1. Introduction

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BACKGROUND

The modern economy has never been as simple or as tidy as portrayed by economic scholars. For example, classic texts from the mid-twentieth century such as Samuelson's *Economics* (1964) and Musgrave's (1959) *The Theory of Public Finance* essentially reduce the market-based economies of industrialized countries into two parts – business and government. The informal subsectors of family, cooperatives, not-for-profits and associations were below the radar. Not until Weisbrod (1975) and Hansmann (1980) wrote their seminal papers did economists recognize the importance of a third (nonprofit) sector as a key component of market economies in producing critical public and private services that government or business could not efficiently provide in a democratic society. Since that time, the three-sector model of the economy has been widely accepted, albeit with variations on the nature of the third sector itself (McCarthy et al., 1992; Salamon and Anheier, 1997). Still, reality seems to outpace scholarship. Recent texts recognize the increasing complexity and diversity of the “social economy,” which now includes many variants and combinations of nonprofit, cooperative, business and governmental organizations, networks, and partnerships (Mook et al., 2015). However, scholars have not yet tied up the social economy, broadly conceived, into a nice neat package with a bow on top. Indeed, the complexity and diversity seems to grow almost by the day. That is one motivation for this book, and the reason we will employ the metaphor of the “social enterprise zoo” to capture, or at least glimpse, this diverse and dynamic and increasingly important part of the economic universe in which we now live.

Certainly there is growing recognition that the paradigm of three sectors – public, private, and not-for-profit – as a system for marshaling the world's resources and satisfying humanity's needs is not perfect, although few would argue that the three-sector approach has been a failure. Quite the contrary: government, business, and nonprofits have dominated the economic landscape for some time and will likely continue

to do so. Indeed, historically, these three sectors have combined to create tremendous economic opportunity and prosperity (albeit uneven) around the globe. On the other hand, economic disparity has reached alarming proportions. Soon, 1 percent of the world's population will hold over 50 percent of the world's wealth. Historical economic analysis suggests that gross imbalances in wealth and welfare are unfortunately common but ultimately unsustainable (Piketty, 2013).

Over the last two centuries, we have relied heavily upon the public and voluntary sectors to redistribute wealth and redirect prosperity to provide for the less fortunate. We also rely upon government and nonprofits to meet many other essential human needs such as healthcare, education, arts, religion, and culture, where for-profit institutions may be absent or insufficient. In some circumstances, however, government and nonprofits either fail to solve social problems or do so in a manner that is inefficient. This is perhaps self-evident or even ironic to economic theorists who conceptualize and analyze government and nonprofits as responses to market failures (Steinberg, 2006). Here we contend, however, that it is entirely reasonable to conceive of social enterprise as a response to failures (or more precisely "inefficiencies") in all three of the conventional sectors – traditional business, government, and nonprofit/voluntary institutions. An expansion of "market failure" theory may thus help to explain the emergence of "social enterprise" in its various and sundry forms.

MARKET FAILURE AND SOCIAL ENTERPRISE

Market failure theory has evolved over the past 40 years to encompass the understanding of inefficiencies not only in the business sector, but also by extension in the government and nonprofit sectors. Very briefly, the arguments go as follows. Achieving economic efficiency through markets depends upon a number of requirements or assumptions of the perfectly competitive model stemming from the ideas of Adam Smith (Young and Steinberg, 1995). Markets must indeed be highly competitive, otherwise monopolists or oligopolists have market power to restrict output and raise prices to inefficient levels, and monopsonists can suppress the price of inputs and restrict their efficient use. Further, efficient markets must exist in a context of transparency where consumers and producers have full information about the quality and prices of alternative products and services. Otherwise, consumers may not receive the value they think they are paying for, with the consequence that they will limit their consumption below efficient levels (forgo anticipated net benefits) or be cheated. And, markets cannot efficiently allocate resource in the presence of "externalities" or

“public goods.” In the case of externalities, either producers or consumers fail to account for the full social costs or benefits of their actions. For example, industrial polluters make production decisions without factoring in the external environmental or health costs; alternatively, parents of school-age children may neglect to have their children vaccinated, failing to account for the positive external benefits (lower risks of contagion) for other children. In the case of public goods or services such as public safety or environmental conservation, markets suffer from what economists term *nonexcludability* and *nonrivalry*. Without excludability, suppliers cannot bar consumers from using their services without paying for them. Without rivalry, suppliers cannot determine appropriate prices and output levels that would equate consumers’ benefits at the margin, with the marginal costs of production. Hence, markets fail to allocate resources efficiently in these circumstances.

