Abstract

This paper aims to illustrate how entrepreneurial NFP organisational managers are faced with both financial and social dilemmas in today’s society (Burnett, 2009; Frances, 2008). The focus is on not-for-profit organisations from a social entrepreneurship and social venture perspective (Burnett, 2008, Bornstein, 2004, Dees, 1998a; 1998b), and discusses a number of NFP revenues stream models. Business incubators and other social ventures as examples of not-for-profit organisations.

Introduction

In the past, there were three quite distinct sectors: the public sector consisting of government and its various agencies, the private sector with for-profit companies of all sizes and the not-for-profit sector with organisations following social missions. In recent times however, these boundaries have begun to blur. Not-for-profit (NFP) organisations are adopting entrepreneurial strategies and starting businesses; for-profit enterprises are invading territory previously occupied only by not-for-profit enterprises and government; and public sector agencies are forming partnerships with the other sectors and developing joint ventures (Bornstein, 2004; Johnson, 2000). Social enterprises similarly do not seem to fall into one category: most are not-for-profit but struggle to be commercially viable, are not government owned but operate or guide for-profit entrepreneurship, and commonly are imbued with a broader socio-economic and community development role.

Defining not-for-profit and social enterprise

According to the Australian Bureau of Statistics there were just over 41,000 NFPs operating in Australia at the end of 2007, employing just under 890,000 people (ABS, 2007). Not-for-profits of all sizes and values form an important part of the Australian economy and contribute significantly towards economic growth in areas such as mental and physical health, social welfare, the arts, sport and education (Goldstein 2009; Tyler, 2005). Particularly, Edwards (2008) argues that without the functioning of NFPs and charitable organisations one would not be able to address pressing societal issues such as poverty, hunger, homelessness, and more recently, issues that tackle the sustainability of the way that communities consume the finite resources of the earth.
The concept of a not-for-profit enterprise is that of an organisation that is operated for a benevolent purpose without any financial benefit for its founders or for those who support it (Dees, Emerson and Economy, 2001a; 2001b). There are a number of different definitions in the literature for organisations which are classified as ‘not’ for profit. Salamon and Anheier (1998: 216) describe non profit organisations as commonly having five key features. They are:

i. Institutionalised to some extent
ii. Separate from government
iii. No return of profits to their owners or directors
iv. Self governing
v. Have some meaningful degree of voluntary participation.

Like their for-profit counterparts, NFPs are created and governed by laws that prescribe the way the enterprise can enter into legal contracts, sue and be sued (Lasprogala and Cotton, 2003). Other terms which are used to describe the sector include “social economy” and the “third sector” which give further reference to the concepts of non distribution of profits and a positioning between government and private sector. The term “not for profit organisation” will be referred to in the remainder of this paper as NFP or NFPs in the plural form. NFPs are often tax exempt and are commonly governed by a board of directors and / or board of advisors.

The concepts of social entrepreneurship and social ventures are relatively new. The first definitions of social entrepreneurship and studies incorporating social ventures appeared around 1998 (Dees, 1998a; 1998b) with Dees (2001: 4) outlining five factors that define the phenomenon. Social entrepreneurs who run not-for-profit ventures:

i) Adopt a mission to create and sustain social value (not just private value)
ii) Recognise and relentlessly pursue new opportunities to serve that mission
iii) Engage in a process of continuous innovation, adaptation, and learning
iv) Act boldly without being limited by resources currently in hand
v) Exhibit a heightened sense of accountability to their stakeholders including their customers and their community or society on the whole.

There seem to be no clear definition of social entrepreneurship in the available literature, but many descriptions have in common the focus on improving or changing society, including changing people’s mindsets about community. Moreover, there is an underlying desire for social justice that is of a “problem-solving nature” (Bornstein, 2004; Borzaga and Defourny, 2001; Dees, 1998b; 2001; Dees, Emerson, and Economy, 2001a, b; Dart, 2004).

“... is based on a process whereby the creation of new business enterprise leads to social wealth enhancement so that both community and the entrepreneur benefit.” (MacMillan, 2003:1).

This means that societal well-being is linked directly to business outcomes as one of the modalities by which social wealth is created. Similar to the USA, in the UK and in Australia, social enterprises include community enterprises, credit unions, trading arms of charities, employee owned businesses, co-operatives and small private businesses with a social mission (social firms), with scholars reporting that these type of not-for-profits are rising in status (Borzaga and Defourny, 2001; Dees, 1998a, 1998b; Grenier, 2002; Shaw, Shaw, and Wilson, 2002). One should note however, that because of its ‘newness’ there is not a precise or consistent usage of the term in the literature yet (Dart, 2004).

