
NGOs, Social Venturing, and Community Citizenship Behavior

Lisa Easterly

State Education Department

Paul Miesing

University at Albany

Growing concerns about corporations' business and accounting practices have contributed to increased scrutiny and the adoption of new laws to govern corporate behavior. Nonprofit nongovernmental organizations (NGOs) have also come under investigation for their activities, especially when engaging in social venturing. Because NGOs are largely supported by taxpayer dollars and private donations, their existence is strongly based on fulfilling their social purpose mission. In this study, NGOs reported on this increased scrutiny and how it was especially important for them to act as good corporate citizens, which, in corporate citizenship theory, means being economically responsible, abiding by the law, engaging in ethical and moral management, and ensuring the philanthropy of the social venture. The authors find that these components are key to the sustainability of the ventures and the organizations themselves. Based on study findings, the authors propose "community citizenship behavior" as a broader model for application in social ventures.

Keywords: *corporate citizenship; nongovernmental organization; nonprofit; social enterprise; social venture*

Nonprofit and other nongovernmental organizations (NGOs) in the developed world are faced with unparalleled challenges in environments characterized by growing needs for all types of human services and a shrinking resource base (Choi, Cheng, Kim, & Eldomiaty, 2005). Increasing demands for services coupled with decreasing availability of governmental and philanthropic resources have led many NGOs serving disadvantaged groups to enter the competitive business market through the start-up of social ventures to generate additional revenue for the NGO or create employment for the people they serve (Krupa, Lagarde, & Carmichael, 2003; Shaw, 2004; Shuman & Fuller, 2005).

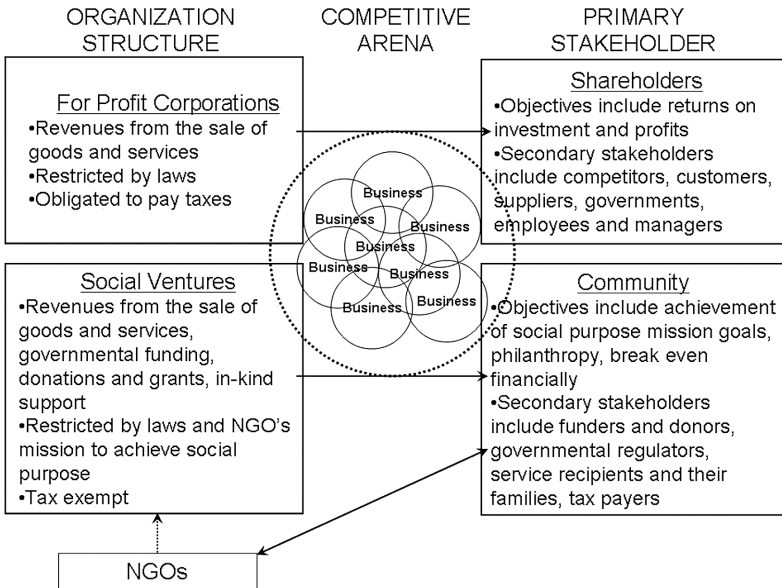
Social ventures are often described as businesses that operate with a social purpose to provide a service to disadvantaged individuals or the community (Darby & Jenkins, 2006). Social ventures have been used to reduce poverty through job creation for the chronically unemployed, help impoverished communities produce their own products rather than importing them, create markets for products produced by impoverished communities, and provide job training to help the chronically unemployed acquire employable skills (Emerson & Twersky, 1996; Thompson & Doherty, 2006).

Whereas for-profits operate with the primary objective of generating profits that can be distributed back to shareholders, social ventures instead attempt to generate excess revenue to support a social purpose mission (Dees, 1998; Maitland, 2006; see Figure 1). Although social ventures are often incorporated as nonprofit NGO charities, they are distinctly different from them. Charities operate under a social purpose mission to deliver services and are primarily supported by donations, grants, and governmental funding (Brinckerhoff, 2000; Maitland, 2006). In contrast to social ventures, these types of organizations typically do not use the sales of goods and services with the intent of generating excess revenue as their primary income source to support their social purpose mission (Brinckerhoff, 2000; Maitland, 2006).

NGOs are expected to engage in ethical behavior when operating a social venture, but this often does not occur. Increasing concerns of unethical business practices on the part of managers and board members involved in the operation of social ventures has compounded the disadvantages NGOs face in the competitive marketplace. For instance, CEOs of NGOs have been accused of engaging in unethical practices such as acquiring personal and financial benefit from the social venture or allowing the business to collapse, leaving the organization with large debts (Dees, 1998; Shuman & Fuller, 2005). Several NGOs have also been accused of violating their tax-exempt status and misusing taxpayer and donation funds when engaging in social venturing (Brady, 2000), enabling them to sell their products at lower prices than their for-profit competitors can. In fact, at a White House conference for small businesses, more than 20,000 representatives reported that competition with nonprofit social ventures was one of the most significant issues they faced (Brady, 2000).

Board members have also been found guilty of violating their legal responsibility as trustees for NGOs by allowing the social venture to incur large financial losses through neglecting to maintain oversight of financial dealings and CEO activities (Bart & Deal, 2006; Low, 2006; Shuman & Fuller, 2005). Rather than giving back to the community that supports

Figure 1
Comparing For-Profit Corporations to Social Ventures



them, these unethical practices have contributed to draining precious NGO resources away from the organization’s philanthropic mission. This has led to increased pressure being placed on NGOs to improve their ethical business practices when engaging in social venturing (Dees, 1998; Shuman & Fuller, 2005).

Corporate citizenship theory has been recognized as a framework under which for-profit companies should operate to ensure they behave in a socially responsible manner toward their stakeholders (Carroll, 1998; Meehan, Meehan, & Richards, 2006; Waddock, 2004). However, the relevance of corporate citizenship theory for the operation of social ventures operated by NGOs has never been examined. Taking into account the increased pressure on NGOs to improve their ethical practices when engaged in social venturing, this study sought to determine if corporate citizenship may provide a valuable framework for improving social venture performance from both corporate and community perspectives.

