

CHAPTER 1: SOCIAL VENTURE BUSINESS STRATEGIES FOR REDUCING POVERTY

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ABSTRACT

Social ventures are innovative businesses that operate with social purposes to provide services to disadvantaged individuals or the community that the market does not. While typically established as not-for-profit organizations, they compete with for-profit businesses that produce similar goods or services. They 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. The operation of social ventures is fraught with challenges that constrain their viability. This chapter describes diverse types of social venture models that contribute to poverty reduction and explores various innovative business strategies used to improve their business performance.

INTRODUCTION

Social venturing is an expanding sector of entrepreneurship. Worldwide issues of persistent poverty and unemployment in the face of decreasing governmental and philanthropic support have led many not-for-profit organizations to establish social ventures to address these growing concerns (Brinkerhoff, 2000; Seelos & Mair, 2005). An increasing body of research confirms that the number of organizations that operate a sustainable business venture with a social mission is growing in many countries (Paton, 2003; Thompson & Doherty, 2006). Seed funding for such poverty-fighting ventures has become available from various international organizations and development institutions including the World Bank (Seelos & Mair, 2005). 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 (Brennan & Ackers, 2004; Easterly-Klaas, 2005; Emerson & Twersky, 1996; Thompson & Doherty, 2006).

Many poverty reduction programs operate as charities that foster dependence rather than rebuild communities (Peredo & Chrisman, 2006). Through enterprise development that creates local value and builds self-reliance among the chronically unemployed, social ventures have often succeeded in reducing poverty in areas where charities have failed (Brennan & Ackers, 2004; Thompson & Doherty, 2006). Although social ventures are businesses similar to for-profit companies, they operate with a strong social purpose mission. 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, neither of which are attractive investments to for-profit companies that are trying to maximize profits (Seelos & Mair, 2005). By choosing to enter less viable markets or employing a lower-skilled workforce, social ventures operate at a competitive disadvantage as compared to their for-profit competitors. In the past, social ventures were able to rely on public funds and donations to help sustain their operations but decreasing public funds and growing competition for charitable donations has made it more difficult for these ventures to remain in operation (Brinkerhoff, 2000). Faced with the challenge to become more competitive, many social ventures have adopted for-profit business practices including strategic management to remain viable while fulfilling their social purpose mission (Brinkerhoff, 2000; Dees, 2001; Easterly-Klaas, 2005; Viravaidya & Hayssen, 2001).

In this chapter, we examine several successfully operated social ventures and the management strategies their organizations have employed to operate as a viable business while achieving their mission to reduce poverty and chronic unemployment. We conclude with a list of innovative business strategies and strategic management practices social ventures have successfully used to help them achieve their mission to reduce poverty.

WHAT IS A SOCIAL VENTURE?

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; Paton, 2003). What distinguishes social ventures from private sector businesses is the use of conventional business practices not just to generate a profit but also to achieve a social purpose or mission. Since social venturing, sometimes called social entrepreneurship, is still an emerging field, a clear definition of what constitutes such a venture has not been fully established. Many writers on the topic focus solely on the visionary entrepreneur and the

management of their venture (Maitland, 2006; Spear, 2006). However, several authors have noted that the operation of a successful social venture involves the collective achievements of multiple constituents both inside and outside the organization (Dees, 1998; Easterly-Klaas, 2005; Emerson & Twersky, 1996; Paton, 2003; Spear, 2006). Since this chapter is concerned with social venture business strategies, we will consider a wide range of individual, contextual, and institutional elements that contribute to the sustainable operation of these ventures.

We do not want to confuse social ventures with for-profit businesses that operate with a strong focus on corporate citizenship and ethics. Corporate citizenship theory has been recognized as a framework under which private corporations should operate to ensure they behave in a socially responsible manner towards their stakeholders (Carroll, 1998; Meehan *et al.*, 2006; Waddock, 2004). Businesses such as Ben & Jerry's, The Body Shop, and Tom's of Maine each sell decent products, seek to maintain reasonably responsible labor and environmental practices, and make substantial donations to charity (Shuman & Fuller, 2005). However, they do so with the goal of generating profits that can be distributed back to shareholders. In contrast, social ventures generate excess revenue to support the social purpose mission rather than distribute profits to shareholders (Dees, 1998; Maitland, 2006).

Although social ventures are often incorporated as not-for-profit charities, they are distinctly different from charities, foundations, and trusts. Charities operate under a social purpose mission to deliver services and are primarily supported by donations, grants, and governmental funding. Foundations and trusts, which exist with the mission to support charitable causes, frequently support causes that offer some social benefit to the community. 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).

Despite being different from charities, foundations and trusts in their approach to revenue generation, social ventures are similar to them in legal structure and their adherence to a social purpose mission. Since both legal structure and mission can create competitive advantages and disadvantages for social ventures in the competitive market, we examine them in the following sections.

