of the nature and variety of nonprofit entrepreneurship and to indicate that nonprofit entrepreneurship is indeed a real, significant, and widespread phenomenon" (Young, 1983: 26).

Probably because they are recent and try to cover a wide range of initiatives, current conceptions and theories of social enterprise/social entrepreneurship do not form an integrated body, but rather a cluster of theories, where different schools of thought can be identified (Defourny & Nyssens, 2010).

To classify the different conceptions, Dees and Anderson (2006) have proposed to distinguish two major schools of thought in the US. The first school of thought on social enterprise refers to the use of commercial activities by nonprofit organisations in support of their mission, a practice that could help them diversify their funding base in a context of increased competition for philanthropic and public resources (Kerlin, 2006). Within this school, we suggest a further distinction between an earlier generation focusing on nonprofits, which we call the "commercial nonprofit approach" on the one hand, and a broader and more recent generation embracing all forms of business initiatives, and which may be named the "mission-driven business approach" on the other hand. The latter approach also deals with social purpose ventures, encompassing all organisations that trade for a social purpose, including for-profit companies (Austin *et al.*, 2006). The second school, the "social innovation" school of thought, puts the emphasis on social entrepreneurs from a typical Schumpeterian perspective that considers economic development as a "process of carrying out new combinations" in the production process. Within this school of thought, Dees has

proposed the most widely referred to definition of social entrepreneurs. He sees the latter as “playing the role of change agents in the social sector by adopting a mission to create and sustain social value, recognizing and relentlessly pursuing new opportunities to serve that mission, engaging in a process of continuous innovation, adaptation and learning, acting boldly without being limited by resources currently in hand, and finally exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created” (Dees, 1998:4).

In Europe, the social enterprise debate took place in the mid-1990s, through the identification of new entrepreneurial dynamics at the very heart of the third sector, primarily arising in response to social needs that were inadequately met, or not met at all, by public services or for-profit enterprise. The background of the EMES<sup>1</sup> approach, embedded in this European context, was also the classic work of Schumpeter: his typology of innovation was reinterpreted to identify innovating dynamics in the third sector (Defourny, 2001). The EMES Network preferred from the outset the selection of various indicators based on an extensive dialogue among several disciplines (economics, sociology, political science and management) as well as among the various national traditions and sensitivities regarding social enterprise within the European Union. These indicators can be classified into three subsets: three concern the economic and entrepreneurial dimensions of initiatives, three are about their social dimension and three characterize the participatory governance of social enterprises, which allows highlighting particular forms of governance specific to the EMES “ideal-type” of social enterprise. Indeed, it has to be underlined that such indicators were never intended as a set of conditions that an organization should meet to qualify as a social enterprise; rather than constituting prescriptive criteria, they describe an “ideal-type” in Weber’s terms, i.e. an abstract construction that enables researchers to position themselves within the “galaxy” of social enterprises.

Dennis’ pioneering book is clearly embedded in this Schumpeterian perspective, even though it discusses some limits of this conception (see chapter 3). Along such lines, entrepreneurs in the nonprofit sector are “change makers” as they carry out “new combinations” in at least one of the following ways: new services, new quality of services, new methods of production, new production factors, new forms of organisations or new markets. Entrepreneurship is therefore a question of outcomes rather than just a question of incomes. Being a social entrepreneur does not necessarily mean that economic sustainability must be achieved only through earned income but “the entrepreneurs have to mobilize people and resources required to establish new organizations or implement major new programs or policies” (Young, 1983: 17). For the scholars belonging to the earned-income school, being a social enterprise means relying mainly on market resources. Dennis, when analysing nonprofit entrepreneurship, clearly diverges from this school, which considers that risk tends to be correlated with the amount or the share of income generated through trade. For Dennis, risk is part entrepreneurial behavior, but it cannot be limited to a narrow view of financial risk, as “risk-taking behavior varies by entrepreneurial type because there are different kinds of risk, each of which may be more or less important to each of the

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<sup>1</sup> The letters EMES stand for “*EMergence des Entreprises Sociales en Europe*”— i.e. the title in French of the vast research project carried out from 1996 through 2000 by the network. The acronym EMES was subsequently retained when the network decided to become a formal international scientific association. See [www.emes.net](http://www.emes.net).

various types of entrepreneurs.” (Young, 1983: 68). Dennis shares with the social innovation school the emphasis on the individual profile of social entrepreneurs and their central role in the entrepreneurship process.

The process of “screening” of entrepreneurs by industry and by sector is a major analytical contribution of Dennis: “The behavior of a nonprofit sector cannot be represented by a single behavioral mode, but is best characterized as a mix of motivations, the nature of which depends on the relative attributes of the particular industry compared with other industries and on the relative structure of the nonprofit sector compared with other sectors that participate within the industry” (Young, 1983: 162).