In this study, we found that the stakeholders of NGOs expected them to operate their businesses in an ethical manner and behave as good corporate citizens when engaging in social venturing. This article explores the relevance of corporate citizenship in the operation of social ventures. We examine findings drawn from financially sufficient and financially insufficient social ventures, and compare lessons learned to corporate citizenship behavior as it has been applied in the for-profit corporate sector. Based on our results, we suggest a framework of citizenship behavior for NGOs operating social ventures, which may assist them to behave in a socially responsible manner that contributes to better business performance and efficacy at delivering quality services, while adhering to the NGO's social purpose mission.

Organization Missions

NGOs are owned and financially supported by the community rather than by shareholders (Low, 2006). They operate under a social mandate and mission that defines the organization's central purpose, which is philanthropic in nature and heavily influenced by the organization's cultural and value principles (Hopkins, 2005a). Those principles in turn influence how all programs are established within the organization and the services it will provide (Bryson, 2004). The board of directors is legally responsible to oversee that the NGO carries out its mission with its primary responsibilities being to maintain the financial stability of the organization and oversee the activities of the CEO (Bart & Deal, 2006; Bryson, 2004). When NGOs engage in social venturing through the start-up of a business, they must do so with a strong emphasis on the agency's mission to provide service, or the organization's nonprofit tax-exempt status could be called into question (Brady, 2000; Lewis, French, & Steane, 1997; Spear, 2006).

Tax-Exempt Advantages and Disadvantages

NGOs often serve as contractual agents for the government, where their mission is to deliver services that the government pays for (Low, 2006). Many legal constraints are placed on nonprofit organizations because they are expected to serve society, not pursue financial gain. Nonprofit organizations largely depend on voluntary labor and philanthropic donations. For these reasons, nonprofit organizations are afforded special tax-exempt status defined as 501(c) (3) and 501(c) (4) under the federal tax code (Hopkins, 2005b). Although this tax status offers the nonprofit organization

the ability to maintain financial stability, it also carries very strict legal, social, environmental, financial, and institutional constraints.

To maintain its tax-exempt status, income produced by a social venture owned by the nonprofit NGO has to be directly related to the NGO's mission or social purpose. If the social venture is structured as a for-profit company, its revenue cannot be the majority of the nonprofit NGO's entire operating budget. If these criteria are not met, revenue is taxed at the full corporate rate as unrelated business income and the NGO could lose its tax-exempt status (Brady, 2000; Hopkins, 2005a).

However, there are some advantages of the NGO's tax-exempt status. Social ventures can solicit donations to operate, get government funding to pay for support staff assisting individuals with disabilities working in the business, are often not required to pay income tax on the business' profit from sales, and may not be required to pay property tax on any space the organization owns and operates the business from if the business activity is directly related to the organization's mission (Hopkins, 2005b). In fact, many social ventures can operate in a financially self-sufficient manner or at least break even only through the use of these tax advantages because they often seek to employ disadvantaged groups of people or start businesses in impoverished communities that lack customers who can afford the products sold by for-profit companies (Seelos & Mair, 2005). By choosing to enter less viable markets or employing a lower skilled workforce, social ventures operate at a competitive disadvantage compared to their for-profit competitors. The benefits of operating a tax-exempt social venture rarely become a sustainable competitive advantage because the costs of the disadvantages typically outweigh the benefits (Emerson & Twersky, 1996; Shuman & Fuller, 2005). Therefore, NGO board members and CEOs are faced with the challenge of overcoming several competitive disadvantages if they hope to operate a financially sufficient social venture.

Corporate Citizenship Behavior

Investor capitalism places shareholders as the central stakeholders in a capitalist economy, which has dominated corporate decision making for many years. Globalization has drawn attention to significant labor, environmental, and human rights violations. Corporate financial scandals, fraud, and ethical violations continue despite laws being put in place to make corporate accounting practices transparent. Corporate citizenship theory bridges the gap between business and society by focusing on the way corporations treat stakeholders and the environment. It defines corporations as

members of society that, as such, must abide by standards of behavior and performance that contribute to the overall well-being of society (Logsdon & Wood, 2002; Post, 2002). Corporations acting as good corporate citizens avoid creating conditions that threaten the environment or violate human rights (Logsdon & Wood, 2002).

Corporate citizenship integrates the concepts of corporate responsibility and corporate social responsibility (Waddock, 2004). *Corporate responsibility* focuses on the level of responsibility a corporation exercises in its behaviors and the resulting impact on stakeholders and the physical environment. It holds corporations accountable for their behaviors because their actions impact society as a whole and the phrase is often used interchangeably with *corporate citizenship* (Meehan et al., 2006; Waddock, 2004). *Corporate social responsibility* is a subset of corporate responsibility. Corporate social responsibility focuses on the ethical obligations corporations have to treat the community and environment in an ethical manner through fostering positive community relations and philanthropy (Carroll, 1998; Waddock, 2004).

But how relevant is corporate citizenship to NGOs? Within any single organization, individuals who are “good soldiers” make active positive contributions or avoid engaging in harmful behaviors. Known as *organizational citizenship behavior*, this conduct is discretionary in that it is not part of an employee’s formal job requirements but nevertheless promotes the effective functioning of the organization. According to Organ (1988), such behaviors include helping team members, volunteering for extra job activities, avoiding unnecessary conflicts, internalizing rules and regulations, and tolerating occasional work-related impositions. As a macro corollary, we offer *community citizenship behavior*, which is also discretionary in the sense that it is neither mandated nor required yet promotes effective functioning of society.

Because NGOs are supported by their community, they rely heavily on public trust for their viability (Bryson, 2004). They are expected to adhere to high ethical standards and avoid any appearance of impropriety (Viravaidya & Hayssen, 2001). Because they largely depend on volunteers and taxpayer and donated funds, they must be careful to not engage in any behavior or relationships that conflict with their mission and cause them to lose credibility in the eyes of their stakeholders (Easterly-Klaas, 2005; Lewis et al., 1997; Viravaidya & Hayssen, 2001). This scrutiny on NGOs engaged in social venturing may compel them to adhere to unyielding ethical standards similar to those defined in corporate citizenship theory.

