Voluntas (2020) 31:521–532
https://doi.org/10.1007/s11266-020-00218-5

ISTR
INTERNATIONAL SOCIETY FOR THIRD-SECTOR RESEARCH

RESEARCH PAPERS

Do Nonprofit and For-Profit Social Enterprises Differ in Financing?

Baorong Guo[1] · Shuyang Peng[2]

Published online: 27 March 2020

Abstract This study is an empirical investigation of the survey data from 109 social enterprises, nonprofit and for-profit, in Illinois, the USA. We compare sources of startup funding and revenues of social enterprises by the organizational form. Findings reveal that nonprofit social enterprises do not significantly differ from their for-profit counterparts in sources of startup funding. But the types of revenues differ by the organizational form of social enterprises. Nonprofit social enterprises are more likely to rely on foundation grants and government grants as their primary sources of revenue, while for-profit social enterprises are more likely to rely on revenues through sales.

Keywords Social enterprise · Organizational form · Finance · Startup funding · Revenue

Introduction

The last two decades have seen a rapid rise of social enterprise in the landscape of mixed economy. By blending in one-term social mission and market practice—the two incompatible ideas by conventional standards—social enterprise presents a notion about organizations distinct from those that we have long known in the nonprofit sector and the corporate sector (Young 2001; Ebrahim et al. 2014). In 2019, there are more than 5000 benefit corporations registered with B Lab[1] (Benefit Corporation 2019), and nearly 1700 low-profit limited liability corporations (L3C) in the USA, not to mention numerous nonprofit organizations engaging in market practices. The rise of social enterprise suggests that organizations, regardless of the legal form, converge in their economic, social functions, activities, values, etc. (Bielefeld 2009; Porter and Kramer 2011; Witesman et al. 2019).

According to Defourny and Nyssens (2010), social enterprise has conceptual roots in three schools of thought: the earned income, the social innovation, and the EMES international research network. The earned income school of thought views social enterprise as encompassing both nonprofit and for-profits that employ business strategies to support a social objective (Dees and Anderson 2006; Defourny and Nyssens 2010). The social innovation school of thought stresses the role of social entrepreneurs in devising innovative methods to improve social outcomes and create social impact (Dees and Anderson 2006; Defourny and Nyssens 2010). And the EMES approach presents a comprehensive list of key defining characteristics of social enterprise, such as producing and/or selling goods/services, benefiting the community, and a limited profit distribution (Defourny and Nyssens 2010).

In this study, we adopt the earned income approach that defines social enterprise as an organization that uses business approaches to improve the common good (Bryson and

✉ Baorong Guo
guob@umsl.edu

Shuyang Peng
speng@unm.edu

1 School of Social Work, University of Missouri-St. Louis, One University Boulevard, St. Louis, MO 63121, USA

2 School of Public Administration, University of New Mexico, 1915 Roma Avenue, NE, Social Sciences Building, Room 3022, Albuquerque, NM 87131, USA

[1] B Lab is a nonprofit that serves a global movement of people using business as a force for good. One of its initiatives is B Corp Certification. For a for-profit to become a certified B Corp, it must meet B Labs' standards for social and environmental performance, accountability and transparency.

Crosby 2006; Kerlin 2006; Reis 1999). Despite its narrow gauge, this definition draws attention to social mission and financial sufficiency, the two underpinnings of social enterprise (Bugg-Levine et al. 2012; Martin and Osberg 2015; Young and Kim 2015). It is made radically clear that just as business operations to maximize profits and government claims of responsible use of tax dollars in the interest of the public, social enterprise is expected to be sustainable through measurable social and financial outcomes (Savitz and Weber 2006; Young 2017). And there have been calls to assess the social and financial dimensions of social enterprise (Wry and York 2017).

As far as the financial dimension is concerned, there are three fundamental questions: *First*, what is the current financial status of social enterprise? *Second*, what strategies can improve the financial status of social enterprise? *Third*, how does social enterprise's financial status affects its social mission? These questions are big and entail considerable research effort. To our understanding, seeking an answer to the first question is essential as it logically precedes the other two questions. Hence, the current study is part of an effort to examine the first question, and it contributes to the literature by an empirical investigation of the survey data on social enterprises.

Specifically, we look into sources of startup funding and sources of revenue of social enterprises, and investigate whether startup funding sources and revenue streams differ between nonprofit and for-profit social enterprises. The potential differences in financing nonprofit and for-profit social enterprises may be traced in the nature of the two organizational forms. Nonprofits exist in the space where voluntary participation and shared purposes and resources take place and a sense of mutuality and fairness are fostered (Lohmann 1992; McCambridge 2004). They are seen as important vehicles allowing individuals to express their values, faiths, and beliefs (Child et al. 2015; Frumkin 2009). Even though nonprofit social enterprises engage in commercial activities, they possess these characteristics that distinguish themselves from for-profit social enterprises in fundamental ways. For-profit social enterprises, given their nature, have to focus on economic returns while pursuing social return (Austin et al. 2017; Dees and Anderson 2003). They tend to pay close attention to efficiency and are more likely to respond to market demand (Dees and Anderson 2003). While the sector boundary becomes blurring in hybrid organizations, we contend that there remains unique features inherent to the nonprofit and for-profit organizational forms that could drive different choices of financing.

This study is a necessary step toward a broad and elaborated understanding of the financial status of social enterprise as well as its nexus with social mission. Using the survey data collected in the state of Illinois in the USA, this study provides an angle different from case studies of social enterprise. It also generates knowledge that may help to understand social enterprises in different and broader social contexts.

