

Charities Doing Commercial Ventures: Societal and Organizational Implications

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Executive Summary

The charitable sector in Canada has been shaken by several important trends in recent years. Its resource base has been reduced, as governments at all levels have focussed on deficit reduction. Governments have historically provided almost two-thirds of the total revenue of the charitable sector in Canada, and that proportion is now in widespread decline. At the same time, the concept and value of “charity” and “service” has also been challenged by a change in the Canadian mindset. It is now common to hear that charities (and governments) should behave “more like a business,” and, overall, there is a sense that corporate values and decision metrics have become much more central to our sense of how all organizations should be managed. Emerging from the intersection of these trends are many proposed, planned and even working examples of Canadian charities undertaking commercial ventures.

Should charities undertake more commercial activities? What are the risks and benefits to our society of increased commercial activity in the charitable sector? Under what conditions does it make sense? When does it not make sense? Why?

At the organizational level, the genesis of the increased interest in commercial ventures stems from two sources. The immediate source is the panic from the environmental shock of radical cuts in government grants to charities in the last few years. Reeling from this shock, charities are looking for methods to quickly replace the lost revenue to continue serving their missions. Many are looking for a “quick fix” to the revenue cuts. A longer-term source of the interest in commercial ventures for charities is a belief that freedom from government grants increases an organization’s freedom of choice. It is a search for independence, flexibility and adaptability.

This paper examines the societal and organizational implications of charities undertaking commercial ventures in the Canadian context. Even though some charities have been undertaking such ventures for years, we now appear to be poised for a dramatic increase in commercial activity in the charitable sector. The increased prevalence of this activity, and its potential impacts, are *terra nova* in Canada. Understanding its implications is important at many levels: for crucial stakeholders (such as foundations, governments, donors, clients, volunteers and citizens), for charities themselves and for the commercial ventures that are being considered,

proposed or created.

The specific objectives of this research were to identify: 1) emergent patterns in the commercial activities of Canadian charities, 2) potential sectoral and societal implications of the emergent patterns, 3) consequences to individual charities of increasing levels of commercial activity, and 4) research questions or issues for further study. This report is an introduction to this issue rather than a comprehensive survey of Canadian practice. As a qualitative and preliminary study, it maps the major themes and implications of increased commercial activity in the Canadian charitable sector based on a literature review and interviews with a variety of senior members of the Canadian charitable sector.

The research for this report argues there is more rhetoric about doing commercial activities than actual shifts in behaviour in the sector. The paper maps the trends in both behaviour and rhetoric to make sense of their potential implications rather than reporting about a clearly established phenomenon.

The paper begins with an introductory discussion and an overview of the methods and approach undertaken by the authors. The body of this paper elaborates on the “commercial activities by charities” issue in descriptive, thematic and outcome terms. The paper concludes with a summary, an elaboration of questions for further research. To follow are abbreviated summaries of the three sections that comprise the body of this report.

Section 2 – The Forms of Charitable Commercial Enterprise

While there are many complex issues surrounding charitable commercial enterprise, there is also relatively simple descriptive information concerning the enterprises themselves. Despite considerable ambiguity and question within the charitable sector itself, profit-making activities are legal for charities. While charities must not distribute profits or revenue surpluses to managers or directors, these monies may be readily transferred to activities, which support the charitable mission of the organization. The degree to which a commercial enterprise either supports the mission of a charity directly (i.e., when the enterprise is itself both profitable and mission fulfilling) or indirectly (i.e., when the enterprise’s profits are utilized to fund other mission fulfilling activities) is one method to distinguish between types of charitable commercial enterprise. While the legality of commercial activity by charities is straightforward, the tax status of such revenue appears to be less than resolved.

There are several schema used to describe the kind of commercial enterprise which are possible for charities. Building from Skloot (1987), we describe categories of enterprise activities which include program-related products (e.g., Canadian Geographic magazine), program-related services (e.g., a snack bar in a museum), use of staff resources (e.g., social work staff serving paying as well as mission-based clients), use of client resources (e.g., sheltered workshop businesses), lease and rental of hard property (e.g., office space downtime), licensing and use of

soft property assets (e.g., mailing list rental), investments (e.g., partial equity stake in businesses managed by others) and full/partial business ownership.

Section 3 – Major Themes from the Research

Analysis of our data produced two meta-themes and eight themes. The research was influenced by biological lessons on sustainability of ecosystems and evolution. The meta-themes are consistent with this biological and ecological perspective.

