Sweet charity and filthy lucre: the social construction of nonprofit business venturing in Australia, the United Kingdom and the United States*

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Abstract

Nonprofits have come to embrace the idea of participating in the market to maximise revenue. However, the tone of several recent media reports suggests that, at least in the eyes of some, such business venturing is unjustifiable or even morally unacceptable. The paper examines the treatment of nonprofit business venturing by the Australian, the United Kingdom and the United States' media and argues that it is important that charities understand the contestation surrounding business venturing if they are to apply it critically and reflectively in practice.

Keywords: nonprofit management, nonprofit business venturing, social enterprise, charities, community organisations

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I. Introduction

The literature on business venturing provides us with few clues as to how people outside the nonprofit sector understand the concept and more generally form judgements about the commercial activities of charities. However, several recent media reports suggest that there is a gap between the perceptions of the public and the charities that undertake such activities. While many nonprofits have come to embrace the idea of participating in the market to maximise their revenue, the tone of recent media reports suggests that, at least in the eyes of some, such forays into the market are unjustifiable or even morally questionable. The paper looks at nonprofit business venturing in Australia, the United Kingdom and the United States. After an examination of the interpretations of business venturing by scholars, its treatment by nonprofit and business representatives and the media are examined. The paper argues that it is important that charities understand the meanings and contestation surrounding their ventures into business, and social enterprise more broadly, not only to protect their reputation, but also if they are to apply it critically and reflectively in practice and participate in contemporary debates about its place in nonprofit management. It is also important for charities to be aware how such public sentiment can be exaggerated or manipulated by for-profits who argue that nonprofit business venturing is a source of "unfair" competition and grounds for revoking a nonprofit's tax exemption status.

II. What is the difference between business venturing and social enterprise?

Nonprofit associations draw their revenue from a wide range of sources. These sources include governments (in the form of grants and contracts), members and other users of their services who pay fees and revenue raised through fundraising activities. In recent times, however, one of the fastest growing sources of revenue has been from the returns made from commercial activities. Behind this trend are a wide range of motivations from those non-profits who seek involvement primarily to secure a reliable revenue stream to others whose hope to achieve some social purpose.

The practice by which nonprofits engage in entrepreneurial activity as a means of raising revenue is generally referred to as business venturing, a term that will also be used in this paper. Business venturing can be defined as regularly conducted activities that involve the sale of goods and services to benefit a nonprofit organisation's income. As stated by one of Australia's largest charities, the Smith Family, business venturing includes commercial activity that "supports our work in the community by generating untied funds and offsetting the costs of running the organisation" (Smith Family 2005).

Business venturing is often addressed in literature on social enterprise or social entrepreneurship, in particular the strain that looks at elements of social enterprise as an earned income strategy for nonprofits (Dees 1998, 2001). Other terms used to describe these social enterprises include social purpose businesses, community-based businesses and community wealth enterprises (Emerson and Twersky 1996). The literature on social enterprise refers to a broad set of entrepreneurial strategies to address social goals (Boschee 2001; Borgaza and Defourny 2001; Simons 2000; Thompson 2002). Lyons (2002) refers to a social enterprise as "an organisation with primarily social goals that it pursues in an entrepreneurial and business-like manner." Thus, social enterprises are often characterised as having two major organisational goals, one, to generate earned income and the other, to expand the organisation's social impact. Unlike social enterprise-related activity, business venturing does not necessarily involve the internalisation of entrepreneurial principles to reorganise existing activities to improve operational efficiency or to realise significant social change. Given that much of the business venturing-related literature focuses specifically on social enterprises it is – it is important to note that this paper is about business venturing that nonprofits, and charities in particular, use as a way of building new revenue sources and *not about the development of a new organisational form.*

III. The rise and rise of nonprofit business venturing

Charities have been involved in commercial businesses for a long time. It was a key feature of the poorhouse system in Victorian England, in particular institutions known as workhouses (May 1997). However, for most of the 20th century, UK, US and Australian charities, often affiliated with Christian denominations, raised donations from the public as well as relying on government grants rather than engaging in commercial businesses.

