Social Enterprise in the United States: Alternate Identities and Forms

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ABSTRACT

In a variety of ways, nonprofit organizations and commercial business are becoming more and more intertwined with one another in the United States. One of the manifestations of this overall pattern is the emergence of the concept of social enterprise - connoting organizations that operate through the marketplace and address social goals. However, there is no one type of social enterprise. Indeed, this notion cuts across a wide spectrum of organizational possibilities, ranging from not-for-profit organizations that engage in commercial activity to profit-making businesses that claim to be driven by social objectives.

Organizations that conceive of themselves as social enterprises face important structural decisions. They can operate as for-profit businesses which make explicit contributions to the social good or they can become not-for-profit organizations with social missions that generate income and social benefits through commercial means. Within these forms, they can design their governance arrangements and specify their financial goals and constraints in a variety of ways. Nonetheless, these alternative forms may not fully accommodate a social enterprise organization's self-conception, i.e., its organizational identity. This paper describes three distinct possible identities for social enterprises - corporate philanthropist organizations, social purpose organizations, and hybrids. Further, the paper explores the character of these three identities, their structural implications, and how alternative organizational forms can be adapted to accommodate them.

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Introduction

“Social enterprise” is not a precise concept in the United States. This term is generally understood to connote organizations that operate in the open marketplace while addressing social goals. Contemporary interest in social enterprise stems from a number of interrelated trends including expanded reliance of nonprofit organizations on revenue earned through sales of services and commercial ventures, closer ties between nonprofit organizations and commercial businesses, and a growing emphasis on social goals and social responsibility by business corporations.

There are some who claim that social enterprises constitute a new form of organization, generically different from conventional nonprofit organizations or prototypical for-profit businesses, and are deserving of special treatment in public policy. In this paper, we will consider this contention by reviewing the trends leading to social enterprise initiatives, exploring the various organizational options for pursuing social enterprise, and considering the financial and governance implications of pursuing social enterprise within alternative organizational formats. In this analysis we will utilize the concept of “organizational identity” to connect the intent of those who engage in social enterprise with the organizational forms chosen to accommodate these intentions. We conclude that most types of social enterprise are accommodated by conventional nonprofit and for-profit forms, although adjustments in their financial and governance parameters could make these different forms of social enterprise more effective. We also find some justification for promoting new organizational forms of enterprise, combining aspects of nonprofit and for-profit, for accommodating other variants of social enterprise.

Trends

As reviewed in Young (2000), at least five interrelated trends have converged over the past two decades to put the pursuit of social programs and services more squarely in the domain of the marketplace. First, in the face of slowing government support and slowly increasing contributions from charitable giving, earned revenue from sales of services has become the mainstay of nonprofit organizations involved in delivery of public services. According to Weisbrod (1998), reliance of U.S. public benefit nonprofits on fees for program services (including fees paid by government but excluding government grants) increased from 69.1% to 73.5% of total revenues between 1987 and 1992. Alternative calculations by Salamon (1999), which classify governmental contract revenue under “government revenue” and not under “earned income”, indicate that 54% of the revenue of nonprofit public benefit organizations derived from earned income (fees and charges) in 1996. Moreover, Salamon calculates that 55% of the growth in nonprofit revenue between 1977 and 1996 derived from fees and commercial income.

Second, recognizing their growing reliance on earned revenue, nonprofit organizations have put increasing emphasis on developing their own commercial sources of funds. Recent surveys indicate that "unrelated business income" for U.S. nonprofits has more than doubled since 1990 (Lipman and Schwinn, 2001). Nonetheless, Crimmins and Keil (1983) and subsequent studies, such as Skloot (1987, 1988), Emerson and Twersky (1996) and Young (1998), strongly suggest that the growth of commercial enterprise in the nonprofit sector is rarely completely unconnected to mission. While nonprofits may take advantage of peripheral income opportunities that fall easily into their grasp (e.g., renting their facilities, charging parking fees, etc.) or that manifest themselves as natural extensions of what they already do (e.g., selling art reproductions, providing hospital laundry services to other hospitals), they usually conceive of commercial ventures as relevant and connected to achieving their mission objectives in some substantive way. This notion has helped to give rise to the concept of "social purpose enterprises" which are revenue-generating businesses that are owned and operated by nonprofit organizations with the express purpose of employing at-risk clients (Roberts Foundation, 1999). Other terms employed that reflect this definition include "social purpose business", "community-based business" and "community wealth enterprises" (Reis and Clohesy, 2000). These businesses are viewed partly as a means of revenue generation and partly as a means to serve those clientele in an effective way.