Carroll (1998) states that corporate citizenship admonishes corporations to behave responsibly by being profitable, obeying the law, engaging in ethical behavior and moral management, and giving back to the community

through philanthropy. Because Carroll's model of corporate citizenship is a widely accepted framework, we used it to examine the potential relevance of applying community citizenship to the operation of social ventures. We consider his four elements to be pillars for our notion of community citizenship behavior:

1. Corporations are socially responsible if they are *economically responsible* and generate enough income to cover their expenses and reward their investors (Carroll, 1998; Meehan et al., 2006). However, merely operating a profitable company is not a demonstration of good corporate citizenship; it is merely satisfying claims of the legal owners.
2. Like any good citizen, corporations should *follow the law* at all levels of operations and avoid seeking loopholes to skirt their responsibilities (Carroll, 1998). Because corporations are often much larger and more powerful than individuals in society and their actions may impact society in general, they should go beyond merely following the law and hold themselves to a higher level of ethical standards commensurate to their impact (Waddock, 2004).
3. Next, corporations should adhere to *ethics and high moral standards* and avoid irresponsible behavior such as environmental degradation or selling unsafe products (Carroll, 1998; Waddock, 2004). Reputation is considered one of the most valuable sustainable competitive advantages (e.g., "Reputation: Risk of Risks," 2005), and corporations may suffer the loss of public trust if they resist implementing ethical industry standards (Meehan et al., 2006). Building a positive corporate image through ethical and moral business practice is viewed as good corporate citizenship and has been positively correlated with purchase intention, which may benefit the company in the long run (Meehan et al., 2006).
4. Finally, it is not sufficient for corporations to generate wealth; a necessary component of corporate social responsibility is *philanthropy* that gives back to the community that supports the corporation (Carroll, 1998; Waddock, 2004). Corporations function as part of the community and, therefore, should have an interest in the well-being of society and the people within it. Corporations should serve as examples of good citizenship by supporting social causes that contribute to the betterment of society (Carroll, 1998).

Method

We wanted to examine whether any aspects of corporate citizenship theory had influenced the decision-making processes and performance in the operation of social ventures. We chose nonprofit human service organizations

that had started one or more social ventures with a mission of providing employment to individuals with disabilities. This is a fitting focus because many nonprofit NGOs throughout the world have started social ventures with the goal of providing jobs and job training to disadvantaged groups suffering high unemployment and poverty (Dees, 1998; Krupa et al., 2003; Miller, 2006). Using Dees' (1998) definitions of self-sufficiency within social ventures, success of the business was defined as breaking even financially by covering all operating expenses (with or without governmental or philanthropic financial support) or generating a profit.

Participants

The purposive sample included a total of 11 organizations in the field of human services that provided work, training, and life-skills education to people with disabilities. The NGOs were drawn from diverse geographic areas throughout the Eastern, Northeastern, and Western United States. The 11 organizations included in the sample operated a total of 15 social ventures that included service, manufacturing, and retail businesses such as food services, janitorial and grounds keeping maintenance services, photocopying and printing services, bottled water manufacturing, spice manufacturing, laser toner cartridge recycling, glass bottle recycling, paper recycling, fresh floral retail, silk floral and crafts retail, and retail art and fine crafts.

Procedure

Because research is lacking on the relevance of corporate citizenship in operating social ventures, an exploratory phenomenological approach was appropriate as a way to begin to identify practices that may contribute to business viability and simultaneously meet the organization's mission (Glaser & Strauss, 1999). A total of 119 hr of in-depth interviews were conducted with 11 agency directors, 11 board members, 10 social venture managers, 34 key support staff, and 36 employees with disabilities from the 15 social ventures. Conducting interviews with different members within the organization allowed for the examination of divergent perspectives on the operation of the social venture to emerge. In addition to interview data, observational assessments and record reviews were conducted for all social ventures. Observations of the business sites included data on the actual operations and were documented in copious field notes, which were later transcribed for content analysis. Record reviews of all social venture financial statements, parent organization financial statements, mission statements,

organization by-laws, and board meeting minutes that were pertinent to the establishment of the social venture were conducted. This triangulation of data collection methods acted as a reliability check to establish the trustworthiness and credibility of the respondents' reports, which is necessary in qualitative inquiry (Lincoln & Guba, 1985).

A semistructured interview guide was constructed to elicit thick descriptions on the organizations and their social ventures' mission and demographics, board of directors, human resource and value considerations, business demographics, legal structure, planning, start-up, operations, strategies and performance, core competence and functional activities, marketing techniques, competitive environment, institutional constraints, resources available and the extent to which they were used, networks and relationships between them, perceptions of reasons for business success or failure, and decision-making processes that led to the business' current status of operation.

Data Analysis

Data were analyzed using the constant comparative model, a form of content analysis where statements of similar type are coded and placed into categories (Glaser & Strauss, 1999). Examination and interpretation of the data involved a detailed line-by-line analysis, which was necessary to generate initial categories and suggest relationships among them (Strauss & Corbin, 1998). Using the constant comparative model allowed for a deeper examination of the meaning behind the actions and decisions that occurred as organization members strove to operate a financially sufficient venture. Through this process, descriptive themes in the data were identified. Data from the interviews were separated into categories of financially sufficient and financially insufficient social ventures.

This study followed the principles of case study design. This began with creating a detailed case study write-up for each site (Eisenhardt, 1989). These case write-ups were pure descriptions of the NGOs and their social venture operations, and helped focus the analysis by extracting key aspects from the enormous volumes of data. It also facilitated becoming familiar with each case as a stand alone entity, which allowed unique patterns to emerge within each case before identifying patterns across cases (Eisenhardt, 1989). Cases were placed into selected categories, separated according to previously defined criteria of successful and failed ventures, and examined for within-group similarities coupled with intergroup differences. Some categories—such as legal structure (nonprofit vs. for-profit) or geographic location (rural, urban, suburban)—revealed no clear patterns.

Others, such as financial oversight, led to important patterns of within-group similarities and across group differences. The real names of the social ventures reported here were disguised to protect their anonymity.