Structure of Social Ventures

Social ventures can take numerous forms and have been established under varying legal and operating structures (Dees, 1998; Viravaidya & Hayssen, 2001). While a thorough discussion of these organizations is beyond the scope of this chapter, some distinctions are important to make. Many social ventures are legally structured as a not-for-profit organization (Dees, 1998; Easterly-Klaas, 2005; Emerson & Twersky, 1996). Still others have been established as for-profits, mutuals, co-operatives, or as partnerships between public, private, or not-for-profit sector organizations (Brennan & Ackers, 2004; Easterly-Klaas, 2005; Maitland, 2006). Moreover, some social ventures are privately held or incorporated as private sector corporations. For example, Chilmark Chocolates (in Martha's Vineyard, MA) is a privately-owned company that trains and employs individuals with severe cognitive and physical disabilities. The company's mission is to promote the inclusion of individuals with disabilities within the broader community through equitable employment and paying living wages (Easterly & McCallion, 2007). Another example of a for-profit social venture is Cafedirect (U.K.), a publicly-traded Fairtrade social venture that was established to help reduce poverty among coffee growers in the Southern hemisphere. The company pays fair

wages and helps improve the infrastructure of impoverished communities by paying above the world market price for coffee and marketing it to Western countries (Cafedirect, n.d.).

Other social ventures may be established as a subsidiary of a public sector entity. For instance, a psychiatric hospital located in a high unemployment region of Canada recently converted its hospital-based employment programs into social ventures including an industrial contract factory, a car wash, a sewing shop, a greenhouse, and three cafés (Krupa *et al.*, 1999; Krupa *et al.*, 2003). Hospital administrators realized that its employees with psychiatric disabilities no longer needed the support of the hospital program to perform their jobs, but since no employment could be located for them in the community the government chose to use the employment program funds to start the social ventures (Krupa *et al.*, 1999; Krupa *et al.*, 2003).

However, the vast majority of social ventures that have been reported on are legally structured as not-for-profits, as a subdivision of a larger not-for-profit organization, or as a subsidiary not-for-profit or for-profit corporation held under the control of a parent not-for-profit organization (Dees, 1998; Paton, 2003). The following are some examples of the different legal structures used by social ventures.

MOPA Housekeeping (in Shanghai, China) is a stand-alone social venture that is not affiliated with a larger not-for-profit organization. This not-for-profit social venture aims to reduce high rural unemployment by relocating unemployed migrant workers to the city where they work in its housekeeping venture (Chen *et al.*, 2006). Differing from the stand-alone model is the subsidiary model used by Pioneer Human Services (in Seattle, WA). It is a not-for-profit that operates several legally separated not-for-profit social ventures which offer job training and employment to chronically unemployed ex-offenders and substance abusers

(Paton, 2003). Both of these types of models have the advantage of not posing a financial risk to a parent not-for-profit organization because they are not legally part of one.

In contrast are social ventures that are a subdivision of a larger not-for-profit organization. CREATE (in Liverpool, U.K.) is one such venture (Brennan & Ackers, 2004). It provides employment to the chronically unemployed by refurbishing and reselling used white goods (e.g., washing machines, refrigerators, freezers, ovens, etc.). CREATE is legally part of Bulky Bobs, a much larger not-for-profit, but has a separate funding contract from the government and operates with a slightly different mission than the rest of the Bulky Bobs social ventures.

As is common in many not-for-profit organizations that operate social ventures, all three of the organizations described here provide social services to the impoverished and unemployed (including job training, housing, and counseling) in addition to operating the social venture. Having the dual purpose of fulfilling a social purpose mission and of operating a viable business creates a strain on the social venture that most for-profit businesses do not have to contend with.

Constraints on Competitive Strategy

While not-for-profit charity organizations address a wide range of social and environmental issues, social ventures are distinctly different from the organizations that create them (Emerson & Twersky, 1996; Thompson & Doherty, 2006). Social ventures are established to engage in competitive business activity, whereas not-for-profit charity organizations typically do not seek to become businesses and often remain heavily dependent on grants, gifts, donations, and government funding (Thompson & Doherty, 2006). When not-for-profit charity organizations engage in social venturing, they are faced with the challenge

of fulfilling both their not-for-profit mission while at the same time striving to achieve profitability in the social venture. This dual mission focus may interfere with the not-for-profit organization's ability to operate a viable social venture (Dees, 1998). To maintain tax-exempt status, not-for-profit organizations must adhere to strict legal codes. To be considered tax-exempt, income produced by a social venture has to be directly related to the not-for-profit organization's mission or social purpose, otherwise the not-for-profit organization's tax exempt status could be revoked (Brady, 2000; Hopkins, 2005a).

Not-for-profit charity organizations typically operate as institutional organizations due to government control, soft budget constraints, disincentives for cost saving structures, and bureaucratic organizational structures (Bryson, 2004). These organizations do not operate to generate a profit and are legally prohibited from distributing financial surplus to those who own or control it (Brady, 2000; Hopkins, 2005a). In fact, as not-for-profits they are expected to distribute their surplus revenues back to the community that supports them. They are traditionally viewed as tools of the government for achieving social objectives (Low, 2006). This climate is not favorable to entrepreneurship, which is the process of creating a new business (Brinkerhoff, 2000).