The first meta-theme apparent from our research is diversity. It is the umbrella under which all of the other themes are situated. Research in biology and ecology has demonstrated the role of diversity for sustainability and evolution. Diversity allows for the kinds of heterogeneous experimentation that is always the key (in evolutionary processes) for new and exciting developments. We have many examples where limiting the diversity in an ecosystem leads to ecological disaster and parallels are drawn to industries where the same limitations lead to disaster (Hurst and Zimmerman, 1994). Reducing diversity at a macro level is problematic in both biological and human contexts. In this paper, the challenge of diversity is whether charities undertaking commercial ventures increases or decreases diversity. In other words, does a shift towards more commercial venturing in charities improve or reduce the long-term sustainability of society.

We can view diversity from a number of vantage points: societal, sectoral and organizational levels. Viewing diversity at the societal level, the question becomes whether society needs distinct sectors that perform fundamentally different roles and means to fulfil these roles. For this paper, this question is narrowed to look at how charities undertaking commercial ventures, which have primarily been the domain of the market sector, influences the overall level of diversity in society. The societal level is where the need for diversity seems most critical. At a sectoral level, the question of diversity is the degree of differences between organizations within the sector that is needed to maintain a capacity for the overall sector to evolve and change but not lose its overall identity.

Does replacing all or a large proportion of a charity's revenue base from government funding to commercial ventures change the nature of the organization or its capacity to perform its mission? This is where the contingency meta-theme becomes important. Whether commercial ventures fundamentally change a charity is contingent on the context. Rather than abstractly suggesting one conclusion or another about charitable commercial activity, the most appropriate decisions made in this regard will depend upon the context in which they are made. Context includes stakeholders, staff skills and beliefs, client attitudes, the fiscal environment, and the charitable subsector in which the focal organization is located. These attributes will combine to determine whether a commercial activity is appropriate and give direction to the nature of appropriate commercial activity. While we raise many general or universal issues relevant to charities in this report, we acknowledge that their application and utility are highly context dependent.

The shift at the organizational level can impact the level of diversity (either increasing or decreasing it) for the sector and hence for society as well. The three

levels of analysis (society, sector and organization) are interdependent.

With the two meta-themes in place, the major substantive themes from the research are listed below.

At the level of society, two themes emerged:

1. Meeting needs and filling niches – *Where charities see a need that should be met, commercial businesses see a niche that could be filled.*
2. Corporate rhetoric permeates the sector – *The language of the market place has put management at the centre of our organizations, corporate business at the centre of society and defined government and nonprofit organizations as nonproductive or burdensome.*

At the sectoral level, the two key themes were:

3. An old novelty – *Charities have been selling goods and services forever and yet it is an “invisible” option to many charities.*
4. Self-sufficiency or economic dependence – *“Unless you invent the next pet rock, you are not going to replace your government funding with your business profits. Sorry.” (Brinckerhoff, 1994c)*

At the organizational level, there was the theme of:

5. Separation or integration of commercial and social ventures – *There are practical and philosophical arguments for both integration and separation of commercial and social ventures.*

In addition, the contingency meta-theme at the organizational level revealed three themes related to the leadership, the nature of the products or services and the beneficiaries, and the emergent outcomes as opposed to the intended outcomes of commercial ventures.

6. The ambidextrous entrepreneur – *It takes a special person to succeed as a commercial entrepreneur. Even fewer can combine commercial entrepreneurship with a focus on meeting charitable needs.*
7. Transaction potential – Fee-for-service – *Profitable fee-for-service depends on the client base served and the nature of goods or services produced.*
8. The emergent outcomes of commercial ventures – *Although there are intended or planned outcomes of commercial ventures, many emergent outcomes result from this activity.*

This last theme was very significant in this research and is described in detail in Section 4.

Section 4 – Intended and Emergent Outcomes (Theme 8)

Emergent outcomes are results or implications that were not the original intent of the commercial venture. The fact they are emergent simply means they were unplanned and may have positive or negative consequences for the organization. In some cases, commercial venturing does have the impact of fundamentally altering the organization. Twenty-four emergent outcomes were identified under the “4 R” categories of *resources*, *reputation*, *responsiveness* and *relationships*.

Impacts on *resources* included human (staff and volunteers), financial (increased or decreased risks, potential synergies, cannibalization of donations, additional capital and operating costs) and energy (i.e., the focus of the staff and volunteers).

Relationships with beneficiaries or clients, donors and funders, volunteers (including boards of directors), organized labour and staff all have the potential to shift quite radically with commercial venturing. Given the importance of “relationship capital” in the charitable sector, these implications are crucial.

Consistent with relationship capital is the concept of social capital and *reputation* of a charity. One of the implications of commercial ventures for charities is a change in the definition of success. This shift can impact the community and market perception of a charity either positively or negatively.

The research revealed the risk that the mission and values of the charity could undermine the success of a commercial venture. Likewise a charity’s mission could be undermined by a commercial venture. The research also found evidence where the two (commercial activities and charitable activities) were complementary and supported the success of the other.