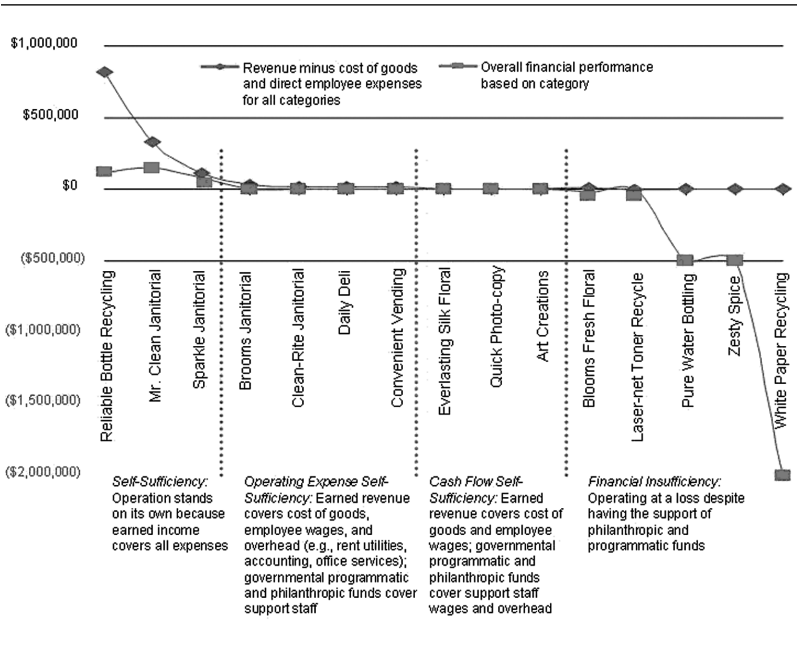
Results

Of the 15 businesses included in this analysis, 10 (66.7%) were found to be financially self-sufficient by at least breaking even and covering all operating expenses (Figure 2 provides a definition of financially self-sufficient and insufficient social ventures). The remaining 5 (33.3%) were not financially sufficient and were unable to attain self-sufficiency despite being supported by governmental and philanthropic funds. Three of the financially insufficient ventures were either closed, sold, or drastically downsized because of financial loss, whereas 2 remained in operation with the assistance of government funding intended for other programs and donations. Of the 10 self-sufficient businesses, 3 (20.0% of the 15 total) had attained full-scale commercialization by generating a profit and covering all expenses without the support of governmental or philanthropic funds. However, 1 was closed in spite of being the most successful financially because its primary customer base relocated to another state.

The remaining seven (46.7%) businesses managed to break even by having governmental and philanthropic funding cover a portion of their operating expenses. Four of the seven attained operating expense self-sufficiency because they generated enough sales to cover employee wages, cost of goods, and overhead (rent, utilities, accounting, administrative assistance, and transportation), whereas the costs of support staff were covered by governmental and philanthropic funds. The other three social ventures attained cash-flow self-sufficiency by generating enough sales to cover employees' wages and cost of goods, but used governmental and philanthropic funds to cover overhead and the costs of support staff to assist the employees with disabilities in performing their jobs.

As recognized by Dees (1998), social ventures often require philanthropic and governmental support to achieve their social purpose mission. Respondents in this study justified the government covering these expenses because the facility and support staff would have been used to provide alternative services to individuals with disabilities if the business was not there. The support staff assisted the employees with disabilities with learning job skills and provided job support. The social venture was viewed as a better employment alternative for achieving mission-related goals because, rather

Figure 2
Social Ventures Performance



Source: Categories are based on Dees (1998). All ventures had been in business for a minimum of 2 years. Results are cumulative during 1984 through 2002.

than providing employment in institutional-type segregated settings, it allowed employees with disabilities the opportunity to work in the community and interact with other community members.

Themes

Several themes emerged from the organization members’ reports about the important contributors to the financially sufficient operation of their social venture, reflecting their beliefs that it was imperative that their venture behave in a socially responsible manner so as not to detract from the parent organization’s social mission. This was especially true in light of the fact that many of these social ventures operated with the support of taxpayer dollars and were under continual scrutiny from their community.

An overarching theme was concern of public scrutiny of their business behavior and the need to maintain good community relations in their social venture activity. NGO members realized that their business activity was being watched by taxpayers, especially if they lost money or generated a substantial amount of excess revenue, as Reliable Bottle Recycling did. Its fear of public reprisal heavily influenced its decision making, with its managers making frequent comments, such as, “We have to be careful about what contracts we go after. I don’t want to upset the community by running any local mom and pops [sole proprietorships] out of business. We could lose financial support from the county if they think we’re hurting local business owners”; “We have to watch our financials very closely because the locals [community members] know their tax dollars are supporting this thing. If we lose money and they have to cover those debts with their tax dollars, they will shut our agency [NGO] down”; and “Everything we do in this business [social venture] is watched by our funders. If we violate any rules or regulations, they will shut us down and our clients [individuals with disabilities the NGO serves] will suffer.” It was this concern of public scrutiny that influenced NGO members to report their need to keep a critical watch over their business practices to ensure they were ethical either in their present social venture or in hindsight if their business had been closed because it had incurred losses.

Subcategory themes paralleled corporate citizenship behaviors and included adhering to responsible financial performance standards, abiding by the laws governing the business and ensuring that the venture supports the legally mandated mission of the organization, engaging in moral management, avoiding relationships with businesses that could negatively impact the agency’s image, and demonstrating performance outcomes that ensure that the social venture is adding value to the community while meeting the philanthropic mission of the parent organization. These themes were found to fit within Carroll’s (1998) four categories of corporate citizenship.

Economic Responsibility

In operating a social venture, all the organization members realized—either through successful planning or hindsight—that it was necessary for them to maintain fiscal responsibility for their businesses. As NGOs, they all reported that they were responsible to the stakeholders in their community, including taxpayers, community members, governmental funders, donors, and relatives of their clients with disabilities, for delivering the services the community was paying them for. Although many didn’t realize

