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THE EMERGENCE OF SOCIAL ENTERPRISES AND  
THEIR PLACE IN THE NEW ORGANIZATIONAL LANDSCAPE

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## **THE EMERGENCE OF SOCIAL ENTERPRISES AND THEIR PLACE IN THE NEW ORGANIZATIONAL LANDSCAPE**

### **Abstract**

Recent dynamics in the social and economic environment have facilitated the emergence of new –hybrid– organizational forms, a phenomenon that has been frequently associated with the blurring of boundaries among the for-profit, public and nonprofit sectors. Focusing on social enterprises, a particular type of hybrid organizations emerging in the nonprofit sector, this paper suggests that the appearance of hybrid organizational forms triggers behavioral changes at the micro –the organizational– level, but hardly affects sector boundaries. The paper offers a fresh conceptualization of social enterprises, and furthermore presents an original way to classify traditional and new organizational forms according to economic, public and social authority. The new organizational landscape is illustrated.

**Keywords:** Social Enterprises, New organizational forms, Non-profit sector, Social Authority.

## THE EMERGENCE OF SOCIAL ENTERPRISES AND THEIR PLACE IN THE NEW ORGANIZATIONAL LANDSCAPE

### Introduction

Recent dynamics in the social and economic environment significantly affect the traditional organizational landscape. They seem to blur boundaries between the public, the nonprofit, and the for-profit sectors, and to facilitate the emergence of new organizational forms (Bozeman 1987; Waddock and Post 1995; Fowler 2000). We observe nonprofit and public organizations applying business standards, and for-profit firms opening up to the provision of public goods. From the perspective of nonprofit firms, these dynamics stem from increasing competitive pressures which represent a threat to their ambitions as well as to their survival. These competitive pressures include rising costs, competition for decreasing donations and grants, competition with commercial firms, and less dependence on current funding sources (Dees 1998). In response, nonprofit organizations are increasingly adopting the type of entrepreneurial management approaches prevalent in for-profit companies. This phenomenon has facilitated their transformation into social enterprises, a new type of organization informally known as *hybrids*, and has given the impression of blurring boundaries between traditional sectors (Waddock and Post 1995; Wallace 1999; Fowler 2000; Dees, Emerson et al. 2001).

While we acknowledge the importance of the phenomenon, we argue that popular notions of “blurred boundaries” might be impetuous. To properly assess whether boundaries are actually distorted, it is important to distinguish between two levels of analysis: a macro level that refers to the three societal sectors –nonprofit, for-profit, and public– and a micro level that refers to the organizations within the particular sectors. At a macro level we observe that the boundaries of the three sectors remain largely unaffected, i.e., nonprofit, for-profit, and public organizations maintain their own distinct (legal) status and characteristics. At a micro level, however, we do observe momentous changes that require a rethinking and redrawing of the conventional organizational landscape. New, altered and mixed behavior by some nonprofit, for-profit, and public organizations encourage their transformation into hybrid organizational forms. It is this transformation process going on at the micro level that results in the misleading impression that sector boundaries are blurring.

A number of scholars have attempted to depict the organizational landscape. Bozeman (1987), for example, categorized different organizations according to their behavior. He advanced the notion of *publicness* –defined as the extent to which an organization is affected by “public” constraints– in order to differentiate between all forms of organizations. His proposed *publicness-grid*, which distinguishes between economic and political authority in order to categorize all types of organizations, serves as the starting point of our analysis. While useful in the context of the conventional landscape, we argue that this categorization falls short when it comes to depicting the newly emerging landscape. To fully capture the variety of organizational forms, we introduce a third—social—dimension to redraw a map of today’s organizations.

In sum, this paper aims at a more comprehensive understanding of the recent changes in the organizational landscape. In the next sections we first define and describe the social enterprise, the new organizational form, or hybrid, that causes the apparent blurring of boundaries among sectors. Second, we introduce Bozeman's (1987) publicness-grid and add a third –social authority– dimension, defined as the degree to which market transactions rely on reputation and trust. Finally, we present the new organizational landscape, illustrating that the apparent blurring of boundaries among sectors is actually occurring at a micro-level –the world of organizations– rather than at the sector level.