Literature Review

Finances of Social Enterprise

One of the most appealing claims about social enterprise is its potential to end dependency and achieve financial self-sufficiency. The current literature on this topic is mostly comprised of case studies. For example, a financial analysis of Grameen Bank, perhaps the most widely recognized social enterprise that focuses on alleviating poverty and empowering rural communities in Bangladesh, concludes that "a revenue structure based on social enterprise initiatives, in opposition to donor grants, generates a more financially sustainable organization" (Salvado 2011, p. 79). Martin and Osberg (2015) study social enterprises across the globe and find that the key to financial success is to change economic actors and enable technology in the existing system. In Sweden, a comparison of social ventures and commercial ventures reveals that survival rates of the former are better than the latter, and newer cohorts seem to be especially "sustainable" (Jamburia 2013). Some survey data have been or begin to be collected and analyzed, of which the UK State of Social Enterprise Survey is best known for its large scale and comprehensiveness. The report based on the survey data reveals that more than half of the UK's social enterprises report a profit, with 20% break even (Social Enterprise UK 2017). In addition, social enterprises appear to be well-aware of the need to have a blend of income steams to ensure financial stability (Staicu 2018).

Although much less in quantity, there are also studies documenting financial failure of social enterprise. For example, contrary to the wide acclaim of social enterprise, Schorr (2006) depicts a somewhat dismaying picture: "The overwhelming majority of social enterprise ventures are small retail businesses—ice cream shops, thrift stores, restaurants, cafes, and the like—that have not succeeded and never will succeed on a double bottom line basis" (p. 12). This is echoed by Foster and Bradach (2005) in their assessment of nonprofit earned income ventures: "(1) Most such ventures account for only a small share of funding and most lose money. (2) Organizations are overly optimistic about the ventures' potential, profits are overstated, and indirect costs are often not accounted for (thus distorting true financial accounting). (3) Commercial ventures can distract (or even subvert) nonprofits' social missions, thus wasting resources" (p. 92). Scott and Teasdale (2012) note a stark distinction of social enterprise in rhetoric and in reality and document a case involving the financial failure of a social enterprise.

Given the mixed findings in the literature, there is a need to (1) operationalize key terms (such as financial status and financial sustainability) to allow a close look at the spectrum of finances for social enterprise, including startup funding, revenues, expenses, etc.; and (2) use surveys as a logical next step to present a comprehensive picture of the financial status of social enterprise.

Nonprofit Versus For-Profit Social Enterprise

While social enterprise is often portrayed as a hybrid of a nonprofit and a for-profit, as far as financing is concerned, it is not uncommon that the legal form constitutes the starting point of discussion and inquiry (Young and Kim 2015). For example, before diving into various financing approaches, Marjorie et al. (2016) purposely make a distinction: "…social enterprises can best be thought of as being divided into two broad categories [nonprofit social enterprise and for-profit social enterprise]" (p. 4). Nonprofit social enterprises are organizations with tax-exempt status that strategically engage in commercial activities to carry out mission-related functions and/or to generate income to support their social missions (Young 2001, 2014). By contrast, for-profit social enterprises encompass organizations incorporated as for-profit legal entities. They all have profit-making motives but also intentionally promote the social mission to varying degrees. Some for-profit social enterprises are primarily profit-driven businesses participating in socially beneficial activities (Kerlin 2006), while others have a dual mission of generating profits for investors and promoting social purposes (McDonnell 2019). These nonprofit and for-profit social enterprises fall on a continuum between the two extremes: traditional nonprofits mainly relying on philanthropic resources and conventional for-profit organizations solely driven by profit-maximization for shareholders (André 2015; Kerlin 2006; McDonnell 2019).

Indeed, the current legal framework for social enterprise in the USA is mostly dichotomous (Addae 2018). Social entrepreneurs choose between nonprofit and for-profit legal forms for their enterprises. Although new legal forms, such as L3C and benefit corporation, are emerging for hybrid organizations, they are essentially variants of for-profit corporations (McDonnell 2019; Young 2014). For clarity, the current study is centered around the differences between nonprofit and for-profit social enterprises rather than those differences across various legal forms.

Social enterprises, whether in form of a nonprofit or a for-profit, have their unique advantages and challenges. Nonprofit social enterprises, unlike their for-profit counterparts, have tax-exempt status, and donations made to them are tax-deductible, which incentivizes charitable giving. On the other hand, the "nondistribution constraint" also applies to nonprofit social enterprises, prohibiting profit distribution among owners or shareholders (Hansmann 1980). In contrast, for-profit social enterprises are not bound the same way and can legally accrue profits for investors, thereby incentivizing investors who seek a financial return. While not allowed to sell their shares to obtain equity investment (Dees 1998; Haugh 2006), nonprofit social enterprises have the advantage of drawing from philanthropic resources in forms of funding and volunteers (Child et al. 2015) that are typically not available to for-profit social enterprises.[2]

Furthermore, nonprofit and for-profit forms of organizations tend to be associated with different institutional logics that prescribe unique goals and governance mechanisms (Pache and Santos 2010; Smith et al. 2013). Specifically, a nonprofit form is congruent with social welfare logics, while a for-profit form is linked to commercial logics (Battilana et al. 2012; Pache and Santos 2010; Smith et al. 2013). According to Pache and Santos (2010), the social welfare logic is oriented toward the primary goal of addressing social needs. As such, the governance mechanism emphasizes democratic control by members and constituents who demonstrate a commitment to the mission. The commercial logic, on the other hand, is geared toward the goal of generating economic value through the sale of goods and services (Pache and Santos 2010). Under this logic, a governance mechanism focusing on hierarchical control is well-suited to ensure efficient allocation of resources and consistent production of goods and services (Pache and Santos 2010).