Until recently, most nonprofit business venturing involved low risk, small-scale activities such as operating second-hand clothing outlets (charity shops); and were often directly mission-serving such as a few specialist nonprofits that operated businesses to employ people with disabilities. In Australia, one well known exception was the non-woven goods business run by the Smith Family. In the US, well known examples are the Goodwill Industries and the Scouts movement, such as Girl Scout cookies as well as museum stores.

More recently, interest among nonprofits in commercial practices and the breadth of these nonprofits' commercial operations has grown significantly. This development has occurred in a context where the nonprofit sector has assumed many welfare service provision functions previously provided by the state and where state funding has moved to contracting and project-based models (Lyons 1997; Nowland-Foreman 1998). This role has stretched nonprofit organisations' resources and stimulated them to find new ways to increase their revenues. In particular, income generated from business activities has become valued as a source of "unallocated" funds that can be used in any area of charitable work.[i]

IV. Practitioner and academic perspectives

For many charities and those that study them, business venturing has become the new orthodoxy – accepted as the most logical response to a situation that calls for them to stretch limited resources. According to Australia's St Vincent de Paul Society:

> "there is a wide acceptance within the Australian community that charities and related organisations conduct commercial activities to support their core services...What differentiates this type of "commercial" activity from that undertaken by for-profit organisations is that the profits are used directly for the core purpose of the organisation, that is, the relief of poverty, destitution, suffering or misfortune rather than distribution to shareholders" (quoted in the Commonwealth Department of the Treasury 2001 Ch 27)

This support for business venturing has occurred in a broader context characterised by the legitimising of the business model within the nonprofit sector (Kenny 2002; Frumkin 2003). This business-orientation is evident in much of the social enterprise literature where it is often assumed that social problems are best solved through a dose of "market medicine" (Deakin & Walsh, 1996). For example, the well-known social enterprise advocates Dees and Anderson note that:

> "Increasingly we are turning to business methods and structures in our efforts to find more cost-effective and sustainable ways to address social problems and deliver socially important goods" (Dees and Anderson 2003: 16)

In this literature the ability to simultaneously fulfil charitable and commercial roles is not generally problematised and, in the case of the social enterprise literature, "going commercial" is often treated as a tenet of the social entrepreneurial approach. A consequence of this interpretation is that activities such as developing partnerships with business or establishing social enterprises are reinforced within the sector as good practice. In a 2003 survey by the Bridgespan Group of US nonprofit executives, over 50% of respondents said they believed earned income would play an important or extremely important role in bolstering their organisations' revenue in the future (Bridgespan Group 2005).

Part of the motivation within the sector to venture into the market stems not only from a desire to generate revenue but also to meet what many nonprofit executives perceive to be commonly-held expectations that their organisations will be considered to be more disciplined and effective if they appear more business-like.[ii] However, as Frumkin (2003) has observed, this new focus on commercial activity and the related move towards the adoption of business terminology - from funder to investor, evaluation to measurement, grant proposal to business plan – is sometimes a case of adopting new words for old ideas (Frumkin 2003: 14).

Other authors have described how business venturing can have the potentially negative consequences in terms of nonprofits' mission, capability, financial impact, legal aspects, community relations and public image (Chetkovich & Frumkin 2003; Frumkin & Andre-Clarke 2000; Ryan 1999; Keating 1998).

V. Perspectives from business: funding good works or a source of unfair competitive advantage

Nonprofits compete with for profits in a number of key industries, most recently in areas such as child care, education and nursing homes. In Australia, there is fierce competition between the two breakfast cereal makers Kelloggs and the Seventh Day Adventist Church-owned company Sanitarium.[iii] In the UK, charity shops compete with major clothing stores (in 1992 there were around 3,480 charity shops in the UK with sales of £183.3 million; by 2002 there were 6,220 shops with total sales of £426.5 million in 2002 (Charity Finance 2002). In the United States, local YMCAs compete with for-profit health clubs; the American Association for Retired People vies for market share with for-profit insurance product providers and National Geographic is pitted against Discovery Channel in the competitive cable television market.