Table 1
Social Venture Performance by Research Results Category

Social Venture	Profit Status	Viability Target	Board Oversight	Manager Overseen	Exit Plan	Benchmark Met	Continued Operation
Reliable Bottle Recycling ^a	Profit	30% margin	Yes	Yes	Yes	Yes	No
Mr. Clean Janitorial	Profit	30% margin	Yes	Yes	Yes	Yes	Yes
Sparkle Janitorial	Profit	Break even	Yes	Yes	Yes	Yes	Yes
Brooms Janitorial	Break even	Break even	Yes	Yes	No	Yes	Yes
Clean-Rite Janitorial	Break even	Break even	Yes	Yes	Yes	Yes	Yes
Daily Deli	Break even	Break even	Yes	Yes	No	Yes	Yes
Convenient Vending	Break even	Break even	Yes	Yes	Yes	Yes	Yes
Everlasting Silk Floral	Break even	Break even	Yes	Yes	Yes	Yes	Yes
Quick Photo-copy	Break even	Break even	Yes	Yes	Yes	Yes	Yes
Art Creations	Break even	Break even	Yes	Yes	Yes	Yes	Yes
Blooms Fresh Floral ^b	Loss	None	Yes	No	No	No	Yes
Laser-net Toner Recycle	Loss	None	No	No	No	No	Yes
Pure Water Bottling	Loss	None	No	No	No	No	No
Zesty Spice	Loss	None	No	No	No	No	No
White Paper Recycling	Loss	None	No	No	No	No	No

a. Closed because its primary customer base relocated.

b. The board placed under strict time frames to achieve viability.

it until they had incurred large losses, the organization members reported that they were not at liberty to take financial risks that could divert their resources to cover unnecessary debt incurred by the social venture. They reported that their social ventures frequently came under scrutiny and were investigated by funders, governmental regulators, and oversight organizations. Many board members were investigated along with the organization's administrators when the social venture lost money; those with the largest losses (i.e., Pure Water Bottling, Zesty Spice, and White Paper Recycling) were forced to close down (see Figure 2 and Table 1). Social ventures that incurred substantial losses reported that the existence of the NGO was threatened by neglecting to maintain financial control in operating the social venture, as is highlighted by the following account:

A lot of small bottlers went out during this time. When this business closed, it was \$500,000 in debt. Five years later, the agency is still trying to repay the debt. It was really bad around here for quite a while. Everybody was breathing down our backs—the county, the state, and head office. They threatened to shut us [the NGO] down. It was a very stressful time. (Pure Water Bottling Co.)

Organization members reported that it was important for them to ensure that the venture remain financially sufficient by at least breaking even so as

not to drain taxpayer money away from the mission they were funded to carry out. Primary themes for maintaining economic responsibility within the social venture included maintaining financial oversight through establishing responsible accounting systems, setting responsible financial performance standards, and exit planning.

Financial leadership and oversight. An important theme that emerged as contributing to the viability of the social ventures was having leadership and oversight of the business financial operations and the social venture manager. NGOs that had at least one board member from the business community (working in conjunction with the agency director to oversee the financial viability of the business) did better financially and incurred less debt than those without such oversight. A better approach was the establishment of a board committee made up of members from the business community. As depicted in Table 1, most ventures with board oversight of the venture's financial performance and the business manager's decision making either generated a profit or broke even, whereas those without such oversight lost money. The one venture that was under board oversight that was losing money (Blooms Fresh Floral) was placed under strict time frames by the board to achieve viability or it was going to be shut down. A board member from an agency that operated several profitable social ventures explained how the board maintained oversight through a board committee:

The board of directors has a separate business-oriented committee, called the Business Ventures Committee, which meets four times as frequently as the entire board of directors. This committee is comprised of very skilled business owners, who donate their expertise to assist in the successful operation of the agency's [NGO's] businesses. Every business manager must submit a strategic plan for his business every 3 months. These plans are reviewed by the Business Ventures Committee and compared to the current financial reports to ensure that the business is financially sound and is on a path of continued growth. If it isn't, we shut it down. (Mr. Clean Janitorial Co.)

Accounting systems, performance standards, and exit planning. Table 1 shows that all agencies that operated financially profitable ventures and most agencies that operated ventures that broke even set clear financial performance standards and had an exit plan with clearly specified criteria for when to terminate the business if it failed to meet predefined financial targets in a specified period of time. These were critical to operating the social venture in an economically responsible manner. Ventures that did not suffer large financial losses had been economically evaluated by agency directors and board

members against criteria for viability of the business. If the business did not meet its financial targets, the leadership quickly implemented its exit plan to shut the business down. Only organizations that did not maintain close financial oversight of their social ventures and adhere to clear points at which the business must reach financial targets suffered substantial financial losses. A board member from one such agency recounted the following:

Over a 3 year period we had a \$300,000 loss, which had to be covered out of other agency program funds. The board was having difficulty overseeing the financial activity of the business manager. We had a hard time assessing financial reports and didn't oversee the specific decisions of the business manager. He hid costs. . . . After the business was in severe debt, we fired the highly paid manager and tried to run it ourselves. We pulled the director of adult services in to run the business. I had great misgivings about this because our programs suffered. (Zesty Spice Co.)

Organizations that operated financially sufficient social ventures had board members skilled in business management who were committed to overseeing the business. They maintained responsible accounting systems so the board could protect the agency by scrutinizing the financial activity of the venture and the business manager. In contrast, those ventures that failed did not have board members skilled in business management and reported being unable to oversee the financial activity of their venture. The large losses incurred in the water bottling, spice, and paper recycling businesses caused those agencies to divert funds away from programs to cover those losses. Their failure to operate their social ventures in an economically responsible manner put the NGOs at risk by diverting resources from fulfilling their mission and by diminishing their capacity to deliver the services they were funded to carry out. Board members and directors from agencies with failed social ventures realized, after they lost money in their businesses, that they needed to institute these financial controls. One board member stated very clearly what many agency members learned about the need for financial oversight from the board:

The board has to be committed to operating a financially viable [sufficient] business and all of the board has to agree that they want to deal with competing with other businesses. And they have to be willing to stick with it, even when things aren't going well. They have to be willing to make those hard decisions to lay people off during economic slumps, fire unproductive employees—like deadbeat managers—and close failing businesses before they hurt the agency [NGO]. (Sparkle Janitorial Co.)

All organization members agreed that when starting up any future businesses they would need to make a commitment to oversee the financial activity of that business. As depicted in Table 1, those that were successful had board and manager oversight. These consisted of the following: overseeing the business financial accounts, monitoring the activities of the social venture manager, regularly devising and reviewing their business strategies to increase profitability, frequently making recommendations to improve business performance, and having exit plans they quickly implemented in the event the business began to fail financially and showed no opportunity for improvement. These economically responsible practices were viewed by all organization members as important to operating a social venture because they helped protect the NGO from incurring financial losses that could divert them from fulfilling their social mission.