Research conducted by Child and colleagues (i.e., Child et al. 2015; Witesman et al. 2019) has shown that the choice between the nonprofit and for-profit form is driven by a range of factors. Child et al. (2015) find that the choice of the nonprofit form is motived by not only the organization's ability to tap into philanthropic support but also a consideration of the choice itself as a value expression, that is, the nonprofit form aligns with certain values and beliefs (Child et al. 2015). Social entrepreneurs who incorporate the for-profit form are driven by its innate focus on efficiency and ability to be self-sustaining. In a mixed-methods study, Witesman et al. (2019) observe that sector differences not only present at the startup of social enterprises but continue as these organizations move forward.

[2] For-profit organizations registered as L3C, however, can have access to investment from charitable foundations (Battilana et al. 2012).

Sources of Startup Funding and Sources of Revenue

The literature has documented a variety of funding sources used by social entrepreneurs for startup, including donations, earned revenues, government grants or contracts, membership fees, foundation grants, etc. (Van Slyke and Lecy 2012), but grant support is found prominent in the startup of social enterprises (Hall et al. 2012). While expected to generate earned income and become less dependent on grants when moving past the startup stage, many social enterprises still receive grants from government and/or foundations (Hall et al. 2012).

In our study, we propose that nonprofit and for-profit differences extend to financial sources that fund the establishment and operation of a social enterprise. Prior research has alluded to the relationship between organizational form and financial sources. For example, Young (2014, 2017) states that the form of social enterprise influences its ability to attract certain types of financial resource. In a similar vein, Addae (2018) contends that the unique roles are associated with the nonprofit and for-profit form. With the former aiming at fulfilling social needs while the latter aiming at responding to the market, such a difference implies different financing availability.

Empirical research, mostly qualitative in nature, is emerging to examine the relationship between revenue source and organizational form. For example, Kittilaksanawong et al. (2012) argue that for-profit resource providers may prefer for-profit ventures over nonprofit ones because they can retain profits and ownership in the former. They further propose that social enterprises relying on a more restricted non-commercial type of funding are more likely to employ a nonprofit form, whereas social enterprises drawing from a less restricted commercial type of funding incline to choose a for-profit form (Kittilaksanawong et al. 2012). In a comparative case analysis, Addae (2018) observes that social enterprises with access to equity financing choose a for-profit form because they are either unwilling or lack the capacity to bear the financial risk if they were to incorporate as nonprofits. By contrast, social enterprises supported by startup capital that does not require repayment employ the nonprofit form instead. Child et al. (2015) find that an entrepreneur's belief about the types of resources available shapes the selection of the organizational form. Sunley and Pinch (2012), however, do not think such differences are always present because their study does not find any evident relationships between the organizational form of social enterprise and the use of loans.

Theoretical Framework and Hypotheses

The nonprofit and for-profit differences in financing are perhaps best explained by benefits theory. Initially proposed by Young (2007) as a finance theory about nonprofits and later extended to explain the financing of social enterprise (Young 2015, 2017), benefits theory argues that the income portfolio of a social enterprise should correspond with the types of services and benefits it confers (Young 2017). Social enterprises provide services to benefit various groups of constituents, and such benefits include benefits to individual clients (i.e., private benefits), benefits to a subgroup of society (i.e., group benefits), benefits to society as a whole (i.e., public benefits), and benefits to groups or institutions that supply resources and expect return (i.e., exchange benefits) (Young 2007, 2017). Because resource providers have different motives and preferences, a social enterprise should pursue resource providers whose interests align with particular types of benefit it confers (Young 2017). In general, the theory submits that private benefits correspond with earned income from clients willing to pay for the goods and services, group benefits correspond with philanthropic resources from foundations and/or individuals interested in helping the group, public benefits correspond with government support, and exchange benefits correspond with institutions and individuals seeking return for their donations or investments (Young 2007, 2017).

Although without a mention of the role of organizational form, benefits theory provides a theoretical framework regarding the supply and the demand side to understand the nonprofit and for-profit differences in financing. The supply side highlights social entrepreneurs' perspectives of the startup stage where they determine the funding sources for their enterprises (Young 2017). Young (2015) states that entrepreneurs are more likely to be successful in this stage if "they can match the promised benefits of their ventures with the interests of the sources of prospective capital" (p. 108). To this end, choice of the organizational form, mission, and provision of services and benefits, although predominantly determined by entrepreneurs' primary interests, are shaped by potential sources of capital and venture opportunities (Young 2017). A for-profit form is preferred if for-profit investors are the potential source of capital, whereas a nonprofit form will be selected if philanthropic funding is the most likely source (Young 2015). As such, it is anticipated that nonprofit and for-profit social enterprises have different startup funding sources.

Hypothesis 1 Nonprofit social enterprises differ from their for-profit counterparts in sources of startup funding.

The demand side depicts the congruence between revenue sources and benefits beyond the startup stage. It underlines the mission of a social enterprise as the touchstone that determines services and benefits it ought to provide. This in turn influences the types of resource provider that a social enterprise should pursue (Young 2017). Based on benefits theory, it is reasonable to expect that nonprofit social enterprises, with the mission to benefit more than one individual, rely more on philanthropic and government funding sources in their financial portfolio. For-profit social enterprises with a greater emphasis on financial goals are likely to accrue private benefits to customers through sales of goods and services, as such, resulting in an income portfolio with greater dependence on sales. Social enterprises that weigh financial and social goals equally can produce private benefits as well as group and/or public benefits, and likely generate a more balanced financial portfolio with sources of revenue from sales and philanthropic and government sources. Based on this, it is speculated that for-profit social enterprises are more likely to rely on commercial revenues such as sales, whereas nonprofit social enterprises are more likely to rely on philanthropic and government support.

Hypothesis 2 Nonprofit social enterprises differ from their for-profit counterparts in sources of revenue.