Competition from nonprofits has been an issue highlighted by various businesses. In Australia, Kelloggs and a consortium of for-profit health care related companies commissioned reports submitted to the Industry Commission inquiry into *Charitable Organisations in Australia* in 1995. The submissions argued that charitable groups had an unfair advantage when competing with for-profit organisations due to the taxation concessions which extend to their commercial operations. It presented various case studies of "unfair competition" and argued that in the health industry, for example, not-for-profit hospitals enjoy a tax advantage over for-profit hospitals equivalent to at least 5% of total costs.[iv] In the US, the International Health, Racquet & Sportsclub Association (IHRSA) has run an ongoing campaign against nonprofit health and racquet clubs operators such as the YMCA and the Jewish Community Center (JCC) (IHRSA 2003).

But are these interpretations of nonprofit business venturing shared by the public? Or, is nonprofit business venturing as warmly embraced as it is by many nonprofits and nonprofit researchers?

VI. The media

As many social scientists have acknowledged, it is difficult to tell what a "public" thinks. Ascertaining public opinion throws up major methodological challenges relating to how to examine public discourse. One approach has been to examine how an issue is dealt with by the mass media.

We sought to collect reports published in all major news and business publications in the UK, US and Australia over an 18 month period (from 1 September 2003 - 30 March 2005) that significantly focus on nonprofit organisations' involvement in commercial activities. To identify relevant articles we used the specialist media search engine *Factiva*™ and searched major publications in each country by using - in different combinations – a variety of search words. The search terms were designed to cover a whole range of topics relating to business venturing and included terms such as nonprofits, not-for-profits, charities, NGOs, business venturing, social enterprise and social entrepreneurship along with terms such as community, economy, development and finance.

After examination of the relevant media articles relating to nonprofit business venturing we collated 17 articles that met our criteria. We readily acknowledge that these articles are indicative rather than definitive of recent media coverage. However, after analysis some key themes emerged. While some articles touched on several issues, the sample can be categorised on the basis of four key themes: business venturing as innovation; concerns with lack of transparency, corruption, misuse/ misallocation of funds involving business ventures (and some of these examining these issues' implications for taxation status); competition issues; and articles on other ethical dilemmas associated with blurring the distinction between the for-profit and nonprofit sectors.. A brief summary of these articles categorised according to these themes is presented in Table 1 (see appendix). While some of the articles do not specifically identify the activity involved as business venturing, they are symptomatic of the quandaries faced by nonprofits when embracing the business culture.

As table 1 shows, a number of recent media reports adopt the same position as much of the social enterprise literature, with five articles advocating that remedies for current nonprofit management deficiencies can be found in the market. The majority of articles, however, appear less enthusiastic about nonprofits' burgeoning corporate orientation. For example, a recent article published in a major Australian business magazine was critical of charities' profit producing ventures in areas such as poker machines, pizza chains and producing a horse racing newspaper. The journalist Adele Ferguson writes:

> "Without adequate supervision or transparency, the not-for-profit sector is a ticking time bomb. It would take just two or three scandals to harm all the good that the other charities are doing" (*Business Review Weekly*, 2005).

Another article in the UK newspaper, *The Times* warned that:

> "Voluntary organisations must work harder to distinguish themselves if they want to retain public support. Charities are going to have to be clearer about what they are doing because the boundaries between the sectors are blurring ... How will the public tell the difference?" (*The Times*, 21 October 2003)

In an article titled "The $70 billion sacred cow" the tone is clear:

> "Are you sick of paying tax? Is your entrepreneurial drive being held back by over regulation? Would you like regular government assistance in expanding your business? Sizable corporate and private donations - no questions asked? Would you like to see your competition operate at a disadvantage? If you answer yes to any of these questions .. start your own charity or religion." (*Business Review Weekly* 24 March 2005).

Bad press was also appearing in the United States. In 2003, *The Boston Globe* published several articles as part of a so-called "Spotlight series" on charities. According to one of these articles "The Globe's investigation of hundreds of foundations turned up cases of foundation executives using tax-exempt assets to propel for- profit businesses for their own benefit." It went on to state that "High pay and perks are the rule at foundations across the country. There are million-dollar salaries, luxury cars, generous pensions, health care benefits allotted for part-time trustees, and even private jets financed by organizations that, in exchange for significant tax benefits to their founders, support charitable causes." *The Boston Globe*, 3 December 2003.