Many new businesses started by not-for-profit charity organizations fail because they are not competitive in the early stages after business start-up; indeed, one survey found that remarkably 71 percent of 41 high-profile U.S. not-for-profit business ventures were unprofitable between 2000 and 2001 (Foroohar, 2005). Further, because not-for-profit organizations typically serve as contractual agents and do not compete for customers, their organization leaders and board members often lack such business management skills as managing risk, market awareness, and understanding their position in the competitive market

(Dees,1998; Emerson & Twersky, 1996). Since their resources are often tied to service delivery (fee-for-service), they often lack the financial resources to compete in the open market (Dees, 1998; Emerson & Twersky, 1996). Added to this are competing stakeholder demands from community members, clients, family members, tax-payers, donors, and governmental funders, all of which limit the not-for-profit organization's ability to operate a viable business (Brinkerhoff, 2000; Paton, 2003).

What Competitive Advantages do Not-for-profit Social Ventures Have?

The not-for-profit's tax-exempt status offers several advantages. For instance, social ventures can solicit donations to operate, get government funding to pay for support staff to assist individuals with disabilities who work in the business, are often not required to pay income tax on the business' profits from sales, and may not be required to pay property tax on any space the organization owns and operates the business from as long as the business activity is directly related to the organization's mission (Hopkins, 2005b). These advantages may allow some social ventures to sell their products at lower prices than their for-profit competitors can. In fact, more than 20,000 representatives at a White House Conference for small businesses reported that competition with not-for-profits was one of the most significant issues they faced (Brady, 2000). But these benefits to operating a tax-exempt social venture rarely become a sustainable competitive advantage because they are typically outweighed by the costs of the disadvantages (Emerson & Twersky, 1996; Shuman & Fuller, 2005).

STRATEGIC MANAGEMENT FOR SOCIAL VENTURES

Several authors on social venturing have suggested that not-for-profit charity organizations will successfully operate a business only if they shift their decision-making

process to one that requires strategic management and planning (Brinkerhoff, 2000; Dees, 1998; Easterly-Klaas, 2005; Emerson & Twersky, 1996; Paton, 2003). Briefly, strategic management involves decisions and actions that affect an organization's long-run performance. It includes environmental scanning, strategy formulation, strategy implementation, and evaluation and control (Hofer & Schendel, 1978). Just as in the classic board game of battlefield strategy that bears its name, the Greek word *strategos* is derived from combining *strat(ós)* (army) with *égos* (to lead) to mean "a general." Indeed, the earliest popular usages of the term were in the military (e.g., Sun Tzu's *The Art of War* c. 453 B.C.E. and Clausewitz's *On War* in 1832) and politics (e.g., Machiavelli's *The Prince* in 1517). Following WWII, these applications took hold in businesses as policy and planning to provide direction for large organizations buffeted by turbulent environments. Following the establishment of the *Strategic Management Journal* in 1980, the discipline continued to evolve through competitor analysis, core competencies and the resource-based view, leadership and vision, entrepreneurship and innovation, organizational learning, and globalization.

Since the early 1990's, the not-for-profit sector has similarly adapted the business practices of strategic visioning, strategic planning, and core competency analysis to identify strategies that enhance organizational responsiveness and improve performance (Bryson, 1995; Young & Steinberg, 1995). Conducting an analysis of the organization's strengths, weaknesses, environmental opportunities, and threats (SWOT) and identifying the organization's strategic vision can help define it both internally and in relation to the larger environment (Bryson, 2004). Strategic planning has been used to determine where an

organization's resources should be focused and defines a sequence of strategic moves the organization should take to help it fulfill its mission (Bryson, 2004).

The challenge for creating a sustainable social venture is to establish a business strategy that supports the not-for-profit organization's mission, makes efficient use of its scarce resources, is financially sound, is adaptable to changing pressures, and is attainable (Brinkerhoff, 2000; Dees, 1998). Several authors have suggested that having a management strategy for the social venture is important to help it overcome the institutional and legal constraints placed on not-for-profit organizations and help organization members change their focus from charitable service delivery to one of strategic competitive business (Brinkerhoff, 2000; Dees, 1998; Easterly-Klaas, 2005; Emerson & Twersky, 1996; Paton, 2003). In the following sections we will examine how social ventures are being used to reduce poverty, why they have been effective where for-profit businesses have not, and how strategic management practices have played a role in their viable operations.

SOCIAL VENTURES: A GROWING BUSINESS MODEL

Not-for-profit organizations 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 (Chen *et al.*, 2006; Choi *et al.*, 2005). In developing countries characterized by widespread poverty, the situation is often much worse since those governments are often unable to meet even the basic needs of their people (Seelos & Mair, 2005; Thompson & Doherty, 2006). Traditionally, not-for-profit organizations have been concerned with assisting the impoverished, those who experience long-term unemployment, and those who exist on government subsidies to acquire the job skills and job training they need to secure employment.

Certain disadvantaged groups throughout the world, such as individuals with disabilities, convicts, the homeless, and individuals with substance abuse histories, have disproportionately experienced long-term unemployment and have been helped into the labor market through social ventures started by not-for-profit organizations (Emerson & Twersky, 1996; Harris, 2004; Krupa *et al.*, 2003; Paton, 2003; U.S. Census Bureau, 2004/2005). The loss of manufacturing and unskilled labor jobs in developed countries such as the United States and the United Kingdom has contributed to the development of regions in those countries characterized by chronic unemployment, with social ventures used to reduce unemployment in those regions (Brennen & Ackers, 2004; Easterly-Klaas, 2005). Other countries such as China are experiencing a shift from an agricultural to a manufacturing economy, as well as growth in the not-for-profit sector spurred by a decrease in government management of human services. These factors combined have resulted in social ventures being created to help relocate unemployed agricultural workers into urban areas of the country (Chen *et al.*, 2006). In other countries such as Bangladesh and Kenya, social ventures are established in rural regions to provide job training and employment for unemployed agricultural workers (Dees, 1998; Thompson & Doherty, 2006).