Data and Methods

Data and Sample

Data used for this study are from an online survey of social enterprises in the state of Illinois in 2016. Recognizing the need to learn more about social enterprises, Forefront in Illinois, a statewide membership association for nonprofits, grantmakers, public agencies, and advisors collaborated with the Delta Institute, a Chicago-based nonprofit organization, to conduct this survey with the funding support from the Dunham Fund.

The sampling framework included the member nonprofit organizations of Forefront and over 100 social enterprises in Illinois whose contact information was compiled by the Delta Institute. Requests were sent to these organizations inviting them to respond an online survey on Qualtrics. Finally, 109 social enterprises participated in the survey. All of them were started by nonprofit parent organizations. The raw data have been made public, and the authors of the current study accessed the data from Forefront's website.

While missing data did not present a big problem in this survey, it is observed that some organizations did not respond to one or more questions. Since the organizational form of social enterprise is a key variable for this study, we searched for such information on the Internet and were able to address some of the missing data for social enterprises that did not report their legal status.

Survey Questionnaire

The survey questionnaire was developed by the Delta Institute, with input from the Social Enterprise Initiative at the University of Chicago. The questionnaire has two sections. The first section contains 17 questions asking about a social enterprise's legal status, year founded, number of employees, primary work areas, annual budget, sources of startup funding, sources of revenue, etc. This part collected mostly quantitative data which are later made public. The second section has ten questions collecting qualitative data about a social enterprise's strategies used that worked or not worked and plans for the future. Data for the second part are kept confidential and are not accessible by the researchers. Therefore, only the data from the first part are examined for the current study.

Measures

Independent Variable The independent variable of this study is the organizational form of a social enterprise, namely nonprofit versus for-profit. Social enterprises classifying themselves as 501(c)3 or 501(c)4 organizations are nonprofit organizations (coded as 1). For-profit social enterprises (coded as 0) are structured in various legal forms, including limited liability corporation (LLC), low-profit limited liability corporation (L3C), foreign entity, public benefit corporation, "C" corporation, "S" corporation, and programmatic initiative.

Dependent Variables Sources of startup funding and sources of revenue are the two categories of dependent variables closely examined. Sources of startup funding for social enterprises include grant support to nonprofit parent, grant support to social enterprise, program-related investment to NPO, program-related investment to social enterprise, endowment income, organizational unrestricted net assets, angel investment, venture capital, line of credit, and other. For each of these variables, a positive response is recorded as 1; otherwise, it is recorded as 0.

Another dependent variable, sources of revenue, that a social enterprise has collected over lifetime include endowment, foundation grants, government grants, government contracts, fee for service, sale of goods, sale of services, individual donor, corporate donor, board member donor, and other. Likewise, for each of these variables, a positive response is recorded as 1; otherwise it is recorded as 0.

Sources of startup funding and revenue will be examined individually and in aggregation by two count variables created to indicate how many types of startup funding and revenue, respectively, are used by a social enterprise. A higher value of the count variables indicates greater diversity in the startup funding or revenue of a social enterprise. Given that some revenues are similar in nature they are combined into one category in multivariate analysis. For example, if a social enterprise has collected revenues from individuals and/or corporations and or board members, then the variable of donor revenues is code as 1 and otherwise 0. Similarly, the variable of revenues from sales is coded as 1 if a social enterprise has had revenues from government contracts and/or fee for service and/or sale of goods and services, and otherwise 0.

Control Variables Other characteristics of social enterprise, including years of operation (as of 2015) and the annual budget size (in 2015) are used as control variables. The annual budget size is broken down to a list of six levels for participating social enterprises to choose from.

Analysis

Analysis first focuses on describing social enterprises' characteristics. Descriptive analysis is conducted on the full sample as well as the nonprofit and for-profit subsamples. Then, sources of startup funding and sources of revenue of social enterprises are examined closely in the full sample and compared between the two subsamples. Given the high skewness of some variables, such as years of operation and number of employees, the median is reported.

Logistic regression is conducted to test Hypothesis 1. It examines whether nonprofit social enterprises differ from those for-profit counterparts in their sources of startup funding, controlling for years of operation and the size (indicated by the annual budget size) of the organization. A similar model is used to test Hypothesis 2, with the addition of two more variables indicating sources of startup funding as grant dependency might be present (Sunley and Pinch 2012). Given the small sample size, results with a significance level slightly higher than the conventional standard of .05 are also reported and examined. All the analyses are conducted using IBM SPSS.

Results and Discussion

Sample Characteristics

The sample consists of 86 nonprofit social enterprises and 23 for-profit enterprises (Table 1). Most are young, with a median 12 years of operation as of 2015. The median number of employees, full-time and part-time, is six and two, respectively, indicating that social enterprises are small in size. The small scale of social enterprises is also indicated by the annual budget size and sales size. Over a quarter of the social enterprises in the sample have a budget size below \$100 k, and more than half make less than \$100 k in sales, the lowest level on the scale for the variable.

Social enterprises work in one or more areas of arts, culture, humanities, education, environment, health care, food, agriculture, and nutrition, housing and shelter, youth development, human services, civil rights, social actions, advocacy, community improvement and capacity building, etc. The majority (79.6%) work in two or more areas.

Comparisons of nonprofit versus for-profit social enterprises reveal that for-profit social enterprises are younger and smaller than their nonprofit counterparts. The median years of operation for for-profit social enterprises are 4 years, far less than that (14 years) for nonprofit social enterprises ($p < .01$). For-profit social enterprises have fewer employees ($p < .01$ and $p < .10$), with the median full-time and part-time employees being two and zero, respectively, compared to six and two for nonprofit social enterprises. The percentage of for-profit social enterprises that have an annual budget size and/or sales below \$100 k (52.2% and 71.4%, respectively) is far greater than that in nonprofit social enterprises (17.5% and 43.4%, respectively).