Social Enterprise London (2009), a website portal for social enterprises, identified three common characteristics of social enterprises that are backed up by research studies and other academic literature. These characteristics are:

i. Enterprise orientation. Social enterprises are directly involved in servicing the market by either producing goods or services. They aim to be commercially viable trading organisations, with an operating surplus (Bornstein, 2004; Dart, 2004; Dees, Emerson and Economy, 2001a, 2001b).
ii. Social aims. Social enterprises have explicit social aims such as job creation, training or the provision of local services. They operate under ethical values including a commitment to local capacity building, and they are accountable to their board, clients or members and the wider community for their social, environmental and economic (financial) impact beyond the focus
on financial return. This concept is often described as: “Triple bottom line (TBL) performance” or in popular terms: “people, planet and profit” (Alexander and Brown, 2006; Burnett and Flood, 2007; Dees, Emerson and Economy, 2001a, 2001b).

iii. Social ownership. They are autonomous organisations with governance and ownership structures based on participation by stakeholder groups, e.g. users, local community groups or trustees. Profits are distributed as profit sharing to stakeholders (for the use of new not-for-profit causes or ventures) or used for the benefit of the community (Borzaga and Defourny, 2001; Dees, Emerson and Economy, 2001a; 2001b).

Revenue streams and new NFP funding models

Many NFPs and some social ventures employ paid workers as well as volunteers. The great majority of the not-for-profit organisations rely on direct funding (cash) and indirect funding (e.g. provision of a building, equipment, volunteers) from their sponsors, i.e. government or other community service groups, which allows them to continue to operate. The sector received approximately 76 billion dollars during 2006-2007, predominantly in the form of funding from federal, state and local government (ABS 2007). In addition to paid employees, over 2,182,000 volunteers donated their time to NFPs. These figures indicate the substantial size of the sector within the economy and its important role in providing Australia’s foundation of social capital. The sector has been growing as a result of the sustained period of prosperity (O'Donoghue, et al. 2006).

A number of start-up social enterprises have been established with this view to solving social and/or environmental problems and are boosting morale in areas of high unemployment and low socio economic status. They argue that social enterprise encourages people to reclaim their self esteem, pride and independence. Some have even been described as a ‘life’ support system for the (business) community (Bornstein, 2004).

Not-for-profits in Australia are dominated by a number of large, older, well established welfare organisations that may have the ability with their diverse funding sources to respond to current economic climates (Berman, Brooks and Murphy, 2006). However newer, smaller and less established NFPs commonly struggle (Frances, 2008; Burnett, 2009). Specifically those that are heavily reliant on donations and government funding (Hackett and Dilts, 2004. However as the economic downturn begins to take effect, NFPs may find funding sources increasingly difficult to access as funding is usually provided for a limited period and is sometimes withdrawn or decreased depending on economic circumstances, importance of cause and benefits and money available (Hackett And Dilts, 2004). This can lead to a situation where financial dependency forces NFPs to operate in a politically uncertain environment where they must constantly demonstrate the success and benefits of the organisation, in order to justify the continued public funding of operations (Hackett And Dilts, 2004).

NFPs thus build revenue streams via donations, street collections, door-knocking, or other appeals of this nature. This has been an accepted way of life for most people growing up in the latter part of the past century, and almost without exception these appeals were greeted with politeness, if not always generosity. Internet advertising has further introduced modern variations of these appeals, but essentially they remain donations to an organisation with a cause with which the donor identifies. This revenue collection is depicted in figure 1 as a systemic process which starts with the flow of funds donated by members of the community.

Figure 1- Traditional revenues for
The NFP uses its funding to generate social capital, which in turn is deployed in ways that benefit particular groups in the community or society at large, and typically this benefit is visible to the general public. For example promoting specific causes around aged care, children, animals, or research into environmental problems, illnesses or medical conditions. The income received by these NFPs is aimed squarely at driving and supporting the social vision and charitable aims, with its concomitant community benefits, but with a distinct disinterest in the accumulation of money or wealth in dollar form. Charitable organisations achieve their goal of serving the community in ways that neither governments nor commercial business interests do (Edwards, 2008; Goldstein 2009; Frances, 2008). Even though the centralised nature of many charitable organisations prevents direct influence, internet, newsletters and direct outcomes of projects provide a mechanism to gain corrective feedback from the community that the charity aims to serve.