Third, nonprofits have become more closely intertwined with for-profit businesses per se, both in competitive and collaborative ways. Nonprofit organizations operate in a variety of "mixed industries" in which both nonprofits and for-profits, and sometimes government, participate. In a number of those industries, nonprofits have lost market share, mostly from incursions by the for-profit sector. Based on data from 1982 to 1992, these industries include individual and family services, job training, child day care, museums, radio and television broadcasting, and botanical gardens and zoos (Tuckman, 1998). In contrast, nonprofits gained relative market share in the nursing home field, and in elementary and secondary schools during that period. Yet with all of the competition between nonprofits and business, the forces of collaboration appear to be gaining strength. Collaboration takes a variety of forms including corporate gifts and grants to nonprofits, employee volunteer programs, event sponsorships, cause-relating marketing, royalty and licensing arrangements, joint ventures and other initiatives (Austin, 2000). Overall, business corporations have discovered the strategic value of working with nonprofits, while nonprofits have found ways to make their relationships with corporate business helpful to them both financially and programmatically.

Fourth, the new market environment for nonprofits has grown beyond the pursuit of earned revenue, commercial enterprise or corporate partnerships. It now permeates the overall environment in which nonprofits operate. As serious competitors for societal resources, nonprofits are asked now to measure up to the standards of business. Much of the impetus for this has come from the funding community, consisting of both government and philanthropic sources. Funders now talk about accountability and measuring performance and results. Nonprofits no longer live in a protected environment in which little was expected in exchange for financial support. Rather, they are asked to demonstrate their impacts on society and their cost-effectiveness, and to justify their support and special benefits in public policy (Light, 2000).

Finally, the deepening engagement of nonprofits in the market environment mirrors important changes that are occurring inside nonprofit organizations. Management practices, organizational values, and the very language that nonprofits use have been changing dramatically, signaling that nonprofits are becoming very different kinds of organizations than they were in the past - much more embedded in the culture of the marketplace. Terms such as entrepreneurship, marketing and venture capital, virtually unknown in the nonprofit sector twenty years ago have now become common vocabulary. Moreover, the need for strong management, using modern techniques, received little attention twenty years ago. Traditionally, nonprofits had not put much emphasis or great value on management, on hiring staff with special management expertise or in educating people to the particular managerial requirements of a nonprofit organization. Nonprofit administrators were normally professionals in their various service fields - artists, social workers, doctors and nurses, teachers, and so on - who incidentally acquired and took on managerial responsibility as their careers evolved. Management specialists per se, i.e., individuals educated specifically in management, were rare. The early 1980s witnessed the beginning of a change in these attitudes and practices, and the start of a new movement to educate professional nonprofit managers through university programs (O'Neill and Young, 1988). By the 1990s, nonprofit management had become a respected career path and a legitimate profession (O'Neill and Fletcher, 1998) with many universities now offering degree programs in this field (Mirabella and Wish, 2001).

All of these developments, as well as a surge of interest in philanthropic initiatives by business entrepreneurs who had grown wealthy in the dot.com era of the 1990s, helped set the table for the current strong interest in "social enterprise" in the United States, while the growing complexity of interaction between nonprofits and business has made this concept elusive and needing of clarification.