Obeying the Law

In planning for a socially responsible business, the organization members reported it was important for key decision makers to be aware of the laws governing their chosen business and the costs associated with adhering to those laws. Because they held nonprofit legal status, NGOs also had to be aware of and adhere to the nonprofit laws governing them while engaging in social venturing.

Legal mandates on social ventures. In this study, the participants reported that they were all very careful to abide by the laws governing their social venture because they realized that illegal behavior could negatively impact the parent organization and put all the individuals they served at risk of losing their services. They were also concerned about the ill will that could be generated in the community toward the individuals they served if the agency was caught breaking the law. It was common for agency members to express the necessity for their social venture to adhere to all legal codes, as exemplified in the following comment:

The public scrutinizes everything we do. We have to make sure everything is cleaned and sanitized according to Health Department regulations. If we had even a small violation, it would be very detrimental to this business. There is so much stigma against our folks [individuals the NGO serves] that any violation would make them look like they weren't good workers, and it would make us look bad as an agency [NGO]. The community would think we didn't know what we were doing, and that would be bad for the whole agency.
(Daily Deli)

Ensuring that the social venture provided positive and supportive experiences for the individuals the NGO served was imperative to the organization's mission. By adhering to the law, NGOs avoided negative press and public controversy that could threaten their existence and their social ventures.

Nonprofit mission-related mandates. In addition to the social venture's legal considerations, there were multiple mission-related legal considerations that nonprofit NGOs needed to address when starting a social venture. All organization directors and board members stated that they were aware of the nonprofit legal constraints and chose a mission for their venture that was closely related to their NGO's mission. Everyone said they started the social ventures included in this study to "create good paying jobs" for the individuals they served. The mission of each social venture fit well with those of the parent organization's, which was to provide community-based employment services to these individuals. However, some organization CEOs reported how they had also started social ventures in the past that were not related to the NGO's mission. Those CEOs had taken profit from another social venture to start the non-mission-related venture. This resulted in regulators sanctioning the NGO and forcing the organization members to remove the funding from the non-mission-related venture. One director recalled:

We used profit from the furniture business [social venture] to start the international distribution firm. The state said we had to take the agency's [NGO's] funding out of there because the business didn't provide any employment for people with disabilities and it is our mission to create employment for the disabled. We had to take the funds out of the business and go get a bank loan, or the state threatened to shut us [the NGO] down. (Mr. Clean Janitorial)

The organization members reported that it was important for them to follow both the laws governing the social venture and the nonprofit laws governing the NGO because their ability to operate as a nonprofit organization depended on their adhering to mission-related laws governing their NGO.

Moral Management and Ethics

Beyond adhering to the law, organization members felt they also needed to adhere to higher ethical standards of moral management. Their responses were found to be very much in line with tenets of moral and ethical responsibility that corporate citizenship incorporates. Because these organizations were driven by social mandates, their stakeholders held them to a high commitment to social values and ethics. Because they were supported by taxpayer

dollars, they were expected to behave in a manner that benefited the overall community. Important ethical considerations to retain the community's respect, which was needed for the successful operation of social ventures, included implementing moral management practices such as choosing networks that were socially responsible and avoiding undercutting for-profit businesses in the community or competing on the social purpose of their business.

Community respect was necessary for the NGO to continue to operate and deliver services, so organization members were always careful to adhere to the ethical considerations impacting their social venture. In fact, most reported that they wouldn't even take advantage of laws that could protect the organization, such as bankruptcy laws, because of the negative impact it could have on the NGO. The CEO from the NGO that operated the social venture that lost the most money reported the following:

We made a mistake when we made the agency financially liable for the businesses by cosigning a \$1.5 million loan to get start-up money. The banks wouldn't loan money to the new nonprofit [social venture], so the agency [NGO] cosigned for them. We shouldn't have done that because we couldn't afford to pay it back. We should have kept the agency separate from the business, but I don't know if it would really make that much difference. The agency's reputation would be stained if we didn't repay the debt and community relations would be worse for us in the long run. We knew we weren't going to be able to turn this thing around after we lost \$800,000 but we couldn't walk away because the county [taxpayers] supported us [financially] to start this thing and we agreed to be the county's recycler. We couldn't burden them with the debt or default on the contract to recycle their waste or we could have potentially lost their funding. We couldn't take a chance on that. They are our primary funder. We just had to keep the thing [social venture] going until we could get someone to take it over. (White Paper Recycling)

This organization was not able to walk away from this failing venture because of the fear of losing community respect and the funding associated with it if they were seen as acting in an unethical manner. Examples like this one highlighted the need for organization members to be especially careful in adhering to ethical practices in managing their social ventures.

Networks and relationships. The organization members in this study all reported that it was ethically important for them to choose their network partners carefully to retain the NGO's credibility with stakeholders. They all demonstrated exceptional networking skills, as seen by their ability to secure grants, donations, volunteers, and community support, but were careful to choose relationships only with businesses that reflected well on

their agency. Controversial business partners, suppliers, and customers were avoided so as to not taint the image of the parent organization. As one organization director recounted:

There were some places that wanted to do business with us, but their reputation around here isn't the best. We decided not to take their business. We have to be careful who we work with, because everything we do reflects on the agency as a whole. . . . What I mean is they have been caught breaking dumping laws and they have been accused of not treating their employees well or paying them right. We can't be associated with that type of business. (Reliable Bottle Recycling)

Another NGO member reported that it was ethically important for them to network with local business owners when choosing suppliers for the social venture to protect the NGO's relationship with the community. The social venture manager described it this way:

There is a supplier that came into this area that partnered with a big cleaning outfit. Together, they were able to run a lot of the small locals [cleaning businesses] out. I could get my supplies for a lot cheaper from them. They approached me, but I turned them down because if I worked with them, it would make the agency [NGO] look bad and we could lose the community's support of our operation [social venture]. (Mr. Clean Janitorial)

Maintaining network relationships that were viewed as ethical by community members and business owners were reported to be important for the operation of the social venture. NGO members felt that without such positive relationships, their social venture could not survive and they feared the NGO could lose financial support from the community.