The much more mixed forms of entrepreneurship inside a given industry can be seen as a major evolution of these last 20 years. Nowadays, it is commonplace to see for-profit, not-for-profit and public enterprises coexist in the same industry. The question raised by Dennis is thus of foremost importance, as the screening of entrepreneurs by sector influences the character of enterprise and behaviour, forming “the basic mechanisms for determining the motivational mix for enterprise in a given sector. These motivations constitute a crucial element for determining the ultimate shape of organizational behavioural in a sector” (Young, 1983:102). Since the release of Dennis’ book, the question of motivation has entered the field of economics (Frey, 1997) and also the field of third sector. If the nonprofit literature has advanced some theoretical arguments and empirical evidence regarding the matching between workers and sectors (Leete, 2000; Besley & Gathak, 2005), much still has to be done regarding the screening and matching between entrepreneurs and sectors in each industry, taking into account their specificities (called the “third wave models” by Steinberg, 2004). This is a wide avenue for further interdisciplinary research at the crossroads of economics, psychology and entrepreneurship.

However, distinctions between sectors appear, nowadays, much more blurred than they used to be. Although many initiatives of social entrepreneurs result in the establishment of nonprofit organisations, various recent works tend to underline the existence of opportunities for social entrepreneurship within the for-profit sector and the public sphere as well. Some initiatives result from partnerships between third sector organisations and for-profit companies. In this context, it could be interesting, first, to test the typology of entrepreneurs’ profiles advanced by Dennis and, secondly, to see how, in this “world of blurred distinctions” “the constraining forces on enterprise that derive from entry controls and the preferences and monitoring of various constituent groups affect sectoral behaviour” (Young, 1983: 116). According to Dennis’ analysis, these forces help shape the objectives for which a venture may be undertaken within a given sector and limit the discretion with which entrepreneurs can utilize ventures to pursue their own personal ends. Some social enterprises are clearly located around the blurred frontier between the not-for-profit and the for-profit areas, which can increase the risks of mission drift associated with the pursuit of conflicting goals. In this context, do these forces still affect the behaviours of the enterprise? And social entrepreneurship cannot be characterized by a single, coherent, objective function within and across industries; this is a key insight of Dennis, which appears more grounded than ever.

Policy matters! According to Dennis, the key issue for policy is the expected effects of various policy instruments on the screening and post-screening discretionary behaviour of the various types of entrepreneurial characters, and hence on the performance of the sectors within which they operate. Dennis analyses, inside the nonprofit sector, the possible correlations between the entrepreneurs' profiles and social performance criteria (trustworthiness, responsiveness, efficiency, innovation). One of the main conclusions of his analysis is that expected effects of these policies may not always match the intentions of the regulator.

During recent decades, many countries have witnessed the introduction of quasi-markets for social services. Quasi-markets share two main characteristics: 1) the state still contributes to the financing of the services in question and regulates the latter, but the provision of those services is open to all kinds of organizations: public sector, third sector and for-profit sector organizations all compete on the market; 2) the consumer's power is channelled, either directly, through the allocation of subsidies (vouchers, allocation of a budget) to the consumers, who then pass it on to the provider, or indirectly, through a third party, for instance the social departments of local authorities, which are in charge of purchasing the services for the consumer. The trend toward the introduction of quasi-markets is the opposite policy of the "nonprofitization" that was analysed by Dennis as follows: "Distrust of the profit motive is the main motivating element for those who have proposed the elimination of proprietary interests and the concentration on nonprofit agencies as primary vehicles for the delivery of social, health, educational, and other varieties of essential services" (Young, 1983:141). Maybe surprisingly, it is the opposite argument that is advanced, nowadays, for the development of quasi-markets and the entry of the for-profit sector in the social services industry. The logic of the state and in some respect of the nonprofit sector is, indeed, accused of productive inefficiency (too many resources used), allocative inefficiency (the interests of users not being adequately taken into consideration) and inequity (McMaster, 2002). According to Dennis, it is clear that nonprofitization can make the nonprofit sector less "pure" and less easily describable in terms of particular motivations and modes of behaviour and performance. Can we therefore advance the hypothesis that a quasi-market policy improves the matching between entrepreneurs' motives and sector objectives? If the literature has advanced some theoretical arguments regarding this sorting between entrepreneurs and sectors (among others Bilodeau & Slivinski, 1996, Glaeser & Schleifer, 2001), once again much has to be done regarding the analysis of the screening and matching process. And as Dennis emphasizes, this analysis must take into account the specificities of each industry. How can the hypotheses put forward by Dennis help answer the question of the sector impact on social performance criteria, which are central for the provision of social services? What consequences might opening the social services industry to privatization have on trustworthiness, responsiveness, efficiency and innovation? Can additional public funding for some types of organisations be justified in terms of social performance?

Thirty years ago, Dennis offered us profound insights into these important issues, which remain topical. They need, now to be explored in a changing configuration of the economy. These insights open space for further research from a

theoretical point of view and call for empirical evidence in a variety of industries where for-profit and social entrepreneurship coexist.

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