In this way the community from which the organisation draws its donations, has a way to influence the social programs that will benefit them. In the model of Fig.1 this is the all-important feedback loop at the bottom of the diagram, that links the community benefits to the donations (from the community) which are its source of income funding.

The traditional NFP organisational model, especially in terms of outcomes, thus appears little changed with the passage of time. However, charitable times appear to have changed. During the past decade or so, charitable organisations have resorted to generating income from profit-making ventures and in some instances the organisation no longer depends on the community's perception of the charity's programs.

The social enterprise however differs from the traditional understanding of the not-for-profit organisation in terms of strategy, structure, norms, and values and represents a radical innovation in the not-for-profit sector (Dart, 2004; Frances, 2008). Whereas many not-for-profits rely on funding, charity and donations, social enterprises on the other hand use entrepreneurial principles and expertise to build potentially profitable businesses and still adhere to a so called 'double bottom line': being faithful to a social mission, and building a financially sustainable organisation (Dees, 1998a, 1998b; Emerson and Twersky, 1996; Frances, 2008). This model is depicted in figure 2 below.

In a sense, the charity is now less integrated with the community it serves. An example of this is the QEH Research Foundation, which supports important medical research projects. To fund these projects it organised a so-called "lifestyle lottery" with substantial prizes to be won. The public participated enthusiastically since they recognised that even if they don't win a prize, their money was at least going to a good cause, and all 56,000 tickets were sold out before the early-bird deadline (QEH Research Foundation 2009). However the lottery information itself contained relatively little about the actual research programs, beyond an endorsement that supporting the lottery will allow their research programs to continue. Even though the NFP may well be engaged in projects with significant impact for the community who supported it, the profit-making activity is typically not used as an opportunity to engage the community in its programs.

Another example of a for-profit venture within a not-for-profit organisation, is Diabetes Australia (NSW) who took on the management of the state's Corporate Games, a sporting competition for businesspeople. Although perhaps a long bow for some, this profit-making enterprise was consistent with its aims: maintaining health through being active (Frances 2008). At the time, however, it was reported in the media as unfortunate that a charity had to resort to such means to support its programs, and presented as an example of society's self-absorption and greed (Frances 2008). It seems society is slow to accept this new funding model in the context of traditionally not-for-profit organisations.
Frances (2008: 66) argues that this ‘charity mindset’ needs changing if NFPs are to survive the next decades. As he puts it: “We live in a complex world in which our mortgages have to be paid, our kids need to be educated and we’d like to go on a holiday once a year”. At the same time, we also have to make sure that the way in which we do business does not destroy our planet along the way and acknowledges those less fortunate. During the last decade or two, NFPs have increasingly developed social ventures which make a profit to help fund their social mission. Examples of these are the large numbers of second hand clothing retail stores, the recycling plants and other money generating ventures (Salvation Army, 2009; Smith Family, 2009). Both the retail outlets traditionally called the "op-shop", and the recycling plants present a kind of hybrid funding between donation and profit-making, in that the goods are in fact donated to the organisation, and yet sold at a profit with the net profits thus helping to support the social programs of the organisation.

Clearly the profits from such ventures have to also support the money-making venture itself, leaving the surplus to be deployed toward the social outcomes that are the organisation's main aim. This appears to meet sometimes with some confusion amongst the general public (Advertiser 2009), that still expecting virtually all of a charity's income to find its way directly to community benefits.

Clearly the two figures presented thus far have a common goal: to produce social outcomes which have important benefits for the community. However, each model starts from a different premise and adheres to different principles when it comes to the concept of money. In the first, the emphasis is on the 'collecting' of income, while in the second emphasises the 'producing' of income.

As pointed to before, collecting funds from the community means that in the first model there is a mechanism to gain corrective feedback from the stakeholder-sponsor that the charity aims to serve. However in the second model the community from which the organisation draws its sales is seldom directly involved in the social outcomes that the venture's profits are driving.

This has important implications in terms of funding models that will later be applied to business incubators as a form of social enterprise, and the nature of the two models will therefore be explored a little further before moving on to business incubators per se.

Consider firstly the case in Fig.1 where a charity's programs are particularly successful, and importantly are well received by the community. The obvious result is that a follow-up collection campaign would be more likely to increase its response, thus boosting its revenue from donations. Equally, if the charity's programs were not well received by the public, a reversal of fortunes would occur.