The fourth “R” is *responsiveness*. The paper identifies that commercial ventures can change the orientation of a charity to make it more or less responsive to the original charitable mission. Increased customer focus and efficiency were seen to be important benefits for many organizations. However, the research revealed a risk of going for the “low-hanging fruit” or easier to address issues in some cases.

In summary, the paper argues that there may be significant risks at a societal level in expanding commercial ventures by charities in our political and cultural environment. The ideology of the competitive marketplace appears to dominate current language, measurement tools, and definitions of value and success. As these components enter the charitable sector, the trend toward commercial ventures may have the unintended consequence of decreasing diversity rather than increasing it. For example, those charitable activities that cannot be measured by the market yardstick may be deemed less valuable. This risk may be exacerbated by the fact that this shift to a new decision metric and language may be an unconscious choice by charities and their supporters.

Paradoxically, at an organizational level, the trend toward commercial ventures

may have positive consequences. There are significant benefits to some charities in undertaking commercial ventures. It can increase diversity, improve efficiency, and refocus energy on the mission and the public good. Importantly, the predicted outcome is contingent on a number of other factors within an organization. The dependent conditions under which these benefits can be realized include 1) the nature of the goods and services produced, 2) the time frame for the intended impact of the charitable endeavours, and 3) the orientation, mindset and skills of the staff and volunteers.

This project barely scratched the surface of the research question. Therefore, the report ends with suggestions for future research on the phenomena itself, the legal and regulatory dimensions, and the impact at both the organizational level and the societal level.

Foreword

by *Wayne K. Brownlee*, Chair
Board of Directors, Trillium Foundation

The Trillium Foundation's mission is to work with others to make strategic investments to build healthy, sustainable and caring communities in Ontario. We believe that social and economic prosperity are interdependent. Our funding assists organizations and groups to strengthen the social fabric of their communities and promote economic opportunities in their local communities.

The groups we work with are under increased pressure to look for alternative sources of revenues to sustain their operations. With the increasing demands on charities to diversify their revenues, we perceived an increase in the level of the dialogue about charities entering into business ventures in order to supplement their revenues. While this is not new – charities have been selling goods and services for ever – the intensity of the discussion certainly is. For us, it raised the question of the capacity of charities to carry out business ventures and also of the wider societal implications of increased for-profit activities by nonprofits. What does this do to the broadly defined differences between the for-profit and nonprofit worlds? What are the potential consequences of blurring these distinctions? How would nonprofits deal with the bottom-line orientation of the for-profit world, and what implications could this have on their purpose, their people, and their value-added?

These questions became points of discussion for the Trillium Board and we felt the need to pursue them further, and to engage a broader group of people in the dialogue.

We are pleased, therefore, to have partnered with the Canadian Policy Research Networks in this endeavour, and believe the thought and debate generated through this discussion paper are timely and critical.

by *Judith Maxwell*, President

Canadian Policy Research Networks

Charitable organizations are important vehicles for the expression of our sense of morality and justice. As far back as the 17th century, charities, mostly associated with religious organizations, played an important role in providing schooling, health care, and the relief of poverty.

Charities still play all of these roles and more in the “new economy.” They give Canadians a channel to act out their role as citizens, and they are an important part of the social fabric that gives us a sense of belonging.

At the same time, however, we are asking more of charities. We are asking them to be efficient, to be more “business-like” and accountable for their actions. Meanwhile, the confluence of cuts in government funding and rising case loads is making many charities look for new sources of revenue. One potential new source of revenue is a commercial venture – going into business in the expectation of profits to support other charitable purposes.

As Brenda Zimmerman and Raymond Dart point out in this essay, charities have been selling goods and services forever – it is an old novelty. Yet we must still ask the question, Are commercial ventures the right option for all charities? What are the consequences for these organizations? Do commercial ventures risk distorting the purpose of some or all charities? And what are the consequences for society as a whole if charities mutate into a more profit-oriented and commercially minded sector?

As these questions became a point of discussion for the Board of the Trillium Foundation in 1996, the Foundation asked CPRN to do a think piece to help them work through the issues. The Family Network of CPRN then contracted with Brenda Zimmerman, Associate Professor at the Shulich School of Business at York University, and her colleague Raymond Dart. The essay is being published by Trillium and CPRN to foster further thought and debate, and probably more empirical research.

I would like to express our appreciation to the Trillium Foundation for its support for this project. I also want to thank the authors, the interviewees, and the reviewers of the first draft for their thoughtful contributions to an important debate, which has only just begun.