As the population grows, so do the numbers of impoverished that need services. Further, many new global problems have emerged – such as HIV/AIDS, terrorism, and repeated natural disasters – that require immediate attention. With the rising costs of health care and other products and services, governments find it difficult to adequately fund all the services needed to reduce poverty (U.N. Development Program, 2003). Pressure has been placed on corporations to take more responsibility for addressing social and environmental concerns throughout the world (Seelos & Mair, 2005). However, since helping the

impoverished, homeless, and needy is very likely to be “unprofitable,” for-profit corporations have shown little interest in addressing these concerns (Peredo & Chrisman, 2006; Seelos & Mair, 2005). This lack of interest has burdened not-for-profit organizations with finding solutions to poverty and unemployment that governments and for-profit corporations have been unable to address. To make up for the lack of governmental funding, not-for-profit organizations usually turn to donors (Bryson, 2004). However, the pool of grant and donor funds has not kept pace with the increasing demand for them (Brinkerhoff, 2000; Viravaidya & Haysen, 2001). The increasing demands for services combined with the decreasing availability of governmental and philanthropic resources has led many not-for-profit organizations serving disadvantaged groups to start social ventures to generate additional revenue to support their services or to create employment for the people they serve (Krupa *et al.*, 2003; Shaw, 2004; Shuman & Fuller, 2005).

In spite of the special challenges they face, social ventures have often succeeded in business activities not typically attractive to for-profit corporations. Consider the thrift shops operated by the Salvation Army and Goodwill Industries, both of which are international not-for-profit organizations that have been operating for over a century. The Salvation Army provides food, clothing, housing, and support services to the homeless and impoverished. Fifteen percent of its \$3.04 billion in annual revenue comes from sales within its used goods thrift shops (Salvation Army, 2006). Goodwill Industries’ mission is to reduce chronic unemployment and poverty through job training and employment. The lion’s share of its \$2.65 billion budget comes from the \$1.65 billion in thrift shop sales (Goodwill Industries Int., 2006). However, the viability of both of these organizations’ thrift shops comes largely from donors and volunteers who generously give cash, used goods, and physical labor to these

social ventures because they believe in the parents' mission of serving the poor and chronically unemployed.

Since for-profit corporations have a mission of profitability rather than serving the poor and they cannot receive tax-free donations and voluntary labor, it is unlikely they could competitively operate similar thrift shops and fund programs for the poor. For-profits interested in helping the poor typically take advantage of legal incentives for corporate giving by making tax-deductible donations to a not-for-profit organization that has a mission of serving the poor rather than trying to operate such businesses (Hopkins, 2005a).

Social ventures often engage in businesses that would not be viable without the support of public funds and grants. One such venture is Energywise Recycling (in Liverpool, U.K.), that started operating in 2000 as a not-for-profit recycling business for paper, cardboard, toner cartridges, glass, and drink cans. Its mission is to create local jobs and training opportunities for the region's chronically unemployed (Brennan & Ackers, 2004). The market for recycled goods has become drastically more competitive over recent years, making it less likely that starting this type of business would be profitable and therefore making the start-up of such a business unattractive to many for-profit corporations (Porter, 1998; U.S. Census Bureau, 2002; U.S. Department of Commerce, 2004).

Energywise was able to operate as a sustainable venture with the assistance of government and grant funds. The Liverpool City Council was especially interested in supporting Energywise because the City was recycling only 2% of its waste. Through funding to Energywise and other recycling projects, the City hoped to increase the recycling of its own waste as well as decrease the number of chronically unemployed receiving government assistance by moving them into the labor market. Liverpool recycling social ventures,

including Energywise, have added value to the community not only by reducing local waste but also by providing jobs in this high unemployment area (employing 85% of those trained). The community retains local wealth as the newly-employed purchase and spend more locally thus improving the standard of living. The larger community benefits from decreased government assistance payments to the unemployed, increased taxpayer contributions from the newly employed, and improved community self-sufficiency from being able to recycle more of its waste rather than outsourcing the task. The venture has also increased social capital in the community by creating a pool of trained workers who have enjoyed increased self-esteem, self-worth, and confidence due to their new employment (Brennan & Ackers, 2004).

Honey Care is another not-for-profit social venture that is concerned with reducing poverty through job creation in rural regions of Kenya (Honey Care Africa, 2006). Through cost sharing or loan agreements, Honey Care provides hives and bee keeping equipment to impoverished communities and individuals. Training and technical assistance is provided at no cost. Honey Care then purchases the honey from the producers at above market prices. This social venture has helped reduce poverty in several poor communities by developing sustainable employment that directly benefits over 38,000 individuals annually (Honey Care Africa, 2006). It has also helped build community self-sufficiency through producing honey and bee products locally, rather than importing them. The success of this venture has been partly due to choosing a location that for-profit companies would typically find unattractive. Since honey production is much lower in developing countries than in developed countries, for-profits have not found it financially attractive to establish a business in the rural regions of Kenya (Thompson & Doherty, 2006). By taking advantage of this market opportunity, Honey Care has succeeded in reducing poverty in regions where for-profit companies have not.