## **New Organizational Forms In The Nonprofit Sector**

Although we recognize that hybrid organizational forms can develop within and between all three sectors, in this paper we particularly focus on the formation of hybrids in the context of the nonprofit sector. We define hybrids as formal organizations that embrace both profit and nonprofit components (Dess and Anderson 2003) and subsequently refer to them as social enterprises.

### ***Social Enterprises***

If an “enterprise” is defined as an “undertaking, a business venture or company”, a social enterprise is a private undertaking committed to achieve a social purpose, one that incorporates “traditional resources of nonprofit organizations (donations and voluntary participation), commercial revenue (originating both from public and private customers and founders), and business activity” (Borzaga and Solari 2001: 333). Numerous examples of social enterprises can be found in various industries such as services, distribution, retailing, and manufacturing (Mitchell, Kanigel et al. 2000).

According to the –mainly descriptive– literature, two types of social enterprises can be identified. First, social enterprises can exist as subsidiaries of nonprofit organizations, i.e. as initiatives of nonprofit organizations in search of financial self-sustainability (Boschee 1995; Wallace 1999). And second, they can exist independently from other nonprofit organizations, e.g. as independent social enterprises which pursue a specific social objective, such as to fight social exclusion and provide social and community care services (Borzaga and Defourny 2001; Evers 2001). Depending on their duration, independent social enterprises can also exist as catalytic alliances, i.e., as short-term oriented enterprises that aim at increasing the awareness of a particular social problem and incorporating it in the public agenda (Waddock and Post 1991, 1995).

In the remainder of this section we elaborate on the scope of social enterprises, their main dimensions, their role in society, their potential competitive advantages, and the particular challenges they face.

*Scope.* The working scope of a social enterprise can encompass three types of business: “affirmative business”, “direct services business”, and “catalytic alliances” (Boschee 1995; Waddock and Post 1995; Wallace 1999). 1) Affirmative businesses provide jobs, competitive salaries, career opportunities and ownership for disadvantaged people and can be found in an ample range of industries (Boschee 1995). Among others of its kind, Pioneer Human Services in Seattle is one of the largest and is self-financing. It provides jobs, housing, training and many other support services to at-risk individuals and generates revenues up to

US\$ 50 million per year. It produces high quality products with a 700 people work force composed of ex-offenders and former substance abusers, and serves more than 5000 customers. Its largest business is a light-metal fabricator that has become Boeing's sole supplier of sheet-metal liners. Additional businesses are a downtown hotel in Seattle, a wholesale food business that services nearly 400 food banks in 20 states, a corporate cafeteria for Starbucks Coffee Company, a daily institutional food business, and a property management company (Shore 1999; Wallace 1999). 2) Direct services businesses commonly aim at improving the social situation of emotionally disturbed kids, battered women, homeless people, recovering substance abusers, the terminally ill, among others, through community-based training and care services (Boschee 1995; Wallace 1999). One is Rubicon Programs Inc., a nonprofit organization in San Francisco, California that provides social and rehabilitative services and is supported by social purpose enterprises that generate a little under US\$ 3 million per year (Wallace 1999). 3) Lastly, catalytic alliances deal with major social problems without apparent short-term solution. Their goal is to increase the level of public awareness about a particular social problem through high profile publicity campaigns; campaigns that pressure policy makers to put the issue on their agenda and invite other public, private, or nonprofit organizations to work on the problem (Waddock and Post 1995). Hands Across America, for example, was an impressive endeavor that raised more than US\$ 16 million to help the hungry and homeless in the United States by motivating more than six million people to hold hands simultaneously throughout 16 states (Waddock and Post 1991, 1995).

Social enterprises can be distinguished according to two important characteristics: *services life span* (short vs. long term), and *profit distribution* (reinvest vs. distribute) (Mair and Noboa 2002). While affirmative and direct services businesses typically embrace a long-term orientation, catalytic alliances are usually short-lived organizations (Waddock and Post 1995). Since traditional, and in many cases profitable, nonprofit organizations by definition do not have owners, they are not entitled to distribute their profits to anyone who exercises control over the organization (Hansmann 1996). In contrast to traditional nonprofit organizations, some social enterprises, especially those established as cooperatives, operate under a more relaxed profit distribution constraint and are therefore permitted to wholly or partially distribute profits among their beneficiaries in the form of additional products or services (Boschee 1995; Wallace 1999; Defourny 2001).