Given these limitations of unfettered private markets, economists have theorized on the roles of government and nonprofit organizations to improve the allocation of societal resources. In particular, government can encourage competition through anti-trust policy or it can directly regulate monopolies, monopsonies, or oligopolies. Moreover, government can correct for externalities by imposing taxes or providing subsidies to *internalize* the costs or benefits of externalities facing suppliers or consumers. Government can also raise tax revenues and allocate them to the provision of public goods, either directly or through contracts with private entities. Finally, government can require transparency in the form of product labeling or other means to overcome *information asymmetry*.

Why then is the combination of private business and government action not sufficient to achieve an efficient allocation of societal resources? Following the work of Burton Weisbrod (1975), economists note that government too has its economic failures or inefficiencies. In particular, a democratic government will allocate resources according to the preferences of the median voter. This leaves unsatisfied demand for public goods by segments of the citizenry as well as some citizens who would prefer less service and lower taxes – both sources of inefficiency. Moreover, government agencies, lacking the profit motive and subject to political forces, may not administer its agencies with maximum internal efficiency (cost-effectiveness or *x-efficiency*) or, having to follow uniform policies and procedures or provide for all of its citizens on a nondiscriminatory basis (equal protection) may not be sufficiently sensitive or responsive to local variations of citizens’ preferences and demands.

The forgoing theories of market and government failure lead in turn to consideration of the role of nonprofit organizations in a democratic market society. Nonprofit and voluntary institutions can address a number

of the remaining inefficiencies. Following Hansmann (1980) they can address information asymmetry by earning the trust of consumers, based on their requirement that they do not distribute surpluses (profits) for private gain. They can respond to unsatisfied consumers of public goods by organizing and funding supplementary public goods on a voluntary basis. And they can serve as contractors to government for the provision of local public services in a manner that is more efficient and responsive than government can be. Finally, they can bring the public's attention to both government and business shortcomings (such advocacy being a voluntarily supported public good in itself) in efforts to nudge those institutions to become more efficient.

Can this market failure logic now be extended to social enterprise? Certainly the three-sector world of business, government, and traditional nonprofits does not resolve all-important inefficiencies. What is left for social enterprise to address? Interestingly, the answer to this question offers some insight into the utility of the zoo metaphor for social enterprise because the ways in which social enterprise can potentially address societal inefficiencies are manifold.

To begin, consider the limitations of the nonprofit form itself in addressing inefficiencies of business and government (see Salamon, 1987). Nonprofits' principal limitation is their capacity to raise sufficient resources. Essentially, nonprofits can be viewed as private providers of public goods, or goods and services with some element of publicness, including support of vulnerable populations, provision of services plagued by information problems, policy advocacy addressed to government service provision, and more conventional public goods such as environmental protection or social justice. Since nonprofits are limited in the degree to which they can charge for their services, they are substantially dependent on voluntary contributions of money, labor or in-kind resources. The raising of voluntary resources is itself limited by the *free rider problem* – the fact that not all citizens who benefit from or otherwise value the provision of a good or service are compelled to pay for it (because of rivalry and excludability issues). This limitation is particularly acute for capital expenses; since nonprofits cannot have shareholders who profit from the ownership and sale of stock, they cannot directly raise capital in equity markets. A related limitation of nonprofit provision is that nonprofits cannot fully mobilize the entrepreneurial drive associated with wealth accumulation and income maximization. While it is true that entrepreneurs are driven by a variety of motivations (Young and Lecy, 2014; also see Chapter 7), profit-seeking is a key dimension that is explicitly discouraged in the nonprofit environment.