As these examples highlight, social ventures have decreased poverty and unemployment through job training and job creation. They have improved the local standard of living and increased community self-sufficiency through the production of value-added goods and services. Social ventures have helped retain local wealth as the newly-employed both buy and spend more, circulating money throughout the local community. They have increased social capital by building a pool of trained workers, developing community trust, strengthening community networks, and fostering norms of self-sufficiency through employment. Communities have also benefited from increased taxpayer contributions from the newly-employed with the workers experiencing increased self-esteem, self-worth, and confidence from their new-found employment. There are other benefits to the community specific to the venture's function such as reducing local waste through recycling. By starting businesses that rely heavily on donations or choosing businesses that appear unprofitable to for-profit companies but add value to the community, social ventures have succeeded in reducing poverty and chronic unemployment where for-profit businesses have failed.

BUSINESS STRATEGIES TO IMPROVE SOCIAL VENTURE PERFORMANCE

Several experts on the topic have suggested that aspects of strategic management are needed to operate a sustainable social venture (Dees, 1998; Easterly-Klaas, 2005; Emerson & Twersky, 1996; Paton, 2003; Viravaidya & Hayssen, 2001). We now turn to summarizing lessons learned from examining sustainable social ventures and present ten elements of business strategy that should be included if their operators wish to increase their likelihood of being successful.

1. Mission, Possible. All organizations must have a reason for being, their *raison d'être*. The late management guru Peter F. Drucker wrote that “the first job of the leader is to

think through and define the mission of the institution” (Drucker, 1990). This statement should be concise and precise, specifying what the organization does that includes the stakeholders it serves or relies on, the business(es) it is in, the client needs that are currently being served, and its key philosophical values and core purpose. While for-profit businesses can have missions to maximize their profits, not-for-profits must have an overriding mission that addresses their service orientation and good works (e.g., economic development, education, preservation, etc.) to retain their tax-exempt status. In the case of social ventures, their mission should be based on the community’s needs (e.g., insufficient job training, competitive employment, providing a product, transportation to existing jobs, supporting unfunded or under-funded services, etc.). Moreover, the mission must consider the venture’s unique cultural setting (Peredo & Chrisman, 2006) and be based on the demands of all potential stakeholders and funders (Dees, 1998).

If not-for-profits do not have a strong mission focus when they engage in social venturing, they are in danger of becoming so profit focused they may lose sight of their original purpose (Dees, 1998; Viravaidya & Hayssen, 2001). One example is the YMCA that for many years offered its health and fitness facilities at very low cost to the community in support of its mission “to put Christian principles into practice through programs that build healthy spirit, mind, and body for all” (YMCA, 2007). In recent years, the YMCA has generated substantial revenues by operating its health facilities and fitness clubs for middle-class families, causing critics to charge that the organization has lost sight of its original not-for-profit mission in the pursuit of profits (Dees, 1998; Shuman & Fuller, 2005) and uses its not-for-profit status to compete unfairly against for-profit health clubs (Brady, 2000).

Therefore, when not-for-profits engage in social venturing they must do so with a strong view

of the organization's mission or it could lose community respect and its not-for-profit status can be called into question (Brady, 2000; Lewis *et al.*, 1997; Spear, 2006).

2. Metrics Matter. Unfortunately, service orientation and good works often have vague or ambiguous outcome measures (Letts *et al.*, 1997; Paton, 2003). The extent to which the broad mission is attained must ultimately be measured by results, often described in terms of quantity, quality, timeliness, or cost. While for-profits share a common overall measure of accountability, the same is not true for all organizations. Hence, it is critical that social ventures measure their overall added value to the community rather than only one performance dimension (Darby & Jenkins, 2006; Paton, 2003). One way to do this is by benchmarking their performance against similar programs and measuring overall systems costs and benefits that include both financial and social benefits (e.g., number of jobs created, increased self-esteem of workers, etc.). Regardless of the approach, the performance metric should focus on the client (such as improving knowledge or economic status) and the resources expended. The performance standards must be known and understood by those responsible for results (Easterly-Klaas, 2005; Letts *et al.*, 1997; Paton, 2003).

The previously-mentioned Pioneer Human Services (PHS) has operated several sustainable social ventures for many years (PHS, 2007). Its mission is: "Improving lives through jobs, social services and housing." Nearly one-half of its \$55 million budget comes from revenues generated in its social ventures, which employ over 1,000 chronically unemployed ex-offenders and substance abusers.