In summary, for-profit social enterprises are relatively new and small in scale. Their nonprofit counterparts are larger and longer-established. This may indicate that social enterprise is approached by nonprofits and for-profits differently. Small nonprofits are largely limited by its capacity in developing social enterprise, whereas large nonprofits, which are usually those long established, are more likely to have the capacity and resources needed to develop social enterprise. For-profit social enterprises, however, do not seem to be constrained by these factors.

Sources of Startup Funding

Various sources of funding are used to start up social enterprises (Table 2). On average, about two types of funding are used to start up a social enterprise. Among the various sources of funding, grant support to the parent organization and grant support to the social enterprise are the most common types. About one fourth of the social enterprises (25.7%) were started with grant support to their parent organizations, and nearly one fourth of the social enterprises were started with grant support directly provided to them (23.9%). Since few social enterprises received both grant support to self and the parent organization, this means nearly half of the social enterprises obtained grant support for startup, making it the most important source of startup funding for social enterprises.

Table 1 Characteristics of social enterprises in the sample

Variable	Full sample (n = 109)	Nonprofit social enterprises (n = 86)	For-profit social enterprises (n = 23)
Years of operation** (median)	12	14	4
Number of work/service areas (%)			
1	20.4	18.8	26.1
2	17.6	17.6	17.4
3	23.1	23.5	21.7
4	14.8	15.3	13.0
5	24.1	24.7	21.7
Number of employees (median)			
Full-time[a]	6	6	2
Part-time*	2	2	0
Annual budget size ($)** (%)			
1–99 k	26.7	17.5	52.2
100 k–249,999	17.4	19.0	13.0
250 k–499,999	12.8	11.1	17.4
500 k–749,999	9.3	12.7	0
750 k–999,999	9.3	9.5	8.7
1 million or more	24.5	30.2	8.6
Annual sales ($)** (%)			
1–99 k	51.4	43.4	71.4
100 k–249,999	8.1	9.4	4.8
250 k–499,999	9.5	7.5	14.3
500 k–749,999	4.1	5.7	0
750 k–999,999	5.4	5.7	4.8
1 million or more	21.7	28.3	4.8

Significant difference between nonprofit and for-profit social enterprises at **$p < .01$, *$p < .05$, [a]$p < .10$

Organizational unrestricted net assets, referring to assets donated to nonprofit organizations that are not subject to use restrictions, are another primary source of startup funding (23.9%). This is not surprising because these assets can be used for any purpose that a social enterprise sees appropriate to achieve its mission. Program-related investment to parent organization (9.2%) or social enterprise (5.5%) is another primary source of startup funding. It is not uncommon that social enterprises also use endowment income, angel investment, venture capital, and line credit for startup.

The mean number of startup funding types does not seem to differ much between nonprofit social enterprises (1.55) and for-profit social enterprises (1.64). There are two types of grant support, one for the parent organization, and the other for the social enterprise directly (without a parent organization). Interestingly, for-profit social enterprises (43.5%) are twice more likely than their nonprofit counterparts (20.9%) to receive grant support to a parent organization as startup funding. But nonprofit social enterprises (26%) are twice more likely than their for-profit counterparts (13%) to receive direct grant support. For-profit social enterprises have relatively higher percentages of startup funding from organizational unrestricted net assets (34.8%), angel investment (8.7%), and line of credit (8.7%) than nonprofits. Because program-related investments (PRIs) are accessible for not only nonprofits but also hybrid organizations in for-profit forms (Battilana et al. 2012), not surprisingly, nonprofit and for-profit social enterprises in the sample have similar percentages of startup funding from PRIs.

Sources of Revenue

While social enterprise is expected to be financially sustainable through making a profit, a substantial proportion of the sample still have foundation grants (57.8%) and government grants (34.9%) as their primary sources of revenue. This finding is consistent with the study by Sunley and Pinch (2012). In addition, more than one fifth receive donations from individuals, corporations, and board member donations. Another primary source of revenues is through sales, broadly including government contracts

Table 2 Comparisons of sources of startup funding and revenues[a]

Variable	Full sample (n = 109)	Nonprofit social enterprises (n = 86)	For-profit social enterprises (n = 23)
Sources of startup funding (%)			
Grant support to parent organization	25.7	20.9	43.5
Grant support to social enterprise	23.9	26.7	13
Program-related investment to parent organization	9.2	9.3	8.7
Program-related investment to social enterprise	5.5	5.8	4.3
Endowment income	.9	1.2	0
Organizational unrestricted net assets	23.9	20.9	34.8
Angel investment	6.4	5.8	8.7
Venture capital	.9	1.2	0
Line of credit	3.7	2.3	8.7
Other	25.7	23.3	34.8
Sources of revenue (%)			
Endowment	13.8	16.3	4.3
Foundation grants	57.8	59.3	52.2
Government grants	34.9	38.4	21.7
Government contracts	12.8	14	8.7
Fee for service	33	33.7	30.4
Sale of goods	23.9	25.6	17.4
Sale of services	32.1	26.7	52.2
Individual donor	22.9	23.3	21.7
Corporate donor	3.7	4.7	0
Board member donor	.9	1.2	0
Other	3.7	1.2	13
Number of types of startup funding (Mean (SD))	1.57 (.9)	1.55 (.88)	1.64 (.95)
Number of types of revenues (Mean (SD))*	3.11 (1.58)	3.33 (1.61)	2.43 (1.33)

[a]A social enterprise may have multiple sources of startup funding and revenues

*Significant difference between nonprofit and for-profit social enterprises at .05

(12.8%), fee for service (33%), selling goods (23.9%) or services (32.1%).

Comparison of sources of revenue between nonprofit versus for-profit social enterprises does not reveal much difference except for sale of services. It appears that for-profit social enterprises (52.2%) are twice as likely as nonprofit social enterprises (26.7%) to have revenues from sale of services. In addition, revenues collected by nonprofit social enterprises show more diversity than their for-profit counterparts, with the mean number of revenue types being 3.33 for the former and 2.43 for the latter ($p < .05$).