Seven of the articles in Table 1 express concern about a lack of transparency, corruption, or some other kind of possible malfeasance such as charities selling donor's names. These reports highlight the need for nonprofits to carefully consider how to conduct business ventures and astutely weigh its possible benefits against any possible reputational or other risks. This is because reputation is perhaps a nonprofit's most valuable asset.

VII. Business venturing: profitable or expensive?

> "Reputation, reputation, reputation! Oh, I have/ lost my reputation. I have lost the immortal part of/ myself, and what remains is bestial. My reputation,/ Iago, my reputation!" (Cassio in *Othello* 2.3.262-265).

While there has been widespread promotion of and engagement in commercial activities these media reports suggest that some nonprofits are not sensitised to some potentially serious implications.

Given the widespread support and practice of nonprofit business venturing, it is interesting to note the findings of Foster and Bradach's (2005) study into several nonprofits that have recently ventured into commercial operations. The study found that business venturing can present serious financial risks with only a few of the organisations that were studied showing that they had actually made any money. The authors identify two main reasons for the failure of such ventures. One is that mission serving and profit making imperatives often work against each other – they cite the example of hiring the disadvantaged. The other reason, they claim, is that nonprofits' executives tend to overlook the distinction between revenue and profit. They write "For example, a youth services organization that had received funding to launch a food products enterprise hired young people and began making salad dressing. The nonprofit believed it spent $3.15 to produce each bottle of dressing that was sold for \$3.50. But when expenses such as unused ingredients and managers' salaries were factored in, the cost per bottle reached a staggering \$90." Foster and Bradach note that this was in contrast to most nonprofit executives' expectations: "When we examined how non-profits evaluate possible ventures, we discovered a pattern of unwarranted optimism. The potential returns are often exaggerated, and the challenges of running a successful business are routinely discounted" (Foster and Bradach 2005, p.3).

A review of recent media treatment highlights broader issues relevant to an increasingly competitive nonprofit sector. In particular, it appears that the key challenge is to harmonise commercial success and mission realisation. Frumkin argues that:

> "The alignment of strategy with mission requires a careful appreciation of the tradeoffs involved in securing the fee-based and donative revenues necessary to support the work of an organization while protecting the public benefits that justify the special status of nonprofit organizations' (Frumkin 2003: 39).

VIII. Conclusion

Nonprofit business venturing has created new opportunities and new challenges for the sector. Business venturing has the potential to bring innovation to nonprofit management and operations and to provide an opportunity for nonprofits to augment scarce resources. This latter benefit is particularly attractive at a time when demand for nonprofit services far outstrips sector resources.

It is important, however, that nonprofits understand the meanings and contestation surrounding business venturing, and social enterprise more broadly, if they are to apply it critically and reflectively in practice and participate in contemporary debates about its place in nonprofit management. In particular, nonprofits need to be aware of the risks of being seen by the public as more of a business than a social agency and develop ways to respond to public distrust or scepticism. This is important also if the sector is to understand and appropriately respond to criticism by for-profits that are concerned about increased competition.

Nonprofits should also be aware of the potential for business venturing to challenge nonprofit organisational culture. In particular, that a new focus on the market does not lead to "value creep" and erode the moral foundations upon which these nonprofit organisations are built. Unchecked some nonprofits' organisational cultures may drift toward competitively and economically based values where strategies deliberately avoid some services due to their non-marketable features.

To explore the new possibilities of commercialisation and to avoid its perils, nonprofits need to craft their strategies carefully. In considering business ventures nonprofits should pay attention to the organisation's mission, its capability, the financial impact, legal and taxation aspects, implications for community relations, and professional and ethical considerations. It is important that nonprofits are aware of these risks and take steps to minimize them. This strategy will require a strong commitment to transparency based on assuming a comprehensive approach to governmental compliance and internal recordkeeping.

Whether nonprofits follow this path or not, one certainty is that they will continue to become increasingly business-like as they strive for more creative forms of fundraising. The challenge is to make sure this new, more commercially aware model does not damage their status as agents for social justice.

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