To maintain the viability of their ventures, PHS has a wide range of performance measures including tracking financial performance using generally-accepted accounting practices with a goal of maintaining a minimum 13% margin, using quality assurance

measurements to achieve customer satisfaction (including meeting ISO 9002 standards), and inspecting and auditing the ventures for quality improvement (Paton, 2003). Because this is a human service organization, mission-related and client outcomes on social venture-related goals are key to determining the viability of each venture (Paton, 2003). Information reported monthly includes operational data (activity, throughput levels, completions), quality data (error rates, rule violations, incidents, internal client/external customer satisfaction surveys), and professional assessment data (risk reduction, improved client functioning, progress toward client goal attainment) (Paton, 2003). PHS has used performance measurement as a tool for sustaining the viability of its social ventures by putting procedures in place for data gathering and reporting. It also uses graphical displays (i.e., “dashboards”) of performance over time that are clear and easily understood by top managers and the board of directors to determine progress toward goal attainment. Outcome data are in turn used to set goals and targets, which may include closing poor performing ventures (Paton, 2003). Using multiple performance measures and standards that are accessible and valuable to top decision makers, PHS has been able to operate sustainable social ventures that have reduced poverty for many unemployed individuals.

3. Develop a Business Plan. In order to attain the performance metric, organizations must conceive an original and well-considered idea. It is important to detail the products or services offered and how they compare to the local competition’s offerings, including a summary of market size, expected customers, and key financials including revenues, cash flow, and surplus. This should also include action plans and milestones, particularly the roles and responsibilities of the management team members. Since not-for-profits do not have the same market pressures as for-profit businesses, it is important for them to have complete and

up-to-date business plans that are overseen by the board of directors and/or a chief executive officer skilled in business. A common mistake is to hire a business consulting firm in lieu of having skilled business management within the organization to develop the business plan. Finally, it is important that the organization plans to grow the social venture slowly and deliberately so that the business activity does not distract them from fulfilling their social purpose mission.

Easterly-Klaas (2005) reported on a spice company social venture that did not have business management skills among the board members or executive management within the not-for-profit organization that started the venture. Its board of directors decided to hire a business consulting and market research firm to devise a business plan to penetrate the wholesale seafood store market. When it was discovered that the business was not growing at the projected rate and it was rapidly losing money, the organization members did not possess the management skills to discern how to revise the business plan and were unable to devise strategies to improve the social venture's performance. The organization's board members and executive management became very reactionary in their approach to running the venture, taking such steps as implementing a new, poorly formulated plan for the business. When that plan did not produce rapid results, they would quickly try another approach. It was decided that the spice company would leave the wholesale seafood store market (for which a business plan had been written) and instead attempt to penetrate the retail grocery store chain market. No business plan was created to penetrate this new market, so the organization management overlooked critical aspects of the businesses' needs and available resources and had no clear idea of how much capital was required to penetrate it. For instance, they reported they "forgot to include hiring a sales force" as part of their business plan and had initially assumed that if

they offered a quality product “it would sell itself.” Not only did this venture fail to provide employment for individuals with disabilities, but it also left the not-for-profit parent organization with \$500,000 in debt that had to be paid for with funds intended for other human service programs the organization delivered. Without a comprehensive business plan, this social venture veered off on a course of action that ultimately drained resources away from the parent not-for-profit’s mission and depleted the quality of service offered to the individuals with disabilities the organization served.

4. Dare to be Different. If you build it, they will not come unless the plan specifies how the business will be unique. According to conventional strategic theory, there are two polar opposite generic strategies: Being the lowest delivered cost provider or being the highest differentiator. Organizations must make choices that distinguish them from the competing offerings (Porter, 1998). Price competition is a race for the bottom to be avoided and, as already pointed out, can be problematic for not-for-profits that receive cost advantages from government or other sources. Hence, it is important for these organizations to avoid price-sensitive markets if they are to maintain the public’s good will and avoid being accused of using their not-for-profit status to compete unfairly with for-profit businesses. It may also not be feasible for social ventures to compete on price when their poverty reduction mission includes paying higher wages than their for-profit competitors, hiring less skilled workers, providing extensive job training, and purchasing products from impoverished business owners at above market prices. These added costs make it nearly impossible for social ventures to compete on price. Moreover, customers prefer a value proposition that offers the best combination of product and service attributes for the price. Organizations can be unique by balancing their quality (e.g., Mercedes) and reliability (e.g., Caterpillar), cost of delivery (e.g.,

Dell), level of convenience (e.g., Amazon.com) and service (e.g., Nordstrom), engineering innovation and design (e.g., Apple), image (e.g., Nike), and overall customer satisfaction (e.g., Toyota).

Cafedirect, mentioned previously, has become the UK's largest Fairtrade hot drinks company with 8.1% market share in the roast and ground coffee market (Cafedirect, n.d.). To achieve a brand image of exceptional quality, 86% of operating profits fund initiatives such as business development, marketing, and management training to support growers in building the expertise necessary to produce the highest quality products. Cafedirect works with 33 producer organizations in 11 impoverished countries. By competing on quality, Cafedirect has been able to pay growers above market prices for their product while supporting the growth of their businesses that results in over a quarter million growers receiving a decent income as a benefit of this social venture.