Different Forms of Social Enterprise

Before considering the various forms that social enterprise takes in the United States, it is helpful to employ a concept from the literature on organizational behavior, namely "organizational identity". In a seminal paper, Albert and Whetten (1985) defined organizational identity as that which is *central, distinctive and enduring* about an organization. It is often useful to describe an organization's identity in terms of metaphors. For example, Albert and Whetten (1985) discuss how a university struggles with competing notions of itself as a "church" versus a "business". Such metaphors are intended to capture the essential character of an organization, as seen by a critical mass of stakeholders who control its destiny. In the case of social enterprise in the United States, alternative metaphors are appropriate to describe different forms of social enterprise that are currently active and vying for space in the ecology of nonprofit and for-profit organizations.

The literature on social enterprise ranges from the evangelical promotion of business with a public purpose (Shore, 1995) to analytical skepticism and concern that profit-seeking may be undermining the integrity of nonprofit organizations (Weisbrod, 1988, 1998). Meanwhile, there is also some convergence around social enterprise between the nonprofit and for-profit sectors: more businesses are becoming socially conscious and active along philanthropic fronts while nonprofits are coming to rely more heavily on commercial sources of revenue and business methods. These various developments have given rise to at least three distinct identities for organizations that could be considered social enterprises (Young, 2001):

Corporate Philanthropies. Social enterprises can be intendedly for-profit businesses that decide to use some of their resources to advance social causes or promote the public good in a particular way. Basically, however, Corporate Philanthropist organizations are businesses whose bottom lines are to maximize profit or increase market share. Engaging in socially beneficial activities such as corporate grant-making, volunteering of company personnel, or corporate sponsorships and joint ventures with nonprofit organizations, can be appreciated in this context as elements of "strategic philanthropy" (Smith, 1996) wherein philanthropic activity contributes to the productivity of corporate employees, the marketing of corporate products or the polishing of the corporation's public image, all in the cause of (long term) economic success.

Social Purpose Organizations. Alternatively, a social enterprise can consider itself to be a (private) organization devoted to achieving social good. Such an organization is driven by a mission other than profit-making; however, commercial revenue and business activity are seen either as a strategic means to generate income to support the mission, or as a strategy to carry out mission-related functions expeditiously, or both. For example, selling cookies is conceived as a revenue generator for the Girl Scouts and also an educational (mission-related) experience for the girls that participate in it. Organizations that run sheltered workshop programs, which manufacture certain goods or repair and sell donated merchandise, such as Goodwill Industries, do so for the express purpose of employing and training challenged workers as well as to generate revenues.

Hybrids. A fairly recent development is the emergence of businesses that claim to have dual objectives - to make a profit for their owners and to contribute to the broader social good. Ben and Jerry's Ice Cream and The Body Shop are two examples of this genre. Such enterprises, in theory, constrain their levels of profit making in order to accommodate social criteria such as environmental conservation (e.g., using only recyclable materials or producing environmentally friendly or healthful products) or social justice (e.g., utilizing hiring and promotion practices favorable to minorities or handicapped workers); or they give away a substantial portion of their profits to support social causes rather than distribute them to owners.

Hybrids are more likely where businesses are closely held by a few owner-partners who feel strongly about social issues. Unless markets are extremely competitive and force businesses to pursue profit-maximizing strategies, owners who value both income and social benefits can choose to optimize some preferred combination thereof. However, this becomes less likely for public corporations with widely held stock, even if the corporation does a very good job of educating prospective stockholders to policies of the corporation that may limit profits in favor of social benefits. In particular, although some stockholders and institutional investors may explicitly favor the securities of socially responsive companies, competition for equity capital among large corporations is strong and based fundamentally on earnings potential.

Choice of Corporate Form

While there is a clear correlation between the organizational identity of a social enterprise and its legal form, this correlation is by no means perfect. The case of Corporate Philanthropies seems the most clear. CP's appear by definition to necessarily be profit-maximizing entities with philanthropic initiatives that form part of their corporate strategies. Yet even in this category one can think of exceptions. For example, the Cleveland Clinic is a huge not-for-profit health care institution in the U.S. which make grants to other charities. University Hospitals (UH) is another such institution in Cleveland, which recently took over sponsorship of the local children's museum that was threatening to go bankrupt. One could argue that these initiatives are undertaken within the general health care missions of these nonprofit institutions. Indeed, in the UH case, the mission of the children's museum parallels that of UH's very fine Rainbow Babies and Children's Hospital. However, these initiatives can also be understood as part of the efforts of these essentially market-based organizations to maintain or expand their shares in a very competitive health care market, by polishing their images with the public. In this context, these very large nonprofits are following essentially the same corporate strategic logic as large business corporations that provide charitable assistance in communities where they operate.