Results of Logistic Regression

Sources of Startup Funding Logistic regression was run to see if the organizational form of a social enterprise is associated with the type of the startup funding, controlling for years of operation and annual budget size. Results are given in Table 3. There does not appear to be any consistent pattern across the analyses. However, two findings showing the significant role of grant support to parent organizations and to social enterprise are worth noting. First, grant support to parent organization is negatively associated with the nonprofit form ($p < .01$). Given that all social enterprises surveyed in this study were established by nonprofit parent organizations, this finding indicates that the parent organization is more likely to establish a for-profit social enterprise when it has secured grant support to fund such venture. Second, grant support directly to social enterprise is positively associated with the nonprofit form ($p < .05$). This indicates that the parent organization is more likely to establish a nonprofit social enterprise, when there is grant support directly to the social enterprise startup.

Table 3 Logistic regression of sources of startup funding

Variable	Dependent variables: sources of startup funding									
	Grant support to parent organization	Grant support to social enterprise	Program-related investment to parent organization	Program-related investment to social enterprise	Endowment income	Organizational unrestricted net assets	Angel investment	Venture capital	Line of credit	Other
Nonprofit versus for-profit (ref. group)	− 1.39**	1.53*	− .28	.84	49.05	− .92[b]	.61	17.74	− 1.40	.34
Years of operation	.00	.00	.01	− .02	− 10.73	.00	.01	− .31	− .12	.00
Annual budget size	.09	− .18[b]	.13	− .05	42.92	.06	.12	.53	.53[b]	− .09[a]
Constant	− 1.71**	.21	− 2.77**	− 1.84*	− 193.82	− 1.39*	− 3.07**	− 3.42*	− 4.15**	− .53
Model X^2	5.08	6.12[b]	1.66	1.04	6.86[a]	2.34	1.05	2.35	5.95[b]	.68
N	77	77	77	77	77	77	77	77	77	77

Regression coefficients are reported in the table

**$p < .01$, *$p < .05$, [a]$p < .10$, [b]$p < .15$

These two findings seem to suggest that when grant support is available for starting up a social enterprise, choice of organizational form varies depending on whether such grant support is for the parent organization or the social enterprise itself. Nonprofit and for-profit differences are not observed in other sources of startup funding, including PRIs, endowment, organizational unrestricted net assets, angel investment, venture capital, and line of credit. Overall, Hypothesis 1 is not supported by the data.

Sources of Revenue Logistic regression is run with each dependent variable indicating a source of revenues as the dependent variable (Table 4). Four out of five models are statistically significant ($p < .05$). Among these, the organizational form of a social enterprise is significant across three models. Specifically, nonprofit social enterprises are more likely than their for-profit counterparts to have foundation grants ($p < .05$) and government grants ($p < .05$) as their sources of revenue, whereas they are less likely than their for-profit counterparts to have revenues from sales ($p < .10$). The findings are consistent with our expectations that nonprofit social enterprises are more likely to depend on philanthropic and government support, whereas for-profit social enterprises tend to rely more on sales revenue. Although social enterprise is often conceptualized as more of similarity in terms of a unity of social mission and financial sustainability, as far as the financial aspect is concerned, social enterprise may exhibit more differences than similarities, just as those differences as we understand between nonprofits and for-profits. Such categorical differences may not be surprising, but it may suggest different financial strategies be considered for a social enterprise, depending on whether it is a nonprofit or a for-profit, in order to achieve financial sustainability.

Conclusions

This study examines if social enterprises differ in their sources of startup funding and sources of revenue on the basis of the organizational form, namely nonprofit versus for-profit. We draw on benefits theory to formulate the hypotheses as it well-explains the connection between revenue sources and the mission as well as the nature of services and benefits of a nonprofit. We extend the theory by positing that the organizational form plays an important role in shaping organizational mission and services, and thereby influence a social enterprise's sources of startup funding and sources of revenue.

The results show that nonprofit social enterprises do not significantly differ from their for-profit counterparts in sources of startup funding. While this might be due to the small sample of the study, another possibility is that social enterprises may not be constrained by their organizational

Table 4 Logistic regression of sources of revenue

Variables	Dependent variables: sources of revenue				
	Endowment	Foundation grants	Government grants	Donor	Sales
Nonprofit versus for-profit (ref. group)	19.36	1.50*	1.71*	1.17[b]	− 1.37[a]
Years of operation	.02[a]	− .01	.01	.00	− .04*
Annual budget size	.07	.16	.06	− .06	.94***
Grant support to parent organization for startup	.43	1.70*	.88[b]	.57	− .34
Grant support directly to SE for startup	.66	1.74*	.41	− .16	.25
Constant	− 21.87**	− 1.18	− 2.43	− .66	.13[b]
Model X^2	15.15**	17.58**	12.70*	2.90	26.61***
N	77	77	77	77	77

Regression coefficients are reported in the table

***$p < .001$, **$p < .01$, *$p < .05$, [a]$p < .10$, [b]$p < .15$

form as predicted in terms of the use of various types of startup funding. We also find that the types of revenue collected by social enterprises differ significantly depending on whether it is a nonprofit or for-profit. Nonprofit social enterprises are more likely to rely on foundation grants and government grants as their primary sources of revenue, while for-profit social enterprises are more likely than their nonprofit counterparts to rely on revenues through sales. In other words, although nonprofit and for-profit social enterprises may not differ much in sources of startup funding, when moving beyond the startup stage, they are gravitated toward resources that are more aligned with their respective organizational form and identity. Social enterprises, as a unique form of organizations that cross the sector line to advance social and financial missions, may finally come to realization of the inherent distinction based on the organizational form even though such distinction may be merely nominal at the startup.