5. Know Thy Market. Every business should know the market it wishes to occupy by paying attention to why, who, what, where, how, and when: Why are you targeting that customer, who will you be competing against, what are the alternative product and service offerings, where will you get the competencies you need, how is the product or service delivered, and when will you be profitable? Answers must be thought out and actions must be deliberate to develop viable strategies to penetrate the chosen market (Porter, 1998). A common mistake within social ventures is to try to operate the business with only a handful of customer contracts, because when these contracts expire the social venture fails (Dees, 1998; Easterly & McCallion, 2007). Social ventures may fare better at increasing their customer base or repeat sales by offering specialized or niche products and services, or locating in areas that competitors choose to ignore (Easterly-Klaas, 2005; Pelham, 2000). These approaches

also avoid highly-competitive markets that require economies of scale that not-for-profit organizations typically cannot generate given their limited resources to penetrate these demanding markets (Perlmutter & Adams, 1990; Young & Steinberg, 1995). Alternatively, a creative strategy can capture emerging markets (e.g., aging population), create new markets (e.g., tap unmet needs), develop new products (e.g., collaborate with other organizations), become indispensable (e.g., a monopoly position, contract, patent, high switching costs), or fortify (e.g., promise long-term commitments, obtain financial support).

A janitorial company in the Northeastern United States hires individuals with disabilities in a region characterized by high unemployment. Since the economy is declining in the area where the social venture is located, many of its customers are relocating to other regions of the country or are filing bankruptcy. Nonetheless, it has been very successful at maintaining a 35% profit margin in an economically depressed region by continually assessing the performance of its customers and revising its business plan based on how its customers are performing (Easterly-Klaas, 2005). By continually assessing the performance of the venture's customers, upper management is able to curb potential losses from customer default by limiting the amount of credit extended. Upper management continually engages in networking and environmental scanning to seek out new customers with strong financial performance and discontinues service to those exhibiting poor performance. Costs are controlled by continually keeping a close watch on the market size. This social venture has been able to offer stable employment to chronically unemployed individuals with disabilities and generate excess revenue to the parent not-for-profit organization enabling it to fund housing, job training, transportation, and clinical services.

6. Hire for Talent, Pay for Performance. Human resources are often the most neglected and taken for granted of all resources, and ironically also the most unique and indispensable. Nowhere is this truer than in the case of the executive talent ranging from the top management team to the chief executive officer and board of directors. Not-for-profits have often been accused of hiring managers that lack business skills and experience (Dees, 1998; Maitland, 2006) and skimping on the salaries they pay their managers (Easterly-Klaas, 2005; Viravaidya & Hayssen, 2001). Not-for-profits should not short-change the organization by neglecting the people responsible for day-to-day operations of the business. Rather, they should hire skilled management and pay them competitive salaries. One way to increase the managers' financial incentives is to tie their salaries to the venture's performance (this is not legal for the CEO or board in not-for-profits) (Easterly-Klaas, 2005).

Many social ventures have failed financially because they ignored the dangers of hiring unskilled management and deferred business decision-making to them (Easterly-Klaas, 2005; Viravaidya & Hayssen, 2001). One water bottling social venture that was started to create jobs in a high-unemployment region of the Eastern United States created \$500,000 in debt for the parent not-for-profit organization that started it (Easterly-Klaas, 2005). The CEO and board members later realized that even though they thought they were paying a lot of money for the manager they hired, they had only paid about half the average salary. Because he was considered "the business expert," they allowed him to make all of the decisions for the venture until the not-for-profit was threatened with bankruptcy. This social venture was forced to close and the not-for-profit organization spent many years diverting funds from its mission-related programs to pay off the venture's debt.

7. It's Who You Know. Creating and maintaining linkages with stakeholders when resources are scarce creates a competitive advantage (Collis & Montgomery, 1998). Not-for-profits should choose local (or specialty) markets where their organization's networking skills are an advantage (Brennan & Ackers, 2004; Easterly-Klaas, 2005). For instance, board interlocks can provide access to information and contacts, sharing product lines or processes can create mutual interdependence, entrepreneurial initiative and creativity can gain access to customers, experience, and knowledge (Covin & Slevin, 1989; Davidsson & Honig, 2003), and engaging the community in developing a social venture can build consensus and support (Predo & Christman, 2006).

Energywise, the previously-mentioned recycling social venture, probably would not succeed in regions other than their local market because of the competitiveness of the recycling market, high start-up costs, and low profit margins (U.S. Census Bureau, 2002; U.S. Department of Commerce, 2004). Energywise networks with several departments of the local government and non-governmental organizations interested in reducing waste and supporting economic development in the local region (Brennan & Ackers, 2004). It has been able to access a variety of grants and donations because the social venture focuses on reducing local waste and providing employment to the chronically unemployed in the area. These networks have made it possible for the recycling venture to operate as a sustainable venture, whereas it probably would have failed without these networks.

8. Establish Financial Oversight. The not-for-profit organization's CEO and its board members must be skilled in business to exercise their decision making authority competently as well as to provide proper governance, oversight, and control over the business' financial accounts, market strategy, and exit planning. In addition, the amount of

financial risk the social venture assumes should be established by specifying such performance baselines as expected profit margin, programmatic support required for break-even, and the amount and source of donations (Dees, 1998).