By contrast to Corporate Philanthropies, Social Purpose Organizations are commonly structured as nonprofit organizations. Nonprofits have a long history of including commercial revenue as part of their strategic arsenal. Some types of nonprofits, which Hansmann (1980) labeled "commercial nonprofits", rely primarily on fee revenue for their economic sustenance. These include colleges and universities relying on tuition, hospitals supported by patient fees and insurance reimbursements, and orchestras and nonprofit theaters depending substantially on box office revenues. More recently, nonprofits have broadened the ways in which they have exploited market-based revenues to support their mission-related services (see Skloot, 1988), particularly as other sources of revenue, such as charitable contributions and government support have become more scarce (Salamon, 1999; Weisbrod, 1998). Nonprofits engage both in commercial activity that directly contributes to mission as well as unrelated commercial business that supports the mission primarily along financial lines. Either way, a Social Purpose Organization puts mission first and views commercial revenue and profit-making as means to mission achievement, reversing the priorities of a Corporate Philanthropy.

Again, however, there is no perfect correspondence between identity as a Social Purpose Organization and choice of the nonprofit form. The nonprofit form is a natural choice precisely because it puts mission first and requires financial surpluses to be used in support of mission. But other forms are possible and indeed may be best suited in some circumstances (see Hansmann, 1996). Shore Bank, for example, is organized as a for-profit enterprise to foster community development because that mechanism allows it to provide financial capital for housing and economic development more efficiently. Thus, even the conventional form of for-profit business is a possible choice for Social Purpose Enterprises in some circumstances.

Hybrids have a more difficult calculus than either Corporate Philanthropies or Social Purpose Organizations - they must first decide how to balance social and private benefits and then determine what organizational form fits best. Nominally, Hybrids are profit-making organizations that choose not to maximize their profits, but for which profits are nonetheless intrinsically important as an ultimate corporate objective. However, if the social component is sufficiently strong, leaders of a Hybrid may wish to take advantage of the nonprofit form, allowing access to tax benefits, charitable and volunteer resources and the social trust that often accompanies a nonprofit facade, and accepting limits to private benefits manifested as salaries and perquisites. For example, owners of a private school may decide that they can make their school more successful by taking on the form of a nonprofit corporation while, at the same time, allowing a level of personal remuneration (in salaries and benefits) that they deem sufficient or even superior to what they could achieve through the profit-making form. Alternatively, if the private benefit objective is stronger, or if the flexibility or utility of the for-profit form is more functional in some circumstances, Hybrid leaders may wish to retain the for-profit structure and work to maintain the discipline of addressing social needs within that framework. In either case, the calculation involves determining which form yields the desired combination of personal and social benefits.

Over the long term, in the face of market pressures, it seems likely that Hybrids which start in for-profit form will gradually move either toward a Corporate Philanthropy identity where they can compete successfully in the marketplace without conflicts over producing private benefits, or towards the Social Purpose Enterprise identity where private benefits are clearly subordinated to achieving a social mission. Alternatively, Hybrids which manifest themselves as nonprofits may find themselves chafing at the restrictions they face with respect to personal benefits. Thus, the nonprofit form may not be a satisfactory or stable way station for Hybrids either. In any case, there are very subtle borderlines between Hybrids and the other two identities, and the stability of the Hybrid, in either nonprofit or for-profit form remains questionable.