*Dimensions.* Social enterprises incorporate donations and voluntary participation, commercial revenue, and business activity (Borzaga and Solari 2001), and encompass both an economic and a social dimension (Defourny 2001: 16-18). First, social enterprises embrace an economic dimension as they are directly involved –as one of the main reasons for their existence– in the production of goods and provision of services to the public at large. For example, in Spain, Asociación Atzegui, which belongs to the Grupo Gureak, founded an enterprise called Talleres Gureak (Gureak Workshops) in 1982. Aiming at the employment of persons with disabilities in Guipuzcoa (Basque Country), Talleres Gureak developed into one of the foremost organization in the field of social and work integration. It provided 2,008 jobs in 1997, of which only 174 were for persons who did not have disabilities (Vidal 2001). Second, social enterprises can also be created by individuals who act independently from existing associations or organizations, but nevertheless can receive public subsidies. Third, social entrepreneurs assume at least partially the risk of the new venture and, together with the effort of their employees, determine its financial sustainability. And fourth, social enterprises are characterized by a minimum amount of paid work, a factor that discriminates them from other nonprofit organizations.

All social enterprises embrace a *social dimension*. First, in addition to increased social responsibility at a local level, they have an explicit mission to benefit the community and a specific group of disadvantaged citizens. Second, unlike for-profit organizations, social

enterprises are ruled by the “one member, one vote” principle, meaning that capital providers equally share the decision-making rights with other stakeholders. Third, social enterprises, as one of the few truly democratic institutions in society, include representatives of most stakeholder groups in their governing body. And last but not least, in contrast to nonprofit organizations, social enterprises operate under a more relaxed profit distribution constraint, which allows them to fully or partially distribute profits among their beneficiaries without fully complying with profit-maximizing principles (Boschee 1995; Wallace 1999; Defourny 2001).

In sum, the combination of social and economic dimensions makes social enterprises an original and highly complex type of organization in the nonprofit sector (Defourny 2001).

*Role in society.* Social enterprises play a key role in society as they ensure a better distribution of resources, create jobs and social capital, and promote local development (Borzaga and Defourny 2001). They provide a better distribution of resources through citizens’ volunteered time and donations that substitute public (governmental) resources and furthermore create public awareness. They appear as a perfectly suited organization for the creation of jobs and social capital by having revenue-generating capacity, lacking a profit-maximizing behavior, operating with low costs, having a good location and standing in communities, and, importantly, having enormous capacity to earn public trust. In contrast, other well-known organizations in society do not have the same capabilities. Traditional nonprofit organizations, for example, are financially constrained and depend solely on donations and government funds; organizations with profit-maximizing behavior do not have the capability to generate the same amount of trust among citizens; and governments have only limited funds to spend on social purposes. Lastly, social enterprises promote local development by providing salaries that improve the living conditions of workers, the well-being of communities, the level of social integration, and increase citizens’ solidarity, mutual help, trust, and participation.

*Competitive advantages.* Independent social enterprises have several competitive advantages over traditional nonprofit, public, or for-profit organizations (1). One of the most important is their unique capability to offer a highly valued mix of extrinsic and intrinsic rewards for their employees (2). The favorable reward system, together with the high degree of information sharing between stakeholders, accounts for the fact that social enterprises are associated with a higher level of distributive and procedural justice than other types of organizations (Borzaga and Solari 2001). As a result, it is not surprising that employees in nonprofit organizations seem to be more motivated than employees working in for-profit or public organizations. Besides high levels of motivation, other important competitive advantages consist in the desirable position to understand and meet local market demand, and in the ability to integrate with regional suppliers and buyers, allowing them to better serve their clients than other for-profit or public institutions (Porter 1995a, 1995b).

*Challenges.* Despite these competitive advantages, social enterprises face a number of challenges. Borzaga and Solari (2001) distinguish between endogenous and exogenous challenges. According to these authors, one of the most important endogenous challenges consists in the need to simultaneously legitimize their existence and develop their

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- (1) Competitive advantages have been mainly discussed in the context of for-profit organizations (Porter, 1980). In this paper we argue that social enterprises do adopt business-like approaches. Therefore, we find it appropriate to apply this term when discussing social enterprises belonging to the nonprofit sector.
  - (2) Extrinsic rewards in the context of social enterprises refer to flexible working hours, salaries and training, while intrinsic rewards consist in autonomy, degree of participation moral goals, and development.