Basis of competition. Organization members also reported that, for them to be perceived by their stakeholders as a moral and ethical organization, they had to make certain their social venture avoided competing on their non-profit status or on the socially mandated mission of their organization. They reported that business owners frequently complained that nonprofits used their tax-exempt status to compete unfairly with taxpaying businesses. This negative perception by established small businesses of NGOs engaged in social venturing was reported to be an important ethical consideration by the study respondents. The following comment demonstrates how the public's perception of the social venture impacted the ethical decisions of the organization members:

The local business people around here band together to run big corporations out of town. They view them as unfair competition and destructive for small town businesses. We already had one fast food place in this town and when another one tried to move in, the whole town boycotted them. Nobody would go there to eat, so they finally left. When we wanted to start our businesses they said they didn't want to see a disabled services agency [NGO] that operated on their tax dollars, using their nontax status to unfairly compete with them. We can't undercut them. That would be bad for the agency [NGO]. We chose to offer quality products and services, or we focused on doing small specialty jobs that the other businesses weren't interested in. (Quick Photo-copy)

Even though these organizations' tax-exempt status was being used to provide job training and assistance to needy individuals, organization members feared the retribution from for-profit business owners if they tried to compete with them on low price. The organization members felt it was ethically important to avoid undercutting small businesses in the community or focusing on the social purpose of their business in promoting the venture's products or services. All of them tried to avoid direct competition with businesses from the community that supported them in the types of business they chose, finding it more ethically appropriate to compete on quality or convenience in their products because it facilitated better community relations. Furthermore, competing on quality was very important to the organization members because the social venture's activity reflected on the parent organization and the clients it served. They prided themselves on providing quality services in their human service programs and held to a culture of "quality in everything we do." Competing on quality came naturally to them and reflected positively on the parent organizations and the individuals they served for adding value to the community, as this comment demonstrates:

Local business owners don't want to hear about us going around trying to take their customers away from them because we're helping the disabled. They feel that they have given enough to the agency already by supporting us with their tax dollars. If they find out we are trying to compete with them by saying it will help the disabled, they will go to the county and have our business shut down. We avoid that and focus on providing a quality service. (Everlasting Silk Florist)

Philanthropy

Philanthropy took on a broader meaning in the NGOs because the organizations were created to be philanthropic in nature, whereby their entire existence was based on a mission to give back to their communities. To

ensure that the NGO was “giving back to the community” through its social ventures, these ventures needed to accomplish the goals of the organization’s philanthropic mission.

All of the organization respondents in this study reported it was important for them to demonstrate that they were “giving back” to the community through their social venture. Organization members realized they could not just operate under the assumption that the social venture was adding value to the community because it was started with philanthropic goals. Rather, it was important for them to adhere to both mission-related and financial performance benchmarks that demonstrated the social venture was meeting its goals to provide local employment to individuals with disabilities. Mr. Clean Janitorial Company reported that its parent NGO held strict financial performance benchmarks for all of its social ventures, against which each social venture was reviewed every 3 months. Those that did not hit their financial targets were closed down. The CEO explained:

Our agency [NGO] is focused on providing good paying jobs and long-term employment. These businesses have to make money to create jobs, because if we’re not making money then we’re not creating work.

Mission-related goals had to be accomplished in a financially sufficient manner. Table 1 depicts that most social ventures that did not meet their performance benchmarks were shut down. The two that remained in operation reported struggling with keeping their failing social ventures open, but community stakeholders put pressure on them to close because they did not find it acceptable for social ventures to provide employment to individuals with disabilities at an excessive cost that the rest of the NGO’s programs had to bear, or at a cost beyond that of other similar types of employment service programs. Those that did not meet performance goals were threatened with closure to prevent them from draining resources away from the taxpayer-funded human services the organization was contracted to provide, as is reported in the following comment:

I think the business has some value. It gives the agency good public recognition, so some don’t want to close it. But there are many board members and community members who do not feel it is within the scope of our mission to invest substantial amounts of money and time into the business because our mission is to provide services to the disabled and the business doesn’t provide enough employment opportunities to justify the spending of agency [NGO] resources. We’re trying to restructure the business to increase the number of jobs offered, but if it doesn’t turn around soon, we’ll have to close it down. (Blooms Fresh Floral)

Table 2
A Paradigm of Corporate Citizenship Behavior for Social Ventures

Corporate Citizenship ^a	Findings and Examples	Community Citizenship Behavior: Lessons for NGO Social Ventures
Be profitable	<p>Deliver the services for which you are funded;</p> <p>Do not divert taxpayer dollars to subsidize the social venture;</p> <p>Exercise leadership and oversight of the business financial operations and the social venture;</p> <p>Maintain financial controls—don't continually invest money in failing social ventures.</p>	<p>Maintain financial responsibility by at least breaking even;</p> <p>Establish a board and directors with business skills to maintain financial oversight;</p> <p>Maintain transparent accounting systems to inform board oversight;</p> <p>Maintain performance standards by benchmarking the social venture against similar programs;</p> <p>Set clear financial performance targets and engage in exit planning when targets aren't met.</p>
Obey the law	<p>Be aware of the laws governing the chosen business and the costs associated with adhering to those laws;</p> <p>Choose a social venture in line with the NGO's mission.</p>	<p>Operate social venture in line with the legally mandated social mission and laws governing the social venture—don't start ventures with NGO funds that aren't related to the nonprofit mission.</p>
Engage in ethical behavior and moral management	<p>Go beyond the law—adhere to higher ethical standards;</p> <p>Filing bankruptcy can damage NGO community relations;</p> <p>Benefit the community as a whole;</p> <p>Choose networks that are socially responsible;</p> <p>Avoid undercutting for-profit businesses in the community or competing on the social purpose of the business.</p>	<p>Avoid filing bankruptcy on social venture;</p> <p>Choose socially responsible business relationships;</p> <p>Avoid competing tax-exempt status of NGO or social purpose of the venture—compete on quality or convenience.</p>
Give back to the community through philanthropy	<p>Create jobs in the community;</p> <p>Establish performance standards to ensure that the social venture meets the organization's mission.</p>	<p>Go beyond NGO mission to provide value-added service in community that funds the NGO;</p> <p>Use performance standards to demonstrate that the social venture is achieving philanthropic goals beyond those of the NGO.</p>

a. Categories are based on Carroll (1998).