The following table summarizes the juxtaposition between the organizational identities of social enterprises and the legal forms they may take:

Identity/Legal Form	*Nonprofit*	*For-Profit*
Corporate Philanthropy	major nonprofits competing for market share who find it useful to help other charities as part of corporate strategy	business corporations whose philanthropy is part of a business strategy to enhance profits
Social Purpose Organization	nonprofits that undertake commercial activities to generate funds and support social goals	businesses whose owners are focused on social goals and where the for-profit form is more comfortable or practical
Hybrid	nonprofits whose leaders seek both income and social benefits	businesses whose owners sacrifice some profits to achieve social goals

Legal Form, Financial Constraints and Governance

To a certain extent, the conundrums associated with the choice of legal form may be addressed by adjusting financial incentives and constraints and governance arrangements, within either the nonprofit or for-profit frameworks, so that these frameworks better fit each social enterprise identity. Organizations are ultimately guided in their behavior by two interlocking forces - their internal motivations on the one hand, and external incentives and constraints on the other. These two forces reflect the rationales for alternative approaches to the organization of social enterprise. The incentive approach relies on establishing external pressures to guide and constrain organizational behavior. Nondistribution or limitation-of-profit constraints exemplify this approach. The argument for such constraints is that if organizations are limited in their ability to distribute financial surpluses for private benefit, they will channel these resources to other uses, presumably to further the organization's social mission (Hansmann, 1980). This is the essence of the classical nonprofit approach to social enterprise, centering on the incentive effects of the nondistribution constraint.

The internal approach focuses on governance rather than financial incentives and constraints. Here, it is argued that what matters most are the interests and motivations of those who govern the organization and are responsible for its policies and operations (Ben-Ner, 1986; Ben-Ner and Van Hoomissen, 1994). If those in control are motivated by social or collective goals, then the enterprise is likely to pursue those goals, perhaps even in the presence of neutral or discouraging external incentives and constraints.

These two conceptual approaches to social enterprise are obviously interconnected. If those who control the enterprise are not socially motivated they may subvert the intent of externally imposed incentives or constraints - for example, by hiding distributed profits in various ways such as inflated salaries or kick-backs from suppliers. Correspondingly, if incentives are weak, perverse or poorly enforced, they may actually attract to the enterprise individuals who are selfishly rather than socially motivated (see Young, 1983) and who hope to exploit the enterprise for their own purposes. Alternatively, if those who govern the enterprise are selected in a manner that screens for mission-related motivations and helps ensure that their interests are focused on the enterprise's social purpose, the organization may be able to overcome weak external incentives and constraints. For example, governance of a mental health organization may require that members of the governing board have professional qualifications or come from families of individuals served by the organization. Finally, strong external incentives and constraints may help to attract socially motivated people to the enterprise. For example, requiring board members to be volunteers serves as a signal to attract those who would join for reasons of public service rather than private gain.

On may conclude from these arguments that the proper functioning of social enterprise requires appropriate combinations of external incentives and internal governance arrangements. However, those combinations are likely to vary with the alternative identities of social enterprise and the organizational forms within which these identities are manifested. Hence, it is useful once again to consider those alternative identities and examine how the financial and governance dimensions of the nonprofit and for-profit forms might be usefully adjusted to accommodate them.

Corporate Philanthropies (CP) would seem to be well suited for the for-profit form of enterprise, operating within the profit-maximizing milieu of the marketplace and governed by those whose interests are to maximize economic value for private owners or stockholders. So long as there is no deception about the fact that social enterprises of this kind conceive their charitable behavior as subordinate to corporate strategy aimed at long term profit maximization, stockholders would appear well served and recipients of corporate largesse will understand that they are involved in a kind of quid pro quo that offers public relations, employee morale, or other kinds of benefits to the CP in exchange for charitable support. In this context, governance of the corporation by stockholders and an unencumbered for-profit financial structure seem appropriate. Conceivably, problems could arise in for-profit Corporate Philanthropies where corporate management tries to impose its own personal altruistic motives on the enterprise beyond what would be productive in terms of corporate strategy. In this case, however, the interests of stockholders would ultimately be protected by the market in corporate ownership and the likelihood that an overly generous management would be replaced.

Alternatively, it would be problematic to modify the governing arrangements of for-profit CPs to include community and other interests, if those interests are given a decision-making rather than a purely advisory role. Introducing alternative motivations into the governance structure would undermine ownership and cloud the true nature of the enterprise. However, as with a management that imposes its personal altruism, such variants in corporate governance of for-profit CPs are likely to be held in check by market discipline.