Finally, nonprofits are limited in the kinds of services they can offer. Usually nonprofits are tax exempt, in exchange for which they normally

promise to confine their attention to traditional domains of charitable activity such as education, social services, healthcare, environment or the arts, although this varies by national context. However, one can argue that social good can be achieved in many other domains such as the development of new medical techniques and pharmaceuticals, the establishment of small businesses to help communities overcome poverty, better agricultural techniques, or the development of new technologies that make life easier or help people overcome handicaps. Many of the latter will, of course, be explored by conventional businesses, but only if there is sufficient potential profit to be made down the road. Government can assist with subsidies, tax breaks or its own projects (such as space exploration). Still, there is likely to be much left outside the nonprofit domain and beyond business and government interests or capacities that promises substantial social benefit. Indeed, Depedri (2010) nicely summarizes four areas where social enterprises of various types can be more efficient than conventional forms of public or private enterprises. First, they can improve internal efficiency by reducing costs through additional access to free resources (such as volunteers or privately donated space). Second, they can reduce transactions costs by sharing internal control, cultivating relationships with community stakeholders, and by using participatory arrangements for service provision. Third, they can lower costs of controlling manager and worker performance through selection of workers with shared values, internalizing social norms, and using less coercive means of control and reward. And fourth, they can substitute intrinsic for monetary incentives to motivate their employees. Thus, as Borzaga and Tortia (2010) argue, social enterprises may enjoy a number of “supply-side” advantages, based on a broader reading of behavioral determinants of economic enterprise than conventional market failure theory is able to take into account.

In particular, social enterprises (of various sorts) have characteristics that can potentially address some of the limitations of conventional nonprofits identified by market failure theory. For example, nonprofits themselves can undertake profitmaking activities under properly controlled circumstances (Cordes and Steuerle, 2009). Indeed, earned income is the fastest-growing component of nonprofit income (Kerlin and Pollak, 2011; Salamon, 2012) and the dominant source in many countries (Anheier and Salamon, 2006). Given that commercial activity by nonprofit organizations is, by some lights, one manifestation of social enterprise, this is one way in which social enterprise can accommodate remaining market failures of the three-sector model. Another way is that businesses that explicitly accommodate social objectives in some way may be able to harness the profit motive to address the free rider problem, while still contributing to the public good. Such businesses, as discussed through this book, are another

form often characterized as social enterprise. Indeed, social business can be broadly conceived not only to include new forms such as low-profit limited liability companies (L3Cs) or benefit corporations, but also conventional small businesses or larger corporations that have decided to follow a strategy and philosophy of economic, social, and environmental sustainability (Gidron, 2010). Finally, the three-sector market failure model fails to accommodate concepts from the social economy as practiced in places like France, Italy, Scandinavia, and Quebec that encourage cooperative forms of enterprise where workers or consumers themselves govern organizations that in turn provide them with direct benefits in the form of (usually limited) financial or material benefits and ownership shares. So-called social cooperatives also incorporate broader social benefits into their missions, such as improving the welfare of challenged populations through training and employment (Osborne, 2008; Depedri, 2010). Accordingly, cooperatives are yet another animal in the social enterprise zoo, which can potentially address inefficiencies of the three-sector economy by helping to overcome free rider effects and incorporating some of the benefits of self-interest (profit) motivation. Finally, cooperatives are less restricted than nonprofits in what they can do to increase social welfare; indeed, industrial production typical of the business sector is well within their purview.

SOCIAL ENTERPRISE: COMPETING INTELLECTUAL FRAMEWORKS

Still, the reader may ask, “But what is the *real evidence* of the emergence of this social and economic movement that we have labeled social enterprise?” First, over the past few decades, the private sector has increasingly demonstrated remarkable sensitivity to issues of social responsibility, environmental impact, and fairness in the marketplace, and has incorporated new thinking about shared values and long-term strategic success (Mook et al., 2012; Jäger and Sathe, 2014). Second, there is growing reliance on earned income by nonbusiness manifestations of social enterprise such as nonprofits and cooperatives. Third, jurisdictions across the globe are creating new and distinct legal forms specifically designed for social enterprise organizations (see Chapter 3). These developments suggest the need for a coherent, comprehensive, and convincing framework for understanding and advancing social enterprise as a whole.

There are currently several alternative intellectual frameworks for understanding social enterprise. These include the cross-subsidy model that views social enterprises as commercial arms of nonprofit organizations (James, 1983; Weisbrod, 1998), the spectrum school that sees social

enterprise as a segment of a continuum between pure profitmaking and pure social purpose organizations (Dees, 1998; Borzaga and Tortia, 2010), the innovation school that characterizes social enterprise as a manifestation of the work of Schumpeterian social entrepreneurs (Shockley and Frank, 2011; Nicolls and Murdoch, 2012; also see Chapter 7), and the EMES International Research Network framework that postulates social enterprise as a type of organization guided by certain parameters of governance, social purpose and limited profit distribution (Borzaga and Defourny, 2001; Galera and Borzaga, 2009; Defourny and Nyssens, 2012). Other strands of social enterprise theory emphasize the historical/institutional context in which different forms of social enterprise develop (Kerlin, 2013), the hybridity literature that views social enterprises as combinations of various types of social and business entities (Evers, 2008; Billis, 2010), and the behavioral and evolutionary economics literature that sees social enterprise as a response by entrepreneurs and organizations to changing social needs, policy reforms and entrepreneurial motivations over time (Borzaga and Tortia, 2010).