competitive advantage. Borzaga and Solari suggest that to legitimize their role in society social enterprises should aggressively communicate their mission, establish their reputation both nationally and within their communities, pursue opportunities to achieve low costs and financial sustainability, monitor the evolution of social needs, and innovate in service delivery. In addition, in order to sustain their competitive advantage, social enterprises must continuously invest in their employees' expertise, skills, and motivation; improve service and product quality; and keep top quality management on board (Borzaga and Solari 2001). One of the central exogenous challenges social enterprises face is their reliance on a supportive legislative and regulatory environment that not only facilitates their legitimacy, but also provides clear incentives to increase their contributions to society. Thus, social enterprises are constantly confronted with the need to detect and pursue innovative ways to achieve such a favorable environment.

In addition to these challenges, social enterprises face internal weaknesses that threaten their long-term viability. If social enterprises fail to achieve sufficient revenue-generating capacity to guarantee their financial sustainability, they risk suffering the fate of many traditional nonprofit organizations which rely almost exclusively on donations and subsidies. If the diversity of stakeholders in the Board of Directors slows down decision-making in the organization, increasing governance costs will transform a potential strength into weakness. Finally, if they fail to achieve economies of scale, social enterprises will face the cost disadvantages of limited size (Borzaga and Defourny 2001).

So far we have defined and described social enterprises, a newly emerging hybrid organizational form that is widely seen as causing a blurring of boundaries among sectors. In the second part of this paper we sustain our argument that the emergence of organizational forms has a significant effect at the micro—the organizational—level, while sector boundaries remain largely unaffected. We build on traditional classifications of organizations, while introducing an additional—social authority—dimension, and present the new landscape incorporating both traditional and newly emerging organizational forms.

### **Towards a new organizational landscape**

The emergence of new organizational forms—commonly known as hybrids—has altered the traditional landscape of organizational forms. But has it also blurred boundaries between the sectors? To answer this question it is important to distinguish between effects at the macro—the sector—level, and consequences for the micro—the organizational—level.

The formal legal status of organizations allows us to associate every organization in society with a particular sector (Bozeman 1987; Dees and Anderson 2003). In other words, nonprofit and for-profit organizations have their own formal legal status, which can be conceived as the sector boundary. As the legal status does not change when a nonprofit organization adopts more managerial approaches and moves towards a hybrid form, we claim that at the macro—sector—level boundaries are not blurring. At most, one could argue that sector boundaries are expanding (or getting closer to each other) to host the new hybrid forms observable at the micro level analysis of organizations.

While the legal status is the principal focus at the macro—sector—level, the analysis at the micro level centers on the economic status of organizations, i.e. the analysis of the characteristics of products and markets to differentiate public from private (nonprofit and for-profit) organizations. This micro-level deals with the analysis of whether “a good or service provided by the organization is exclusionary (whether it is possible to levy user charges),

whether there is a market for the goods or services produced by the organization, whether one person's consumption of the good has an effect on the amount available for others, whether there are significant externalities or spillover effects, and whether the good or service is most efficiently financed by a collective rather than by individuals" (Bozeman 1987: 33). Isomorphic forces in this context refer to the adoption of for-profit practices in nonprofit and public organizations, and socially responsible practices in for-profit organizations. It is at this level –the world of organizations– that "isomorphic" forces among organizations from every sector result in the creation of social enterprises, or hybrid organizations, which calls for a repositioning within the organizational landscape.

A wide variety of attempts have been made to categorize organizational forms. Conventional approaches to categorize various types of organizations typically involve a continuum ranging from government or purely philanthropic institutions at one extreme to purely commercial organizations at the other (Wallace 1999; Dees, Emerson et al. 2001). Dees, Emerson et al. (2001), for example, use a number of criteria, such as beneficiaries, capital base, workforce or suppliers to emphasize differences between organizational forms. See Table 1 for an illustration. Most organizations fit somewhere along the continuum (Dees, 1998).

**Table 1. The Social Enterprise Spectrum**

	<b>Purely Philanthropic</b>	<b>Purely Commercial</b>
Mission	Appeal to goodwill Mission-driven Social value creation	Appeal to self-interest Market-driven Economic value creation
Beneficiaries	Pay nothing	Pay full market rates
Capital	Donations and grants	Market-rate capital
Workforce	Volunteers	Market-rate compensation
Suppliers	Make in-kind donations	Charge market prices

Source: Adapted from Dees, Emerson et al. (2001).