Acknowledgments

We would like to thank Jacquelyn Thayer Scott, Susan Phillips, Victor Murray, Colin Maloney and Daniel Armishaw for their helpful comments on an earlier version. In particular, we would like to express our appreciation to Suzanne Peters for her guidance and advice since the inception of this project.

Charities Doing Commercial Ventures: Societal and Organizational Implications

Overview, Objectives and Scope

Canadian charities' revenue comes from a variety of sources, primarily government grants and donations. A small but increasing amount of revenue comes from activities that are more "commercial" in nature. Commerce pertains to financial transactions between recipients of services (or goods) and the organization. In other words, commercial activities are sales of goods or services for financial exchange. Charitable commercial activities include some kinds of fees for services as well as business ventures that may be related or unrelated to the charitable mission of the organization.

As governments at all levels have increasingly turned their attention to deficit reduction, their grants to the charitable sector have declined. In Canada, government provided approximately 60 percent of the total revenues of registered charities in the mid-1990s. Donations from corporations and individuals amounted to only 11.3 percent (Day and Devlin, 1997). Therefore, a reduction in government contributions to charities has a much greater proportional impact than a reduction of donations.

Charities have several options to address the reduction in their revenue base from reduced government spending. Options include reducing costs (alone or in collaboration with other organizations), changing the service or program mix, rethinking service delivery, and replacing the lost revenue with other sources of revenue through fundraising or

commercial activities. Since, as Tim Broadhead, Executive Director of the J. W. McConnell Family Foundation, said, "there is an increasing demand for what charities do, so that the option of cutting back doesn't seem to be a possibility," a major and increasing focus has been on revenue replacement. The revenue replacement option for charities through commercial activities is the focus of this report. (Fundraising, per se, is not addressed in this paper. However, the distinction between fundraising and commercial ventures is blurry at times and there will be some topics addressed in this paper that would also be found in the fundraising literature. The Canadian Centre for Philanthropy's Survey of Canadian Charities [1995] is a good source of Canadian data on fundraising practices.)

There is a great deal of rhetoric in the media, among funders, and in the charitable sector about commercial activities for charities. It is not clear whether or how this rhetoric will become reality in the changing behaviour patterns of Canadian charities. This report is an introduction to this issue. It is not a comprehensive survey of Canadian practice. The patterns are not clearly established to date. This research looks at the shifts in both the rhetoric and actions of charities toward undertaking commerce. The study analyses the implications for the organizations, sector and society of these potential shifts of activity.

The overall aim of this research was to stimulate debate and dialogue about charities undertaking

commercial ventures. The topic and questions will require much more investigation than this introductory project will cover. If the metaphors, images and analysis in this paper provide a catalyst for reflection and thoughtful action among stakeholders of the sector, we will have succeeded in our endeavour.

The specific objectives of this research were to identify: 1) emergent patterns in the commercial activities of Canadian charities, 2) potential sectoral and societal implications of the emergent patterns, 3) consequences to individual charities of increasing levels of commercial activity, and 4) research questions or issues for further study.

To engage these objectives, the body of this report is divided into six sections. Readers are encouraged to use the following descriptions of these sections to determine those that are most relevant for their purposes.

Section 1 – Introduction and Methods frames this report on charities undertaking commercial ventures. It also describes the exploratory methods used to develop the report. A list of the interviewees who provided us with current information on the Canadian context of these issues is found in Appendix B.

Section 2 – The Forms of Charitable Commercial Enterprise is a short section that covers the “bread and butter” technical and substantive issues from which much of the analysis springs. This section provides a basic description of the kinds of commercial enterprises that charities undertake and some of the legal and tax implications of such concerns as “unrelated business income.”

Section 3 – Major Themes from the Research develops several core ideas that emerged as consistent themes from our literature review and

interviews. These “universals” range from the philosophical (i.e., the impact of the pervasive corporate rhetoric on the charitable sector) to the more pragmatic (i.e., the role of commercial ventures in the quest for “economic independence” by charities).

Section 4 – Intended and Emergent Outcomes is our primary venue for providing an analysis of the many faceted implications of commercial ventures for charities. While most of these are examined in only a preliminary manner, our intention here is to provide a basic schemata for some of the stakeholders, relationships and settings that are likely to be unintentionally changed following the initiation of a commercial venture of significant scale.

Section 5 – Conclusions and Questions for Further Research develops and outlines some of the directions or trajectories that the research for this report has outlined. The purpose of this section is to specify the major areas that the exploratory map developed in this report clearly shows to be inadequately mapped.

Appendices A, B, C and the Bibliography will be of most use to the researcher and academic. Appendix A provides a briefly annotated list of major research literature areas covered in the development of this report. The bibliography includes the sparse literature directly on the subject of charities undertaking commercial ventures, but includes a much wider and more general literature that covers the most important contexts of this core issue. Appendix C uses institutional theory to explain how commercial ventures can become part of a charity’s activities.