The multifaceted literature on social enterprise and the increasing variety of enacted and proposed social enterprise forms indicate the desirability of a new, more comprehensive and flexible framework for understanding this phenomenon – one that draws on the disparate conceptualizations and empirical studies extant in the literature and that knits them together into an all-inclusive, yet practical, whole. The problem is that social enterprise is an emerging field and thus far is “chaordic”¹ in its development.

THE “CHAORDIC” NATURE OF SOCIAL ENTERPRISE

The authors submit that it is very difficult to draw meaningful boundary lines differentiating among so-called social enterprises and more familiar, conventional ways of organizing human endeavors through profitmaking corporations, small businesses, nonprofit organizations, and cooperatives. If one clings to the most basic idea of a social enterprise as an organization or venture that contributes a balance of economic, social, and environmental value to society, it is clear that none of the foregoing manifestations of enterprise can be summarily excluded, or for that matter, completely included. Indeed, applying the newly formulated notion of the “sustainability frontier” to enterprises of all kinds, one can easily appreciate that every type of economic enterprise produces some combination of economic, social, and environmental benefits and costs (Young, 2014; also see Chapter 2). So the issue becomes the following: where in the

three-dimensional space of economic, social, and environmental value – within a frontier defined by limited resources and existing technologies – do we decide to apply the label of social enterprise and study the forms that occupy this subspace?

In this book we offer the idea of the social enterprise zoo to address this challenge. The zoo serves as a metaphor to signal that designation of social enterprise is an intentional construct, reflecting the limits within which we are willing to call something a social enterprise versus a conventional business, nonprofit, cooperative, association, or governmental entity. It is not our purpose in this book to draw those boundaries, but rather to enable discovery of such boundaries, however elusive they may be, and to bring attention to the efficacy of the zoo framework for expanding and joining together alternative scholarly and practical views of the social enterprise phenomenon.

Accordingly, the book considers several key dimensions and features of the social enterprise zoo, and the research, practice, and policy questions raised by the zoo framework. As noted in the chapters that follow, these include the variety of animals in the zoo, the alternative habitats in which they live, and the interactions of different animals within particular habitats. The zoo metaphor is particularly well suited for appreciating the complexity and diversity of social enterprise and the likelihood that no one simple model will suffice to understand social enterprise as a phenomenon or to advance it as a social strategy. The zoo framework also makes clear that social enterprise is a humanly devised and designed notion, constructed by drawing out from the broader “wilderness” of economic enterprises those initiatives that scholars and practitioners of social enterprise now believe to be especially fertile for solving social and environmental problems through market-based solutions.

One further word about perspective before we offer an overview of the contents of the book: a basic requirement of rigorous research is to be clear about one’s “unit of analysis.” That is, what is the fundamental variable around which our theorizing and data analysis are based? In the present context, is it the individual organization or venture (i.e., the animals in the zoo); the zoo as a whole as it exists in different forms in different national (and international) contexts; the populations of different types of social enterprise animals (such social businesses vs social cooperatives); or the habitats of social enterprise that give rise to alternative ecological systems within which social enterprise animals live? Given the multifaceted nature of our inquiry in this book, we can give no single answer to this question. Rather, we have tried to be explicit in each chapter about what unit of analysis is employed, so that the reader can be clear as to what we are learning at different levels of analysis. Roughly speaking, Chapters 1, 2, 12,

and 13 focus on the social enterprise zoo as a whole; Chapters 4, 5, and 9 employ habitat as the unit of analysis; and Chapters 3, 6, 7, 8, 10, and 11 consider individual types of social enterprises as their units of analysis. We believe that this multi-level approach has allowed us to learn about social enterprise in a more comprehensive and insightful manner.