This study has several limitations. *First*, the measure of sources of revenue reflects the revenues collected by a social enterprise over lifetime, which may result in an over estimation of current revenues in form of foundation grants and government grants for the social enterprises in the study sample. It is possible that social enterprise depends more on foundation grants and government grants for revenues in its beginning years and gradually switches to revenues through sales. This dynamics, however, can by no means be captured by the cross-sectional survey data. *Second*, we use a statistical model to compare nonprofit versus for-profit social enterprises in terms of financial aspects including sources of startup funding. While this makes intuitive sense, it could be problematic because of an unintentional retrospective. In reality, the type of startup funding is likely to be among a bundle of factors leading to a decision of the organizational form of a social enterprise, not vice versa. *Third*, the study approaches the organizational form of social enterprise by aggregating for-profit social enterprises in various forms in one category. This aggregation, while lending convenience to the study, could mask the variation in the legal form that for-profit social enterprises take on in the real world. For example, a hybrid form, such as the L3C form, may differ from the nonprofit form or the for-profit form, but this is not reflected in the study. *Lastly*, but not the least importantly, this study is limited by the small sample in only one state of the USA, and the data accrued on only a few characteristics of social enterprises. Therefore, the results about the financial status of social enterprises (for-profit and nonprofit) are not conclusive. More specific data from a larger sample of social enterprises will undoubtedly strengthen the research in this area.

As one of the first efforts that use survey data to probe into the financial aspect of social enterprise, this study by no means considers the above findings conclusive. Rather, it sheds some light into the financing of social enterprise and invites more empirical research on this topic. As is stated by Young (2014), the relationship between finances and the form of social enterprise is far from perfect; therefore, future research is necessary toward a richer understanding of the relationship and interaction between the two. Future research may also consider a wider range of factors, including not only organizational form, but also area of service, mission achievement and external environmental factors. Also, the study considers social enterprise a facet of financing and revenue production spanning across the nonprofit and profit sector boundaries (Mendel 2019), but a broader and more productive perspective grounded in public, private, and nonprofit institutions may be considered in future research. Indeed, drawing financial and nonfinancial resources from all the sectors to advance the common good, social enterprise reflects a mix of practices found in all three sectors (Sullivan Mort et al. 2003).

References

Addae, A. E. (2018). Pathways to sector selection: A conceptual framework for social enterprises. *Nonprofit Management and Leadership, 28*(3), 349–365.

André, R. (2015). Benefit corporations at a crossroads: As lawyers weigh in, companies weigh their options. *Business Horizons, 58*(3), 243–252.

Austin, J., Stevenson, H., & Wei-Skillern, J. (2017). Social and commercial entrepreneurship: Same, different, or both? *Entrepreneurship Theory and Practice, 30*(1), 1–22.

Battilana, J., Lee, M., Walker, J., & Dorsey, C. (2012). In search of the hybrid ideal. *Stanford Social Innovation Review, 10*(3), 51–55.

Benefit Corporation. (2019). https://benefitcorp.net/.

Bielefeld, W. (2009). Issues in social enterprise and social entrepreneurship. *Journal of Public Affairs Education, 15*(1), 169–186.

Bryson, J. M., & Crosby, B. C. (2006). Leadership for the common good. In S. Schuman (Ed.), *Creating a culture of collaboration* (pp. 367–396). New York: Wiley.

Bugg-Levine, A., Kogut, B., & Kulatilaka, N. (2012). A new approach to funding social enterprises. *Harvard Business Review, 90*(1/2), 119–123.

Child, C., Witesman, E. M., & Braudt, D. B. (2015). Sector choice: How fair trade entrepreneurs choose between nonprofit and for-profit forms. *Nonprofit and Voluntary Sector Quarterly, 44*(4), 832–851.

Dees, J. G. (1998). Enterprising nonprofits. *Harvard Business Review, 76*(1), 54–67.

Dees, J. G., & Anderson, B. B. (2003). For-profit social ventures. *International Journal of Entrepreneurship Education, 2,* 1–26.

Dees, J. G., & Anderson, B. B. (2006). Framing a theory of social entrepreneurship: Building on two schools of practice and thought. In R. Mosher-Williams (Ed.), *Research on social entrepreneurship: Understanding and contributing to an emerging field* (Vol. 1, pp. 39–66). Washington: The Aspen Institute.

Defourny, J., & Nyssens, M. (2010). Conceptions of social enterprise and social entrepreneurship in Europe and the United States: Convergences and divergences. *Journal of Social Entrepreneurship, 1*(1), 32–53.

Ebrahim, A., Battilana, J., & Mair, J. (2014). The governance of social enterprises. *Research in Organizational Behavior, 34,* 81–100.

Foster, W., & Bradach, L. B. (2005). Should nonprofits seek profits. *Harvard Business Review, 83,* 92–100.

Frumkin, P. (2009). *On being nonprofit: A conceptual and policy primer*. Cambridge: Harvard University Press.

Hall, K., Alcock, P., & Millar, R. (2012). Start up and sustainability: Marketisation and the social enterprise investment fund in England. *Journal of Social Policy, 41*(4), 733–749.

Hansmann, H. B. (1980). The role of nonprofit enterprise. *The Yale Law Journal, 89*(5), 835–901.

Haugh, H. (2006). Nonprofit social entrepreneurship. In S. Parker (Ed.), *The life cycle of entrepreneurial ventures* (pp. 401–436). Berlin: Springer.

Jamburia, G. (2013). Sustainability of social enterprises: A case study of Sweden. Available at https://www.diva-portal.org/smash/get/diva2:632746/FULLTEXT01.pdf. Retrieved on March 28, 2019.