The crucial point here is that in this case there is a clear mechanism to gain corrective feedback from the community that the charity aims to serve. In this way the community from which the organisation draws its donations, has a powerful way to directly influence the social programs that will benefit them.

By way of contrast, consider the self-funded charitable organisation of Fig.2 which generates its income through profit-making ventures. In this instance it is clear that the community at large no longer has the readily-available opportunity to either increase or decrease its support, depending on the community's perception of the charity's programs. In a sense, the charity is now less integrated with the community it serves – the feedback loop no longer exists.

In effect the NFP therefore has two funding options, with two very different effects. First, the traditional model which relies on fickle and dwindling donations, but benefits from strong ties to the community it serves. Alternately, the NFP can gain funding independence by introducing a profit-making venture into its operations, but the downside is a lost connection with the community that is ultimate target of its social programs.

This seems to present a difficult choice of polar opposites, both with unpalatable consequences. However, as we shall see, business incubators manage to achieve a successful hybrid of these two alternative NFP funding models.

**Business incubators as social ventures**
Most not-for-profit business incubators in Australia can be classified as social enterprises (Burnett, 2009). They can be portrayed as a NFP catalyst for business growth, functioning as a bridge between the somewhat protected incubation environment and the outside business environment. In the literature, they are viewed as an entity, mostly a physical environment, which provides start-up entrepreneurs with access to shared equipment, administrative services and business assistance programs during their first years of operation (Bollingtoft and Ulhøi, 2005; Hackett and Dilts, 2004).

In addition, most researchers emphasise some form of ‘nurturing’ or assisting new entrepreneurs and view incubation beyond the simple provision of a shared office or workspace. Many mention the provision of hands-on management assistance, coaching and counselling, internal networking and knowledge exchange and organised access to business networks in the surrounding business community (e.g. Bollingtoft and Ulhøi, 2005; Hansen et al., 2000). While contemporary research has provided different perspectives of the process of nurturing and assisting new ventures, researchers have also recently come back to Brooks’ (1986) notion of community development and suggest that incubators can be seen as dynamic communities, where people look for a community environment as well as business outcomes (Burnett and McMurray, 2008).

Figure 3 depicts how the incubation process takes place. The incubator management provides the tenant with business services, mentoring and advice in an entrepreneurial community environment, where interpersonal relationships, networking, and trust building can take place. The interactions between tenants may lead to the development of joint ventures and collaborative business or community projects – this is community entrepreneurship at work. At the end of around three years, the young businesses leave the incubator and establish themselves in the greater business community.

**Figure 3 – Basic Incubation Concepts**

![Diagram of basic incubation concepts](image)

Source: Burnett, 2009, p. 2.

The incubator management often consists of less than ten employees and those who manage incubators face a number of interesting challenges. On the one hand, incubators and their sponsors represent predominantly not-for-profit entities, while the clients they serve are mostly for-profit start-up entrepreneurs with little money, but driven by the imperative of creating and growing commercially profitable businesses (Abetti 2004).
Whereas the organizational structure of incubators as financial enterprises is well established, the inclusion of the key social enterprise role into the organizational structure has barely been captured. From a business perspective, the NFP managers are continuously interacting with the business community, for example retailers, wholesalers, manufactures and their customers (i.e. their incubator tenants). They keep in personal contact with those that they serve on a daily basis. In addition, they must run their own business based on income streams that are a mix of government funding, government grants for specific projects and below-market rental income (from tenants).

**Discussion**

A recent PhD study was undertaken interviewing NFP managers in their work environment on a number of issues. The study compared a large number of challenges that NFP managers faced in regards to financial and social objectives. The qualitative interview data was analysed using N-Vivo® software. Three internal incubator challenges relating to the social context and objectives of not-for-profit incubator managers were found to be:

1. fostering the well being of incubator tenants
2. building a dynamic entrepreneurial community
3. managing relationships with the sponsors and board of management

NFP incubator managers focussed on the development of social relationships within and outside their incubator, before they focussed on revenue streams and income. Coaching and networking scored high in their activities as they clearly understood the value of social capital. Outside the incubator environment the not-for-profit incubation managers looked at:

1. building a social profile in the local business community
2. building regional and global networks and alliances

To the NFP managers the importance of social relationships was seen as a pathway to create access financial resources. Moreover, it was found that the progression of social interactions led to financial interactions, which in turn contributed to greater levels of financial well-being in the incubator and as well as community, thereby leading to greater social well-being for all. The local community sometimes participated in incubator events, built personal and business relationships with tenants and was involved in the growth of the establishment.