The Corporate Philanthropy identity in nonprofit form is more complex. It requires governance that ensures that the nonprofit CP adheres to its own social mission on the one hand, and on the other, does not stray into self-serving behavior. The nondistribution constraint may be not adequate to guide behavior of the nonprofit Corporate Philanthropist organization in this way. It will help to constrain behavior that is blatantly profit maximizing, but a governing mechanism is also needed to ensure that all of the nonprofit CP's actions are consistent with its own mission. For example, if a hospital invests in a museum, it needs to show that somehow this is the best use of funds to promote its own mission. Normally, a board of governors or trustees drawn from the community and having some personal knowledge and dedication to the field in which the nonprofit CP operates (e.g., health care), is relied upon to achieve this conformity. It is also particularly important in this context, that members of the governing board are devoid of conflicts that reflect personal material interests in the finances of the nonprofit CP or in the ventures in which that organization invests.

The Social Purpose form of social enterprise (SPE) appears to be a good fit with the nonprofit structure. The latter is intended to promote a social objective and to preclude personal gain above reasonable levels of labor compensation. The nondistribution constraint, properly policed, serves this purpose. If there is a problem with the nonprofit form of SPE it is that, absent strong regulatory oversight, it can be subverted by leadership with inappropriate motives. Unfortunately there is no strong market mechanism, or even a very strong governmental regulatory regime in the U.S., to preclude such subversion from taking place. Occasionally inappropriate behavior by nonprofit officials becomes public, leading to corrective actions by government and/or losses of donor support that spur internal reforms. But it remains essential for nonprofit organizations to ensure that their governing boards consist of members who are dedicated to the organization's mission and are devoid of personal conflicts of interest. This can be done in a variety of ways. Organizations that serve a particular membership group, e.g. professional or scholarly societies, commonly elect their board members on a rotating basis. Under this regime, board members implicitly reflect the mission through political expression of membership preferences, and inappropriate behavior can eventually be detected and excised through the election process. Boards of other kinds of nonprofits appoint their own members. While various criteria may be involved in choosing board members in these nonprofit SPEs, appointments can certainly be made to reflect interests consistent with the mission of the organization. For example, the board of a private school can require that a certain proportion of its board members be alumni or parents of current students. Such stakeholder based governance schemes are not foolproof, but they can help retard any tendencies towards control of the organization by individuals who might focus too heavily on commercial benefits or activities that are peripheral to the organization's mission. Still, insufficient attention to the appropriate design of governing boards and the composition, and recruitment and education of their members, remains an issue of concern for Social Purpose Enterprise in nonprofit form in the U.S.

The Social Purpose identity of social enterprise in for-profit form is more problematic. On the one hand, there is nothing to preclude an organization with a for-profit ownership structure, especially small businesses with closely held ownership, to take on a social mission as its primary driving force, as long as stockholders are not deceived as to the intent. If owners are so motivated and inclined, they are free to do so within the competitive pressures of the market place. The problem is that there is nothing to ensure that the enterprise will continue to function as a Social Purpose Enterprise over the long run. Such enterprises are not required to limit the private distribution of profits, nor is there any assurance that those who govern the corporation will always maintain their social values and orientations. Hence, one could argue, there is little justification for preferential treatment in public policy.

The maintenance of for-profit SPEs often becomes a problem when the original, socially-driven owners approach retirement and wish to relinquish control. Radio station WCLV in Cleveland is a recent example, a for-profit station that is maintaining its classical music format into the future by reorganizing under a nonprofit structure. Conversion to nonprofit form is often considered in such instances, since there is no guarantee that sale or transfer to new owners would maintain the social focus (see Legoretta and Young, 1986). Indeed, there is always the danger that such a transition would lead to exploiting the social good name of the organization in the interests of profit making.