Introduction

The research suggests that there is more rhetoric about doing more commercial ventures than actual shifts in behaviour in the charitable sector in Canada at this time. There is much advice within the sector about how to do more commercial ventures. There are myriad suggestions from outside the sector that charities should be doing more commercial activity. In effect, this paper maps these unresolved discussions and their potential implications rather than mapping a clearly established phenomenon. The shifts are in progress with words preceding activity. This paper is part of the stream of words associated with this challenge to the sector. Should charities undertake more commercial activities? Under what conditions does it make sense? When does it not make sense? Why? The discussions about these questions are viewed at a micro or organizational level and at a macro or societal level.

The genesis of these discussions stems from two sources. The immediate source is the panic from the environmental shock of radical cuts in government grants to charities in the last few years. Reeling from this shock, charities are looking for methods to quickly replace the lost revenue to continue serving their missions. The depth of the cuts has dramatically increased the number of discussions about commercial activities. The immediate increase in volume is part of charities' attempts to discover a "quick fix" to the revenue cuts. A longer-term source of the interest in commercial ventures for charities is

a belief that freedom from government grants increases an organization's freedom of choice. "A profit making venture offers the potential of high revenue generation with no restrictions on the use of funds" (Chrow, Gibson and Omidvar, 1995). It is a search for independence, flexibility and adaptability.

This shift toward commercial ventures for the charitable sector is also a societal question. What are the risks and benefits to our society of increased commercial activity in the charitable sector? Our assumption in this analysis is that society can only be sustainable in the long term if we promote both productivity and principles. If charities support and promote fundamental principles in society, the issue becomes how to support and promote these principles while integrating the need for productivity. One school of thought (Jacobs, 1992) suggests that the ideal way to promote principles and to promote productivity is to keep these goals in separate organizational forms. This line of reasoning suggests that there is therefore a need for a charitable sector distinct from the commercial sector. The distinctions include their goals and how they conduct their work.

A charity must guard its opportunity energy towards the *raison d'être* of the organization. (Paul Born, Executive Director, CODA)

What happens if we abandon the assumption that the method to protect principles and productivity is by separation? Can we then "breed" hybrid organizations that mix the values of productivity and the

values of principles? Using a genetic analogy, the DNA of such new hybrids would be a double helix with one strand from each “parent.” (Each parent in this analogy is a distinct logic or mindset.) One parent is the commercial-productivity mindset. The other parent is the charitable-principle mindset. In genetic terms, the genes on each strand would have equal potential to be reflected in the attributes of the new creation. In theory, we could argue that breeding the two parents would create more diversity and therefore a more robust society.

However, the genetic analogy needs to be understood in the current context of the late 20th century. We believe that, at present, the dominant rhetoric, language, definitions of success and values are reflected in the commercial-productivity strand (Saul, 1995; Galbraith, 1996; and Kuttner, 1997). The chance of the charitable principles being integrated equally with productivity values seems quite weak in today’s context. Individually, an organization may be able to integrate both strands of the DNA to create a vibrant hybrid that is unique and not a copy of either “parent.” However, at a societal level we believe there is a great risk of losing the fundamental value base of the charities as a result of increased levels of commercial activity in the charitable sector.

This theme can also be framed ecologically. Lessons from ecosystems show that sustainability requires competition (and by analogy, productivity), but within the constraints of cooperation (Capra, 1996; Goodwin, 1994). Competition and cooperation, productivity and principle, must co-exist (Axelrod, 1984; Wilden, 1987). One side without the other is disastrous for an ecosystem or a social society. Productivity focuses energy on the competition dimension. The principles of the charitable sector and the policies of government focus on cooperation and its analogues. If the recent status quo has proved financially unworkable, new solutions must be discovered but they must be developed within a framework of enhancing competition and cooperation for the overall sustain ability of society.

Methods and Approach

The frame within which we have approached the subject of “charities undertaking commercial ventures” is best described as an exploratory study. The methodological tools we have used for this report are a wide-ranging literature review (Appendix A) and 13 semi-structured long interviews from a small sample of the major thinkers and actors in the charitable sector in Canada (listed in Appendix B).

The primary purpose of an exploratory study is to map poorly understood and/or relatively new phenomena, which is certainly how we would characterize the status of the charity-commerce interface to this point. The most important manners in which an exploratory study is distinct from, for example, a confirmatory study are in the precision and scope of the methodologies employed and in the purpose of the results and conclusions.