The analysis of the various financial mechanisms showed that the NFP incubator manager could strengthen internal and external financial links, in order to increase the probability of tenant success and the creation of socio-economic wealth for the internal incubator community as well as the business community as a whole.

However, by summarising and emphasising the polarised financial situations that the NFP managers were found to experience, the study showed that not-for-profit incubator managers endured a number of frustrations linked to their enormous financial constraints. These included:

- Limited sources of revenue streams
- Government policy restrictions e.g. enforcing below-market rent and free mentoring
- Less autonomy in financial terms
- Board members lacking practical business experience
- The need to penny-pincher and spend time fund-raising or writing tenders for more funding
- Not enough resources to plan for new projects and/or plan ahead for future projects
- Inability to make a more significant impact on economic well-being of the community, that is, an organisation needs to be financially secure before it can engage in works for the local good

Whereas the NFP incubator managers’ situation resulted in many frustrations, due to the NFP restrictions and dependence on sponsors, the study showed that for-profit private incubator managers seemed to fare much better. Some of the aspects found amongst the participating FP managers were:
• Multiple sources of direct income (shareholding in start-ups)
• Policy consistent with activity – make a ROI
• Ample autonomy to follow the vision
• Multiple financial options to do business deals
• Commercially successful and experienced board
• Enough finances to invest and re-invest rather than ‘penny pinching’ on mundane issues
• Enough resources to plan for new projects and plan ahead for future projects
• Availability of enough finance to develop and serve the local community
• No reliance on public funding

This means that the FP incubator managers had the freedom to actually ‘run’ a business and indicated that NFP incubators could be sustainable only if they could create an entrepreneurial community environment that was able to generate a surplus. However, it is also clear that a dollars-only view will not lead to a sustainable future for all, and the recent global financial crisis has certainly exacerbated this. An important point is that social ventures view dollars as just one of the inputs to sustainability. Retaining the connection with community is another. NFP incubators know how to use market principles, but keep their focus equally on complex societal interactions. To survive in a future where less rather than more funding is available, the best working model for a NFP would therefore be to find strategies that balance their funding needs in ways that are acceptable to the community as well as the organisation.

Business Incubators and funding models

Given the above, we are now in a position to refer back to the alternate funding models of Fig.1 & Fig.2, recalling that there appears to be a trade-off between funding-independence and retaining community-engagement.

In the case of a NFP business incubator that includes for-profit services to bolster its funding income, the expectation from the models is that community engagement will be diminished, thus risking social relevance. However the money-making services that business incubators provide could in most cases be styled to be of benefit the incubator community themselves, and indeed in many instances this seems already the case. For instance, business incubators typically provide informative workshops on a range of topics that would interest nascent entrepreneurs – international marketing, legal aspects, innovation management or venture capital, to name a few. Such services not only bring in money for the incubator but importantly they also help tie the incubator to its community. If the incubator community perceives value in the workshops they will attend, if not, they won't.

In this way the incubator has included the crucial community feedback-loop of the traditional model in Fig.1 but derives the benefit of additional income through these additional money-making services it provides. Importantly, the business incubator can also add to its profit-making income stream through donations from government and business sources, whether in cash or in-kind. It would therefore appear that business incubators have a way in which to blend the two disparate NFP funding models into a workable hybrid, thus capturing the best of both worlds – increased income through profits while also maintaining close ties with its community.

Perhaps there is a lesson in there too for the NFP charities that currently wrestle with this dilemma of how best to funding their important social enterprises.

Conclusion

The need for complex solutions for society’s ills requires new forms of social enterprises, partnerships and alliances. Not-for-profit organisations play a crucial role in trying to relieve the many unnoticed or unattended problems in society. Business Incubators are an important component of this NFP landscape, especially from the point of view of furthering entrepreneurship.

NFPs have filled the gaps that have often been created in social welfare systems through government and market failures and add value to communities that would not have been possible by government or corporate organisations alone. The challenge for these organisations now is to be able to survive and grow in environments that are becoming more hostile and difficult to navigate, while continuing to meet the needs of the communities that they serve. Many have found solutions through the
development of profit-making social ventures but these come at a price – dislocation from the communities they serve. However, many NFP business incubators seem to have entrepreneured their way into a successful hybrid NFP funding model that could potentially be transferred to other contexts as well. This could hold important implications and opportunities for the funding of charitable organisations into the future, and suggests a fruitful field for further research in social entrepreneurship.
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