Lessons for Social Ventures

All of the organization members in this study reported that it was important for them to operate their social ventures with good community citizenship behavior to retain the respect of their stakeholders, which was necessary to the sustainability of their NGOs. Although the components of Carroll's (1998) corporate citizenship theory impacted these organizations somewhat differently than for-profit corporations, all aspects of the theory were found to play a key role in the operation of their social ventures (see Table 2).

We found that the stakeholders of NGOs expect them to operate their businesses in a financially responsible manner, just as they do for for-profit corporations. Although it was not important for the social venture to generate a profit to distribute back to shareholders, as it is in for-profit corporations, organization members reported it was important for them to operate a financially self-sufficient venture so as not to drain taxpayer dollars away from the mission the organization was funded to carry out. Protecting the organization's relationship with key stakeholders—including taxpayers, donors, and funders—made it imperative that the social venture be managed in a financially responsible manner. To ease the financial burden to taxpayers and donors, it was critical for the NGOs to maintain financial responsibility in their social ventures by at least breaking even, either with or without donations or governmental funding. Trying to do good at a cost greater than what taxpayers would typically pay for a similar service was not viewed as good community citizenship behavior because social ventures that lost money drained funds away from other NGO programs, diluting whatever else the NGO gave back to the community.

Based on the study findings, we identified that, to behave as good community citizens, NGOs that operate social ventures should establish a board committee consisting of at least one member from the business community who possess the skills to work in conjunction with the CEO to oversee the financial management of the venture. Rather than just assuming that the social venture is doing good, board members also should hold the social venture to financial performance standards. This was often accomplished by benchmarking the benefits provided by the social venture to those of similar programs the NGO offered.

Because NGOs are dependent on public trust for their existence, we found that it was important for them to adhere to the laws governing their business because they cannot afford any sort of public embarrassment that could result from their social venture breaking the law. The resulting negative image could be devastating to the NGO and the individuals the organization serves.

To maintain credibility and social legitimacy, the NGOs also had to operate their social ventures consistent with their legally mandated mission. Because nonprofit law requires that an NGO's resources must support its mission, the NGOs had to avoid establishing for-profit businesses under the guise of nonprofit activity. In contrast to for-profit corporations that may invest in any business opportunity that arises, to behave as good community citizens the NGOs were forced to invest only in social ventures that were directly related to the organization's mission and that added value to the community.

As in for-profit corporations, we found it important for NGOs to engage in moral and ethical management in all business dealings. The NGOs in this study also had to be concerned about their networks and relationships and ensure they chose partners that reflected positively on them so they could retain the public trust on which their existence depended. Because the social ventures were funded by taxpayer and donation funds, the NGOs needed to be careful not to exploit bankruptcy laws and leave the community with a larger financial burden than if the venture had never been started. NGOs behaving as good community citizens prevented their ventures from getting into such a dire financial situation that it was necessary to take advantage of bankruptcy laws.

To act as good community citizens, social ventures had to be careful not to appear to be using their tax-exempt status to compete unfairly with for-profit businesses. Although competing on price is acceptable in for-profit businesses, it was not good community citizenship behavior for social ventures to undercut their for-profit competition, potentially forcing community businesses to lose customers and lay off workers. NGOs found it more effective to compete on quality or convenience rather than appear to be using their tax-exempt status to price lower than their competitors. Only by going beyond the legal basics governing the social venture and the nonprofit laws governing the NGO could the organization claim to be behaving as a good community citizen through the operation of its social venture.

Philanthropy is the final component of corporate citizenship. To behave as good community citizens, philanthropy is important for both for-profit corporations and social ventures because both groups are expected to give back to the community that supports them. In for-profit corporations, this requires going beyond generating wealth and actually donating money, services, or in-kind gifts to the community. These donations are typically tax-exempt, thus providing a legal incentive for corporate giving (Hopkins, 2005a). We found that because NGOs are philanthropic by the nature of their mission, to be considered good community citizens their social ventures had

to go beyond the NGO's mission in giving back to the community. The social ventures needed to provide value-added services to the community that were not already a pre-existing benefit of the NGO (e.g., creating new employment opportunities). Because much of their overhead and operating expenses are supported by taxpayer funds, NGOs needed to demonstrate through performance standards that additional benefits were being given to the community through the social venture. Otherwise, the NGOs were hard-pressed to justify the social venture's existence.

Conclusion

The social ventures in this study engaged in the same business activities and sought the same markets as their for-profit competitors. Because they were involved in the same type of profit-making ventures as their for-profit competitors, their stakeholders demanded they behave as good community citizens. Fear of losing stakeholder support influenced the NGO member's decisions in operating their ventures. We identified that, just as in the private corporate sector, it is in the social venture's interests to maintain financial viability, comply with the laws governing the business, engage in ethical business practices, and exercise philanthropy by ensuring they "give back" to the community that supports the parent NGO.

Although limited by the small sample size, the findings of this study suggest that good corporate citizenship can also play a vital role in the financially sufficient operation of social ventures. By adapting corporate citizenship theory to the unique circumstances of NGOs, our community citizenship behavior model provides a useful framework for NGOs seeking to operate social ventures. Further research with a broader sample of social ventures (e.g., co-operatives, mutuals, public sector ventures) would be useful in establishing the model's utility.

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Lisa Easterly is the assistant director at the New York State Education Department for professional licensure in social work and mental health professions. She has 20 years of business management experience. During the last 10 years she has researched business strategies within social ventures. She is also a nonprofit organizational consultant, providing training on strategic planning, fundraising, and strategy for establishing and managing social ventures.

Paul Miesing is an associate professor in the School of Business at the University at Albany, State University of New York. His research interests are in strategic management, and he has published dozens of articles and papers in both academic and practitioner journals including *Academy of Management Journal*, *Decision Sciences*, *Journal of Business Ethics*, *Journal of Management Education*, *Journal of Marketing*, *Journal of Technology Transfer*, *Long Range Planning*, *Management Science*, *Organization Management Journal*, *Policy Sciences*, and others, and has received a Distinguished Research Award.