While the simplicity inherent in these continuum approaches constitutes a strength when comparing traditional organizational forms belonging to a particular sector, it turns into a weakness when trying to locate newly emerging organizational forms. In other words, continuum approaches do not suffice to clearly differentiate between traditional and new organizational forms. Consequently, Bozeman (1987), among others, suggests breaking free from conventional classifications and proposes the publicness grid, a two-dimensional construct that permits to successfully locate traditional organizations and incorporate new hybrid forms.

### ***The Publicness-Grid: Economic and Political Authority***

According to Bozeman (1987), organizations and their structure are determined by economic and political factors, which in turn affect their behavior and effectiveness. He notes that the word public usually refers to the legal status of a governmental organization, but fails to differentiate between nonprofit and for-profit organizations. His notion of publicness –defined as the extent to which an organization is affected by "public" constraints (political authority)– provides a more fine-grained categorization instrument. Bozeman categorizes groups of organizations according to their behavior and therefore assumes a fixed level of

publicness for organizations that are members of the same group within each of the three sectors (for-profit, public, and nonprofit). According to his approach, for example, all small voluntary organizations share the same level of publicness. The same can be said of all other groups of organizations (corporations, nonprofits, etc.). For example, many private, commercial firms within the aerospace industry in the U.S have a high level of publicness, reflected in the government's influence in assigning sales contracts, auditing contracts' profits, funding R&D projects and capital investments, and preventing firms from going bankrupt (Bozeman 1987).

We argue that the level of publicness is specific to each organization, because it is determined by the interaction between different market forces and the organization (Boschee 1995; Dees 1998). From the nonprofit sector perspective, for example, these market forces refer to the existence and intensity of competition for nonprofits' funds or donations, human resources, and customers; pressures from suppliers, distributors and customers; threat of product or service substitution; and entry barriers (Porter 1980; Oster 1995). The greater the pressure these forces exert on a nonprofit organization, the more it will perceive the need to act like a commercial enterprise in order to survive, the more it will resemble a for-profit firm coping with its environment, and the more likely its location within the organizational landscape will shift. However, this does not imply that nonprofit organizations become 'camouflaged for-profit companies'. Research shows that when competing with for-profit firms, their behavior remains different from the behavior of for-profit companies (Weisbrod 1998). In the health sector, for example, nonprofit firms that adopt business-like approaches are still more willing to receive patients regardless of their ability to pay than for-profit organizations.

According to Bozeman (1987), organizations are more private or public to the extent that they exert or are constrained by economic or political authority, respectively. Economic authority rests on self-interest and mainly refers to the degree of transferability of ownership and distribution of residual benefits. Whereas for-profit organizations have a high degree of economic authority, nonprofit organizations, due to the absence of owners—understood as those with the rights to control the organization and to appropriate profits (Hansmann 1996)—score low in this dimension (Bozeman 1987). The nature of political authority is more complex and encompasses three types depending on its source. First, primary political authority, exercised by individual citizens, represents the heart of any political system and rests on the citizens' grant of legitimacy to government leadership. Unlike unstable democracies, where governments may not be entirely legitimized, in stable ones this type of political authority has little impact on organizational behavior. Second, secondary political authority, exercised by public authorities, refers to the power of elected and non-elected public officials to act "on behalf of the citizenry" (Bozeman 1987: 67). This level of political authority is perhaps the one that has most influence on organizational behavior, taking the form of "statutes, administrative rules and regulations, executive orders, and judicial mandates" (Bozeman 1987: 72). And third, tertiary political authority, exercised by NGOs and private citizens, delegated by public officials to act on behalf of the government. This level of political authority affects organizational behavior dramatically, since by acting on behalf of government, the organization's behavior not only is affected by publicness, but also becomes public. There are some examples of private organizations granted tertiary political authority: government-owned contractor-operated Department of Energy laboratories, the American Bar Association licensing boards, physician's review boards, etc.

In sum, the publicness grid allows us to capture both old and new organizational forms, categorizing organizations in a comparative manner along the two –political and economic authority– dimensions, and permitting an assessment of the behavior of individual

organizations and groups of organizations. Thus, the level of publicness significantly reflects outcome variables such as effectiveness, as well as behavioral variables such as goal setting, resource allocation, and control (Bozeman 1987).