Methodologically and conceptually, exploratory studies are the most opportunistic of studies. They begin with subject matters defined in only tentative terms, with an assumption that these definitions will evolve, and with less a sense of a “corpus of knowledge” to summarize than a maze of directions and ideas to explore. A quick gaze at the experience of charities undertaking commercial ventures, particularly in Canada, confirmed to us that an exploratory mode was appropriate. Preliminary studies of the theoretical and practitioner literature found only a patchy and inadequate literature that directly addressed the topic (and almost none of which was set in the Canadian context or in socio-political environments analogous to Canada’s), and myriad potential but undeveloped links to other literature.

As stated, data collection consisted of a literature review and interviews. The literature review began with the hope that, at least in the United States, there would be a robust literature on both charities undertaking commercial activities and its more macro-level impacts. Literature areas covered ranged from social theory discussions on the division between charitable and commercial sectors to recent Cana-

dian literature on the growing trend to contract out and commercialize public and quasi-public services. These literature sources (which provide the important general context for this report) combined with the nascent literature on charitable commercial enterprise to produce a preliminary composite picture of where this kind of activity is presently situated, and some of the implications that these activities might have.

The information gleaned from the semi-structured interviews was different from that found in the literature. Overall, data from interviews were obviously more closely related to Canadian experience and Canadian concerns. Of greater importance, however, were the consistent emergent themes found in our analysis of interview transcripts. These themes reflected a more complex and less normative map of charitable commercial enterprise than that which emerged from the literature review.

The method and approach employed here are reflected in our write up. Given the need to provide a qualitative and exploratory map of this poorly understood terrain, we have written with a level of redundancy and overlap that is common in studies such as

these. While future research may be able to provide a greater degree of crispness, definitiveness and structure to this important phenomenon, we must emphasize that we are not there yet.

Given this, we have displayed our exploratory findings at two levels of detail. The themes (Section 3) are our major findings in this study, and represent what seem to be several instances of the complications and opportunities that might arise when combining the charitable and commercial ethos. The more detailed findings (i.e., Intended and Emergent Outcomes, in Section 4) may seem quite specific, but in this study they represent our own informed speculation about what we believe follows from the major qualitative themes that emerged during our research. We emphasize that we intend our exploratory study to “dig up” issues that can be explored in greater detail and in more specific contexts in future research.

The Forms of Charitable Commercial Enterprise

There are many significant and unresolved issues around the appropriateness, utility and consequences of charities undertaking commercial enterprises. However, before we undertake this discussion, we will elaborate on some of the relatively simple and straightforward descriptive information concerned with the enterprises themselves. This section will provide a characterization of charitable commercial enterprises, will discuss some of their legal and tax implications and will then provide a typology of the various major kinds of charitable commercial enterprises that have been developed to this point.

It is easy to define a charitable commercial enterprise but harder to map the possibilities. A charitable commercial enterprise is “sustained activity, related but not customary to the organization, designed to earn money” (Skloot, 1987, p. 381). Many of these are well known to us: Girl Guide cookies, gift shops in museums and hospitals, and university bookstores. Others are less obvious but no less important, at least from a revenue perspective. Examples of the latter range from the St. John Ambulance, which has its staff to develop and deliver first-aid programs for wealthy corporate clients, to hospitals, which generate steady revenue from parking fees.

It is important to note, however, that Skloot’s definition basically excludes many instances of “fee-for-service” that are also gaining in prominence in the charitable service sector. Because these ser-

vice fees are generally intended to partially recover costs from existing activities rather than produce surplus revenue from new activities, we regard fee-for-service as a different form of activity. The division line between fee-for-service and other forms of commercial enterprise is not always clear. For example, in the St. John Ambulance example mentioned above, many programs delivered to generate revenue are substantially the same as those that are delivered below cost as part of St. John’s charitable mission. We will address some of the issues that follow this in later discussion.

Revenue generating enterprises can have a variety of relationships to the traditional core of the charitable organization. They can be either an extension of the traditional activity of the charity, or they can be less directly or less obviously related. Proponents argue, however, that ALL commercial enterprise by charities advances the mission of the organization. Some enterprises advance the mission directly and others generate funds that can be applied to programs that advance the mission directly, and some enterprise activities can do both (Brinckerhoff, 1994a). Referring to the latter case, Emerson and Twersky state that this provides a charitable endeavour with a “double bottom line” that forces the nonprofit manager “to live within a dynamic tension of what makes good business sense and what fulfils the organization’s social mission” (1996, p. 3).