Kerlin, J. A. (2006). Social enterprise in the United States and Europe: Understanding and learning from the differences. *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations, 17*(3), 246–262.

Kittilaksanawong, W., Hu, C. S., Shou, Y. Y., & Chen, X. D. (2012). Institutionalization in organizational form of social entrepreneurship: Cases from China and Bangladesh. *IEEE International Conference on Management of Innovation Technology (ICMIT), 2012,* 39–44.

Lohmann, R. A. (1992). *The commons: New perspectives on nonprofit organizations and voluntary action*. San Francisco, CA: Jossey-Bass Inc.

Marjorie, K., Duncan, V., & Dubb, S. (2016). Financing social enterprise. Available at https://democracycollaborative.org/sites/clone.community-wealth.org/files/Social_Excerpt.pdf. Retrieved on March 28, 2019.

Martin, R. L., & Osberg, S. R. (2015). Two keys to sustainable social enterprise. *Harvard Business Review, 93*(5), 86–94.

McCambridge, R. (2004). Underestimating the power of nonprofit governance. *Nonprofit and Voluntary Sector Quarterly, 33*(2), 346–354.

McDonnell, B. (2019). Three legislative paths to social enterprise: L3Cs, benefit corporations, and second generation cooperatives. In B. Means & J. W. Yockey (Eds.), *The Cambridge handbook of social enterprise law* (pp. 67–84). Cambridge: Cambridge University Press.

Mendel, S. C. (2019). Social innovation, entrepreneurship and enterprise: What nonprofit students need to know. In H. Carpenter & K. Bezboruah (Eds.), *Teaching nonprofit management*. New York: Edward Elgar Publishing.

Pache, A. C., & Santos, F. (2010). When worlds collide: The internal dynamics of organizational responses to conflicting institutional demands. *The Academy of Management Review, 35*(3), 455–476.

Porter, M. E., & Kramer, M. R. (2011). Creating shared value. *Harvard Business Review, 89*(1–2), 62–77.

Reis, T. (1999). *Unleashing the new resources and entrepreneurship for the common good: A scan, synthesis and scenario for action*. Battle Creek, MI: W.K. Kellogg Foundation.

Salvado, J. C. (2011). Social enterprise models and SPO financial sustainability: The case of BRAC. *Journal of Social Entrepreneurship, 2*(1), 79–98.

Savitz, A., & Weber, W. (2006). *The triple bottom line: How today's best-run companies are achieving economic*. San Francisco, CA: Jossey-Bass.

Schorr, J. (2006). Social enterprise 2.0: Moving toward a sustainable model. *Stanford Social Innovation Review, 4*(2), 12–13.

Scott, D., & Teasdale, S. (2012). Whose failure? Learning from the financial collapse of a social enterprise in 'Steeltown'. *Voluntary Sector Review, 3*(2), 139–155. https://doi.org/10.1332/204080512X649333.

Smith, W. K., Gonin, M., & Besharov, M. L. (2013). Managing social-business tensions: A review and research agenda for social enterprise. *Business Ethics Quarterly, 23*(3), 407–442.

Social Enterprise UK. (2017). The future of business: State of social enterprise survey 2017. Available at https://www.socialenterprise.org.uk/Handlers/Download.ashx?IDMF=a1051b2c-21a4-461a-896c-aca6701cc441. Retrieved on May 29, 2018.

Staicu, D. (2018). Financial sustainability of social enterprise in Central and Eastern Europe. In *Proceedings of the 12th international conference on business excellence* (pp. 907–917).

Sullivan Mort, G., Weerawardena, J., & Carnegie, K. (2003). Social entrepreneurship: Towards conceptualisation. *International Journal of Nonprofit and Voluntary Sector Marketing, 8*(1), 76–88.

Sunley, P., & Pinch, S. (2012). Financing social enterprise: Social bricolage or evolutionary entrepreneurialism? *Social Enterprise Journal, 8*(2), 108–122.

Van Slyke, D., & Lecy, J. D. (2012). Profiles of nonprofit startups and nonprofit entrepreneurs. In *ARNOVA national conference, November 15–17, 2012*. Indianapolis, Indiana; Andrew Young School of Policy Studies Research Paper Series No. 12–28. Available at: https://ssrn.com/abstract=2175676 or http://dx.doi.org/10.2139/ssrn.2175676. Retrieved on January 9, 2020.

Witesman, E. M., Child, C., & Wightman, G. B. (2019). Sector choice and sector regret. *Nonprofit and Voluntary Sector Quarterly, 48*(3), 492–512.

Wry, T., & York, J. G. (2017). An identity-based approach to social enterprise. *Academy of Management Review, 42*(3), 437–460.

Young, D. R. (2001). Social enterprise in the United States: Alternate identities and forms. In *Prepared for: The EMES conference, the social enterprise: A comparative perspective*, Trento, Italy, December 13–15, 2001.

Young, D. R. (2007). Toward a normative theory of nonprofit finance. In D. R. Young (Ed.), *Financing nonprofits: Putting theory into practice* (pp. 339–372). Lanham, MD: AltaMira Press.

Young, D. R. (2014). The state of theory and research on social enterprises. In B. Gidron & Y. Hasenfeld (Eds.), *Social enterprises: An organizational perspective*. London: Palgrave Macmillan.

Young, D. R. (2015). Financing social innovation. In A. Nicholls, R. Paton, & J. Emerson (Eds.), *Social finance* (pp. 96–112). Oxford: Oxford University Press.

Young, D. R. (2017). *Financing nonprofits and other social enterprises: A benefits approach*. London: Elgar Publishers.

Young, D. R., & Kim, C. (2015). Can social enterprises remain sustainable and mission-focused? Applying resiliency theory. *Social Enterprise Journal, 11*(3), 233–259.