### *Introducing Social Authority*

Despite its parsimony and simplicity, the publicness grid is not free of controversy. It is difficult to operationalize, and also places excessive weight on public and for-profit organizations to the detriment of nonprofit institutions. In fact, Bozeman himself explicitly mentions that in the case of nonprofit organizations the mix of authority levels is “particularly arbitrary” (Bozeman 1987: 95).

In this paper we are aiming at disentangling authority structures, particularly within the nonprofit sector. We build on Bozeman’s typology and complement the traditional publicness grid by adding social authority as a third dimension in order to facilitate the location of nonprofit organizations. Thus, we propose that an organization is social to the extent that it exerts or is constrained by social authority, which refers to the degree to which market transactions rely on reputation and trust.

Practical experience suggests that all market transactions must involve a minimum level of reputation and trust between parties to guarantee a normal functioning of society. However, the presence of market failures –market power and asymmetry of information– makes reputation and trust the key characteristics of market transactions in the nonprofit sector. Hansmann claims that “nonprofit firms commonly arise where customers are in a peculiarly poor position to determine, with reasonable cost or effort, the quality or quantity of the services they receive from a firm” (Hansmann, 1996: 228). Thus, their nature and the way they operate allow nonprofit organizations to earn reputation and trust in ways organizations from the public and for-profit sector cannot. First, their non-distribution constraint allows them to build up reputation and trust, as it signals the absence of motivations to exploit opportunities on both types of market failures (Hansmann 1996). Since it is difficult for donors to monitor the allocation of funds, the non-distribution constraint represents a critical trust-generating mechanism that allows the transaction to take place. For example, a donor in America who donates money –through a traditional charity– to hunger relief in Africa is powerless to verify whether his/her donation is actually used to help someone in Africa instead of enriching someone else’s bank account.

The non-distribution constraint makes non-profit organizations “well suited to the production of hard-to-evaluate goods and services, collective goods, and goods and services with ideological content” (Oster 1995: 20). Collective goods are characterized as non-rival and non-excludable (Tuckman 1998). Non-rival means that one individual’s consumption does not affect others’ consumption (e.g., nonprofit radio broadcasts, scientific research, etc.), and non-excludable means that individuals are entitled to the product or service regardless of their ability to pay (e.g., housing for the homeless, health care for the poor, etc.).

Second, in addition to the non-distribution constraint, nonprofit organizations typically take specific actions to generate trust and reputation to facilitate the transaction, such as allowing donors to supervise the quantity and quality of the product or service provided. For example, in the performing arts where audiences are not large enough, organizations usually have a high proportion of fixed costs over total costs and are typically unable to cover their fixed costs with the income generated by the service provided. This situation forces nonprofit organizations to solicit voluntary contributions to survive as a form