Maintaining proper financial oversight does not always require the social venture to operate self-sufficiently without the assistance of grants or donor assistance. For example, the Bangladesh Rural Advancement Committee (BRAC) operates several social ventures to reduce poverty and empower the poor in war-torn countries such as Afghanistan, Sri Lanka, and Bangladesh employing 97,192 people in their ventures (BRAC, 2005). However, not all of their ventures are self-sufficient. BRAC intended to operate all parts of its silk industry in Bangladesh without the cash assistance of donations and grants. It engaged in all parts of the industry's value chain including sapling production, silkworm seed production, mulberry cultivation, silkworm rearing, reeling, weaving, and marketing with the goal of employing thousands of women and landless poor (BRAC, 2005). Due to the poor quality of the cocoons, the silk reeling plants were very inefficient (Dees, 1998). Financial losses had to be incurred at this stage of production to be able to pay the workers a living wage (Dees, 1998). Since closing this production stage would have endangered the entire silk venture and forced thousands of workers back into poverty, BRAC chose instead to continue seeking cash assistance to sustain the venture while it devises a strategy to make the plants profitable (Dees, 1998). By maintaining close financial oversight of the silk venture, BRAC has been able to protect itself from incurring losses that could have diminished the organization's capacity to serve the poor elsewhere (BRAC, 2005).

9. Manage Risk Carefully. While all start-ups are more likely to fail because of their "liability of newness" (Stinchcombe, 1965), social ventures are especially at risk because their

missions place them at a disadvantage in the competitive market. For instance, social ventures often allocate more resources to social purposes to fulfill their mission than their competitors do. They also hire workers their competitors consider unqualified, forcing them to try to compete with a less-skilled workforce (Emerson & Twersky, 1996). Although it can structure the social venture as a separate for-profit company to protect its finances and increase bankability, doing so might jeopardize its not-for-profit status if the venture becomes too profitable (Hopkins, 2005a). To mitigate the operating risks, not-for-profit organizations should enter businesses that are easily learned, require a limited amount of technical skills to operate, or where employees already possess the knowledge and skills to be successful (Easterly-Klaas, 2005). To minimize the financial risks, not-for-profit organizations should choose a business that requires little start-up capital and has low overhead because most of these organizations have limited liquid resources (Perlmutter & Adams, 1990; Young & Steinberg, 1995). They should also have sufficient capital to see the venture through the first few years of operation (Emerson & Twersky, 1996).

The previously mentioned Canadian psychiatric hospital used several strategies to minimize risk when it started its social ventures (Krupa *et al.*, 2003). First, it structured the ventures under a separate not-for-profit umbrella organization so that the hospital would not be legally liable for any financial losses incurred in the ventures. Then, it started only ventures that require operating skills the business managers, hospital administration, and employees with disabilities already possessed. Finally, it minimized overhead costs wherever possible by locating the venture in donated space. Although not all of the ventures are yet sustainable, these risk management tactics have helped the ventures grow slowly toward becoming viable.

10. Obey the Law and Abide by Ethical Principles. While it seems obvious that managers and companies should not break any laws or violate ethical principles, not all not-for-profit organizations are actually aware of and follow the laws governing their social venture. Since not-for-profit organizations are given tax-exempt status because they operate to perform good for the community, they should go beyond simply obeying the law, engaging in ethical business practices, and avoiding “unfair competition” such as using tax-payer dollars attained through governmental funding to lower prices and under-cut local business competition (Brady, 2000). In fact, several not-for-profits have been accused of violating their tax-exempt status and misusing taxpayer and donation funds when engaging in social venturing (Brady, 2000). CEOs of not-for-profits 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). Board members have also been found guilty of violating their fiduciary responsibility as trustees for not-for-profits by neglecting to maintain oversight of financial and CEO activities and thus allowing the organization to incur large financial losses (Bart & Deal, 2006; Low, 2006; Shuman & Fuller, 2005). Consider the Milwaukee YWCA that allowed its computer software venture and plastics factory to collapse in 2003, leaving it with millions of dollars of debt while some board members collected stock options from the ventures. Ethical practice means not taking advantage of bankruptcy laws whenever possible by considering the impact that such filing could have on the not-for-profit organization and its relationship with stakeholders. For instance, taxpayers in the community who already have contributed tax dollars to the social venture’s operation should not have to cover its bankruptcy losses. Rather than giving back to the community that supports them, these

unethical practices have contributed to draining precious not-for-profit resources away from the organization's philanthropic mission. Situations like these have led to increased pressure being placed on not-for-profits to improve their legal and ethical business practices when engaging in social venturing (Dees, 1998; Shuman & Fuller, 2005).

CONCLUSION

Through the use of innovative business approaches, social ventures have challenged and redefined the traditional roles of not-for-profit organizations at reducing global poverty. The examples given here demonstrate how social ventures add value to impoverished communities throughout the world through job creation for the chronically unemployed, fostering community self-sufficiency through production of their own products rather than importing them, creating markets for products produced by impoverished communities, and providing job training to help the chronically unemployed acquire employable skills.

Although social ventures often target markets or hire employees that for-profit companies would typically find unattractive, thereby putting them at a competitive disadvantage, many succeed at achieving their mission of reducing poverty. They do so through a strong mission focus, performance measurement, business plan development, market awareness, avoiding highly price-sensitive markets, skilled management, networking, financial oversight, risk management, complying with the laws governing the business, and engaging in ethical business practices. Although constrained by legal limitations, lack of resources, and conflicting stakeholder demands, social ventures that have applied innovative business and strategic management practices have reconfigured the wealth generation dynamics within several impoverished communities in areas where charities and for-profit businesses have failed.

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