When describing the range of commercial activities that are possible, the first and foremost issue

raised by many is that of legality. Several interviewees were uncertain of the legal status of commercial enterprises for (tax-exempt) charities and noted the negative connotation that terms such as “profit” and “earnings” have had for charities. There exists a misconception in the public and charitable community alike that nonprofits and charities are unable to house activities that “make a profit.” Fundamentally, this is untrue, at least in legal terms. The “nondistribution constraint” for nonprofits and charities means simply that profits cannot be distributed to owners or managers (Brinckerhoff, 1994c; Emerson and Twersky, 1996; and Massarsky, 1994). This issue has a long and complex history in the United States. It first gained prominence in the early 1900s in a bizarre case, when the New York University Law School was bequeathed, and subsequently owned, the C. F. Mueller Company, a pasta manufacturer (Skloot, 1987).

Charities can make profits, providing these profits are used to advance the charity’s mission. Beyond this very basic legal issue, there are considerable and complex issues, which are beyond the scope of this paper, relating to business ownership, “related” compared to “unrelated” business activity, and charitable status. A recent document for the United Way of Greater Toronto described the major issues as follows: “When a charitable organization carries on a business which is not a ‘related business,’ it risks revocation of its registration under the Income Tax Act” (Goodman, 1994). However, in Canada (and in the United States [Holbrook, 1996]) the definition of “related business” is unresolved. Even substantively unrelated business activity can be considered related “if substantially all of the people employed by the charity in carrying out that business are not remunerated for such employment” (Goodman, 1994; Canadian Centre for Philanthropy, 1990; and Scruggs, 1996).

A recent federal Court of Appeal Ruling in Alberta has challenged even this modified distinction in favour of the broadest acceptance of charitable commercial enterprise. This ruling “seemed to say that even a business which is wholly unrelated to the core objects of a charitable organization may still be a

related business as long as it is operated for the financial benefit of the organization” regardless of whether the business was staffed by volunteers or paid employees (Goodman, 1994). The ruling also has major potential implications for the tax status of “business income” raised by registered charities that are exempt from paying income taxes, but these implications apparently remain unresolved. Given both the present ambiguity of legal and tax status issues and the potential growth of commercial activities by charities, policy development in this area is to be expected in the near future.

David Driscoll of the Vancity Community Foundation, said the ambiguity in the regulatory environment is an inevitable process. Regulations are created to address an environment and they cover most of the known cases when the rules are created. Over time, the environment changes such that the original regulation context covers fewer and fewer cases. He argued that this is the current Canadian situation. Therefore, as an executive director, he wants to ensure that his work satisfies the letter of the law but also allows his organization the flexibility needed to achieve their mission.

We position ourselves with the government to break the mould but not break the rules. We want to be flexible around the edges. We fully disclose to the government. We are open and forthright. There is not surreptitious breaking of the rules but we do want to break the mould. I think there is room for innovation and stretch within the charitable sector and our communities to create new ways of seeing and new ways of doing to realize those community objectives. (David Driscoll, Vancity Community Foundation)

In effect, since regulation is lagging behind, Driscoll works directly with the regulators to ensure they understand the substance of his work.

Since commercial enterprise is legally possible for charities (and since there are at present almost no categories of business activity that are out-of-bounds), it is useful to find some system by which these activities can be categorized. While there are several manners in which charitable commercial en-

terprise can be categorized (e.g., Emerson and Twersky, 1996; Massarsky, 1994), the one provided by Skloot (1987), which itself is based on the earlier work of Crimmins and Keil (1983), is probably the most useful as a basic descriptor of the range of activities that is possible. Enterprise activities (described in Skloot, 1987) include the following:

1. *Program-related products* – These are typically products for sale that are closely identified with the organization and are sold by the organization. Examples include such well-known products as Girl Guide cookies and the Canadian Geographic magazine.
2. *Program-related services* – Skloot describes these as “ancillary commercial services which enhance the tax-exempt mission of the organization” (1987, p. 381). Examples include gift shops, parking revenue, food and beverage sales to clients and patrons. Some of these services may be available only to members of the charitable organization, but most of these are extended to the general public.
3. *Staff and client resources* – In this kind of commercial enterprise, “nonprofit organizations use the expertise of their staff members and clients ... These ventures may offer similar services to new groups of consumers or new, related services to current ones” (Skloot, 1987, p. 382). This category may more accurately be called “staff OR client resources.”

Examples of the former include museum staff doing commercial appraisals for paying clients, universities undertaking private research contracts or social service organizations providing specialized services (such as counselling) to paying clients in the corporate sector.

The most common examples of the latter kind of charitable enterprise (i.e., use of client resources) are the “sheltered workshops” where charitable organizations employ their own clients. Skloot (1987, p. 382) notes these types of initiatives may have more importance for a

charity’s mission fulfilment than its revenue generation. He states that “owing to their large social service and training components, few ventures [i.e., sheltered workshops] earn much profit, although ... the operations of Goodwill Industries and Volunteers of America are among the financially strongest.” The use of client resources for revenue generation (often called “community economic development”) is probably the most common type of charitable commercial enterprise catalogued thus far (Emerson and Twersky, 1996; Budd, 1996).