We organize this book in the following way. Part I, including this chapter, sketches the landscape of social enterprise and establishes the conceptual framework through which we view it throughout the rest of the book. In Chapter 2, by Dennis Young and Wesley Longhofer, we elaborate on the use of metaphor in understanding social enterprise, why we find the zoo metaphor compelling, and the particular design, operational, management and governance, and performance questions raised by the zoo metaphor. In Chapter 3 by Cassady Brewer, we describe the richness of the zoo in terms of the variety of forms of social enterprise (flora and fauna) it embraces and the legal structures that accomodate these forms.

Part II of the book examines how the zoo actually works. In Chapter 4 Janelle A. Kerlin, Thema Monroe-White, and Sandy Zook describe the alternative habitats found within the social enterprise zoo, roughly corresponding to the different sorts of national contexts within which social enterprise develops – noting that habitat is highly influential in attracting and nurturing different social enterprise animals. In Chapter 5 Elizabeth Searing, Jesse Lecy, and Fredrik Andersson then examine the ecosystems within these alternative habitats, and the processes through which different species of social enterprise interact, compete, cooperate, differentiate themselves from one another, and ultimately thrive or decline, as well as how the ecosystems themselves evolve over time. Then in Chapter 6, Jesse Lecy and Elizabeth Searing examine the social enterprise animals over the course of their life cycles, addressing issues of infancy, adolescence, growth and maturity – especially the resources and other conditions required for success at each stage.

With the understandings developed in Parts I and II, Part III considers how the social enterprise zoo is managed and governed. In Chapter 7, Dennis Young and Jesse Lecy focus on the role of social entrepreneurs as zoo curators, selecting the animals that populate the zoo, reflecting entrepreneurial styles, preferences, and ideas about social purpose and market success. The underlying proposition in this chapter is that social enterprises are a product of social entrepreneurship, albeit within the constraints of alternative political environments or habitats. Accordingly, these entrepreneurs/curators must have access to the resources required to support their social enterprise animals. Chapter 8 by Elizabeth Searing and Dennis Young makes this connection explicit, relying on empirical evidence and benefits theory to describe the correspondence between forms

of social enterprise and forms of economic nourishment that they require. Then in Chapter 9, Francesca Calò and Simon Teasdale consider the role of the zookeepers in governing the social enterprise zoo as a whole. In their view, social enterprise zoos are governed at the national level by alternative governmental policies and regulatory mechanisms and the public officials that administer these instruments. Their analyses of the United States, United Kingdom, and Italy make this clear.

Part IV addresses the all-important question – so what? On the basis of our analysis of social enterprise in terms of the zoo metaphor, what can we actually say about the *impact* or *performance* of social enterprise as a way of organizing economic activity for the public good? We break up this question into three parts. In Chapter 10, Thema Monroe-White and Jesse Lecy focus on social innovation – often a key argument for promoting social entrepreneurship and social enterprise in order to bring about social change and human betterment. In Chapter 11, Jung-In Soh, Elizabeth Searing, and Dennis Young consider the issue of sustainability of social enterprise, employing concepts drawn from resiliency theory as originally applied to environmental systems. In view of the fact the social enterprises must continually balance social impact with economic support, what are the risks and prospects for long-term sustenance of different sorts of social enterprise animals and of the social enterprise zoo as a whole? Then in Chapter 12, John Tyler considers the question of overall social impact – what are the benefits and costs of relying on the social enterprise zoo to address the myriad economic and social challenges facing society? What have we learned about this impact by employing the zoo metaphor? These turn out to be daunting and complex questions but ones worth asking. While incremental knowledge has been gained about the impact of various social enterprise animals in diverse habitats we are some distance from a broader understanding of the impact of the zoo itself, the broader clusters of species, habitats, and ecologies within it, and how it should be shaped through public policy and regulation. Nonetheless, the zoo metaphor appears to have elevated our thinking about the nature of social and economic success, highlighting criteria of social purpose, economic sustainability, flexibility, and adaptability to evaluate alternative approaches to social problem solving.

Finally, in Part V, Chapter 13, we synthesize our learnings from studying social enterprise through the lens of the zoo metaphor and project forward into next steps for social enterprise research, development of public policy, and the arts associated with social enterprise practice. With this convergence, we hope to engage academics, policymakers, and social enterprise leaders in fertile future discussions, collaborations and initiatives, using the common but diverse and accommodating metaphor of the social enterprise zoo.

NOTE

1. Adjective: (of a system, organization, or natural process) governed by or combining elements of both chaos and order (Collins English Dictionary – Complete & Unabridged 2012 Digital Edition).

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