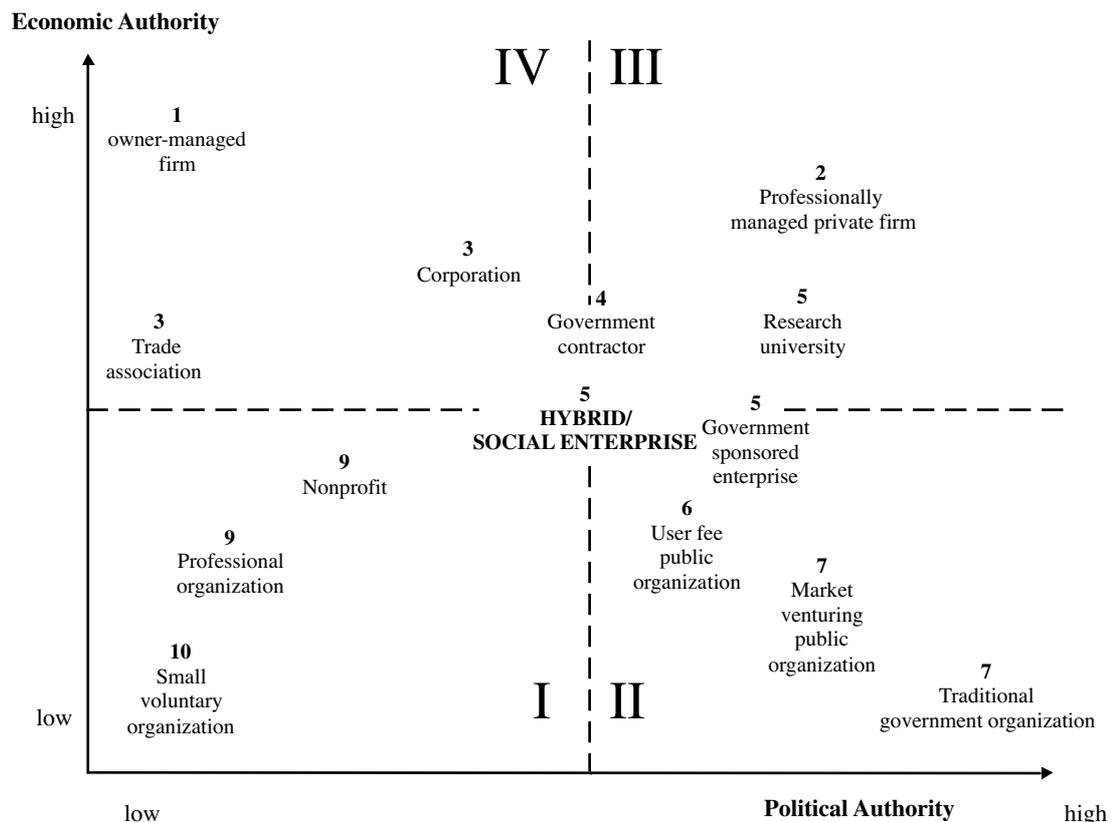
of price discrimination (Hansmann 1996). Interestingly, it is not as difficult as it may seem to find individuals willing to contribute more than the regular price of the ticket in order to ensure the viability of the production (Hansmann 1996).

In sum, to facilitate the location of nonprofit organizations and hybrid forms in the newly emerging organizational landscape, we build on Bozeman's (1987) typology and add social authority as a third dimension. As a result, we propose that all organizations share a mix of economic, public and social authority.

### *The New Organizational Landscape*

We enhance previous two-dimensional classifications of organizations by introducing social authority as a third important dimension to appropriately depict the new organizational landscape. To illustrate the new organizational landscape, we build on Bozeman's publicness grid and include the weight of the social authority dimension by attributing numbers ranging from 1 (lowest) to 10 (highest). See Figure 1 for a detailed illustration.

**Figure 1. The New Organizational Landscape**



Source: Adapted from Bozeman (1987). Numbers refer to the level of social authority.

The level of social authority for each group of organizations (e.g., 10 for small voluntary organizations) in the new landscape is not intended to be exact. Instead, the value each group of organizations takes is relative to the others; for example, social enterprises

have less social authority than small voluntary organizations but more than corporations. Therefore, the accuracy of the measure of the level of authority increases when viewed as the average level of social authority of groups of organizations by quadrant. As will be explained, the average level of social authority will be the highest for groups of organizations low in political and economic authority (quadrant I). The second highest average level will be for groups of organizations high in political authority and low in economic authority (quadrant II). By the same token, the second lowest average level will be for groups of organizations high in political and economic authority (quadrant III). Lastly, the lowest average level of social authority will be for those low in political authority and high in economic authority (quadrant IV). In sum, as will be explained next, in a counterclockwise direction, the average level of social authority is the highest for groups of organizations in the first quadrant, and decreases in each quadrant until it reaches the lowest average point in the fourth quadrant.

By definition, in their purest forms, we consider economic and social authority as opposites. While the former rests on self-interest and is characterized by transferability of ownership and distribution of profits, the latter is characterized by its non-distributive nature and is appropriate for market transactions that rely on reputation and trust. Similarly, in their purest forms, we consider economic authority and political authority as opposites. Bozeman (1987) already depicted this inverse linear relationship between economic and political authority with the owner-managed firm (the highest level of economic authority) and the traditional public organizations (the highest level of political authority) at extreme points. All commercial firms in between, as they lose their commercial characteristics and adopt more public ones, linearly flow towards a publicness mix with less economic and more political authority. Equivalently, all public organizations, as they adopt business-like behaviors, linearly change their publicness mix towards more economic and less public authority.