The design of governance arrangements of for-profit Social Purpose Enterprises could conceivably make a difference in holding these enterprises to their course. If binding legal agreements can be reached internally that limit shares in the corporation only to those who agree to keep dividends below a certain level and who promise to maintain the social mission of the corporation, then the for-profit Social Purpose Enterprise might be able to maintain itself over time. Or if shares were limited to workers in the corporation or consumers with a direct interest in the social services of the enterprise, then there might be enough common interest among stockholder/stakeholders to keep the social mission intact. Or if the for-profit SPE were wholly owned by a nonprofit organization with a social mission consistent with that enterprise, that would be another way to assure long term socially-focused behavior. In any case, important adjustments to the governance mechanism, specifically the parameters of ownership, are needed to maintain the for-profit Social Purpose Enterprise over the long term.

The Hybrid identity of social enterprise (HSE) is less well accommodated into either the for-profit or nonprofit organizational structures. The explicit pursuit of even limited private gain is essentially incompatible with the nonprofit form, while the overt mix of private and social motives runs into all of the problems of the for-profit Social Purpose Enterprise. The Hybrid appears to call for a different form of external constraint and internal governance than either of the other two identities. On the constraint side, it requires a distribution of profit limitation of some kind rather than a nondistribution of profit constraint, and on the governance side it needs to include both investor and social interests in a joint decision making capacity. The model here is more like a public utility which in the U.S. is typically regulated by a public utility commission and allowed to compete for profits within limits imposed by government. Normally, utilities of this type are monopolies whose market power must be controlled to avoid exploitation of consumers. In recent decades, however, in such industries as communications, transportation and energy production and distribution, this problem has been approached more commonly by deregulation and finding new ways to stimulate competition into the marketplace. In the HSE case, the motivation to structure the enterprise as a limited profit, broadly governed utility, would be somewhat different: This **fix** would facilitate a new niche that investors could support with full knowledge of the limitations, and which would allow well meaning entrepreneurs opportunities to pursue both private and public gains simultaneously, in an aboveboard manner.

Without such changes in the incentives and governance of HSEs, their existence remains highly unstable. In the nonprofit format, they are essentially corrosive, undermining trust in nonprofits by inserting private gain as a goal. In the for-profit format, HSEs are as misunderstood and unsustainable as the for-profit Social Purpose Enterprise. However, recognizing the legitimate identity of Hybrids creates the potential to tap new sources of energy for addressing social missions, if accommodating financial and governance structures can be developed for them.

By way of summary, the following chart indicates the kinds of adjustments in incentives and governance arrangements that could assist social enterprise development in the U.S.:

Identity-Form/ Changes	**Incentives/Constraints**	**Governance**
Corporate Philanthropies - For Profit	Maintain market discipline, focus on corporate strategy and transparency	Maintain stockholder control
Corporate Philanthropies - Nonprofit	Enforce nondistribution constraint; clarify mission-related corporate strategy	Select governors for their dedication to mission; police conflicts of interest
Social Purpose Enterprise - Nonprofit	Enforce nondistribution constraint	Strengthen stakeholder participation in governance; police conflicts of interest
Social Purpose Enterprise - For-Profit	Maintain transparency; develop binding ownership	Limit stockholders to those with appropriate intentions;

	agreements to limit profit and maintain mission focus	in long run, convert to nonprofit status or sell to an appropriate nonprofit
Hybrids	Develop limited profit (utility) forms of ownership and regulation	Develop mixed governing boards with owners and mission focused-stakeholders

Conclusion

The phenomenon of social enterprise is still evolving in the United States. It has multiple roots in the long-practiced commercial activities of charitable organizations, in the historical traditions of philanthropy by business corporations, and most recently in the social interests and entrepreneurial energies of new economy entrepreneurs that have emerged in the past decade. These varied roots have given rise to intrinsically different forms of social enterprise, best understood in terms of the language of organizational identity as developed recently by organization theory scholars. However, the alternative identities that we have described here - Corporate Philanthropies, Social Purpose Enterprises and Hybrids, fit existing legal forms of organizational structure only imperfectly. In most cases, adjustments and improvements in incentives, constraints and especially governance arrangements would be sufficient to improve these fits. In the case of Hybrids, however, new forms of organization that can more easily accommodate mixes of private and social objectives seem worthy of future consideration.

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