The relationship between social and political authority requires a deeper analysis. We need to understand, first, the political authority in nonprofit organizations, and second, the social authority in public organizations. As already depicted by Bozeman (1987), different types of nonprofit organizations (small voluntary organizations, traditional nonprofits, etc.) face a medium to low level of political authority, manifested mainly in the use of government funds to provide social services, and in contracts assigned by governments to provide specific social services. In other words, since nonprofit and public organizations pursue the same goals, namely fairness, redistribution, trustworthiness, public-goods provision, education, preservation of values, and social innovation (Steinberg and Weisbrod 1998), nonprofits serve as substitutes for the provision of government services. Their role as substitutes becomes visible in two different circumstances. First, it is visible in the growth of nonprofit services when the gap between the demand for social services and government provision augments (Steinberg and Weisbrod 1998). Second, it is visible in the conflicting relationship between nonprofit and public organizations. Since every private donor's dollar given to the nonprofit sector is one dollar less in taxes paid to the government, "when nonprofits expand, governments lose revenue" (Weisbrod 1998: 7).

On the other hand, public organizations can obtain a medium-high level of social authority. We stated that an organization is social to the extent that it exerts or is constrained by social authority, which refers to the degree to which market transactions rely on reputation and trust. Like nonprofit organizations, public organizations are suitable to operate in the presence of market failures (e.g. market power and asymmetry of information), and some face the same non-distribution constraint that eliminates the motivation to exploit the opportunity to act on both types of market failures (Hansmann 1996). However, the difference in power/influence structure between these two types of organizations makes

nonprofits more suitable to generate a higher level of reputation and trust than governmental organizations. First, unlike voluntary donors of nonprofit organizations, taxpayers are legally obliged to contribute to the government; and second, taxpayers not only do not know what their contribution will be used for but also “must” blindly trust the government’s good use of tax-collected money.

### ***Mapping Social Enterprises within the New Organizational Landscape***

Based on the arguments laid out in the previous sections, we claim that at a macro level the emergence of hybrids does not alter the existing boundaries –defined in terms of legal status– among the three societal –for-profit, nonprofit and public– sectors. From this macro –legal status– perspective, a nonprofit sector perspective that applies entrepreneurial skills or/ management techniques still remains an organization within the boundaries of the nonprofit sector. At a micro –organizational– level, where boundaries are determined in terms of economic status, changes in the behavior of traditional nonprofit organizations facilitate their transformation into a hybrid form (social enterprise). It is the change in behavior that instigates a shift in the organizational landscape but leaves sector boundaries largely untouched. The social enterprise moves from its original position within the group of traditional nonprofits to the group of hybrids/social enterprises, but remains in the legal domain of nonprofit organizations.

We locate social enterprises, the hybrid forms discussed in this paper, in the middle of the landscape (see **Figure 1**). In other words, we argue that social enterprises face an equal level of economic, public and social authority for the following reasons. First, even though they do not solely rest on self-interest, they adopt a certain level of self-interest in order to survive. Second, although social enterprises are not controlled by government officials, they are not entirely free from government supervision or funding because of the service they provide to society, their profit-generating capacity, and their tax-exemption status. And third, since social enterprises operate in market transactions that rely on reputation and trust, many take great care to ensure that their self-interested behavior does not alter their nonprofit, social nature.

It is important to note that hybrids can emerge within either one of the three sectors. While in this paper we have focused on hybrids that originate from the nonprofit sector, the main ideas of this paper can be translated to new organizational forms in the for-profit or the public sector.

### **Conclusion**

This paper aimed at a more comprehensive understanding of the implications of recent trends in the social and economic environment which have led to the emergence of new –hybrid– organizational forms. While a number of authors have argued that this phenomenon significantly alters boundaries among the three traditional sectors, we suggested that although emerging organizational forms have a strong impact at the micro –the organizational– level, they hardly affect sector boundaries. Thus, instead of redefining sectors, we revised the classification criteria for organizational forms in order to adequately depict the new organizational landscape. To support our argument we focused on one particular hybrid form in the nonprofit sector, namely social enterprises. We offered a fresh and insightful conceptualization of social enterprises and illustrated the effect of their

appearance on the organizational landscape. Building on previous research, we introduced a classification instrument that distinguishes organizational forms according to the level of economic, public and social authority. This approach allowed us to map both traditional and newly emerging organizational forms and to depict the new organizational landscape in a comprehensive and accurate manner. □

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