4. *“Hard property”* – This includes the rental or lease of land and buildings, particularly seasonal facility downtime when fixed resources are idle or under-utilised. Examples of this include the use of a summer youth camp for corporate retreats during the off-season, the renting out of excess office space, and the redevelopment and leasing of land and real estate.
5. *“Soft property”* – This includes revenue generating assets such as copyrights, patents, trademarks and mailing and membership lists. A well-known example is the licensing of Sesame Street merchandise by the Children’s Television Workshop. “Cause-related marketing” (e.g., Cunningham, 1993; Embley, 1993; and Ross, 1990) is a similar means by which charities can generate revenue from reputational and image assets, although it has hazards and limitations for charities (such as Pollution Probe in Canada [Westley, 1991]).

There are two additional types of charitable commercial activity that are not included in Skloot’s typology. First, there is the simple (full or partial) ownership or control by a charity of a “normal” profit-making business that may have little or no relationship to the traditional staff, clients or skill base of the charitable organization. New York University’s (former) ownership of the C. F. Mueller Company is an example of this. The second significant omission is the whole category of “investments” – a common source of revenue for many charities. While investments may not seem a “business” in the

typical sense of the term, equity investments do in fact represent an ownership interest in a for-profit corporation. Typically, however, this form of “business” involves no “management” by a charity. This does not mean that business revenue via investment is without implications for a charity – consider the controversies involved in charitable investment (i.e., revenue generation) in companies with South African, environmentally controversial or tobacco industry ties.

Skloot’s typology is based on “kinds” of activity. There are other possible ways to map the diversity of commercial activities undertaken by charities that may be of greater importance to both managers or charities as well as those involved in the public policy arena. For example, continua, which seem important to those interviewed, can be characterized as:

a. *From related to unrelated diversification* – This continuum maps the extent to which the commercial enterprise is similar to existing activities that are undertaken in the charity. Commercial initiatives can range from “intrinsically related” (such as when a vocational training charity establishes a business in which its own clients can gain the vocational training that is at the core of its mission) to “fundamentally different” (such as when a university attempts to manage a parking lot business). Within this continuum, however, we would note that the terms “related” and “unrelated” are based on perceptions and experience and are likely to change over time – witness the extent to which Girl Guide cookies have moved from “unrelated” to “intrinsically related” to the identity of the Girl Guide charitable organization.

b. *From marginal to substantial revenue* – This continuum maps the degree to which a charity generates “significant” revenue from a commercial enterprise. Virtually no one interviewed believed that marginal/small commercial activities (i.e., a volunteer-run gift shop in a hospital, a rummage sale run by a church) would have significant implications either for a charity or for the society in which it exists. However, these commercial enterprises are also exactly NOT the kinds of revenue generating activities that many are suggesting to mitigate against the partial withdrawal of public funding from many sectors of charitable activity. Those enterprises that generate “substantial revenue” (which can be framed in either absolute or comparative terms) for which there is a dramatic and undeniable need are the ventures that those interviewed suggested would have the most complex and fundamental implications for both the charity and for society at large.

In this paper, the forms of commercial ventures, regardless of the typology chosen, are seen to be a necessary but insufficient explanation for whether commercial ventures will have a net positive impact on the organization, the sector and the society. The complexities beyond these typologies are delineated in Sections 3 and 4 where the themes from the research are examined.

Major Themes from the Research

Given the complexity and variety of important questions concerning the ability and the desirability of Canadian charities to undertake commercial ventures, many strands of ideas were developed. The hazard facing any form of data organization and the development of interpretive patterns or themes, such as those that follow, is that they will be oversimplified and will lose the richness and context of the settings in which they were found. To respond to this risk, we frame the following eight themes within an overarching umbrella that contains two meta-themes. As mentioned in the introduction, the research was influenced by biological lessons on sustainability of ecosystems and evolution. The meta-themes are consistent with this biological and ecological perspective. The themes are depicted in Exhibit 1 and are described below.

The first meta-theme apparent from our research is diversity. It is the umbrella under which all of the other themes are situated. Research in biology and ecology has demonstrated the role of diversity for sustainability and evolution. Diversity allows for the kinds of heterogeneous experimentation that is always the key (in evolutionary processes) for new and exciting developments. E. O. Wilson, a pre-eminent biologist and professor at Harvard, argues that the very health of our planet is dependent on maintaining and increasing the level of biological diversity (Wilson, 1994). We have many examples where limiting the diversity in an ecosystem leads to ecological disaster and parallels are drawn to indus-

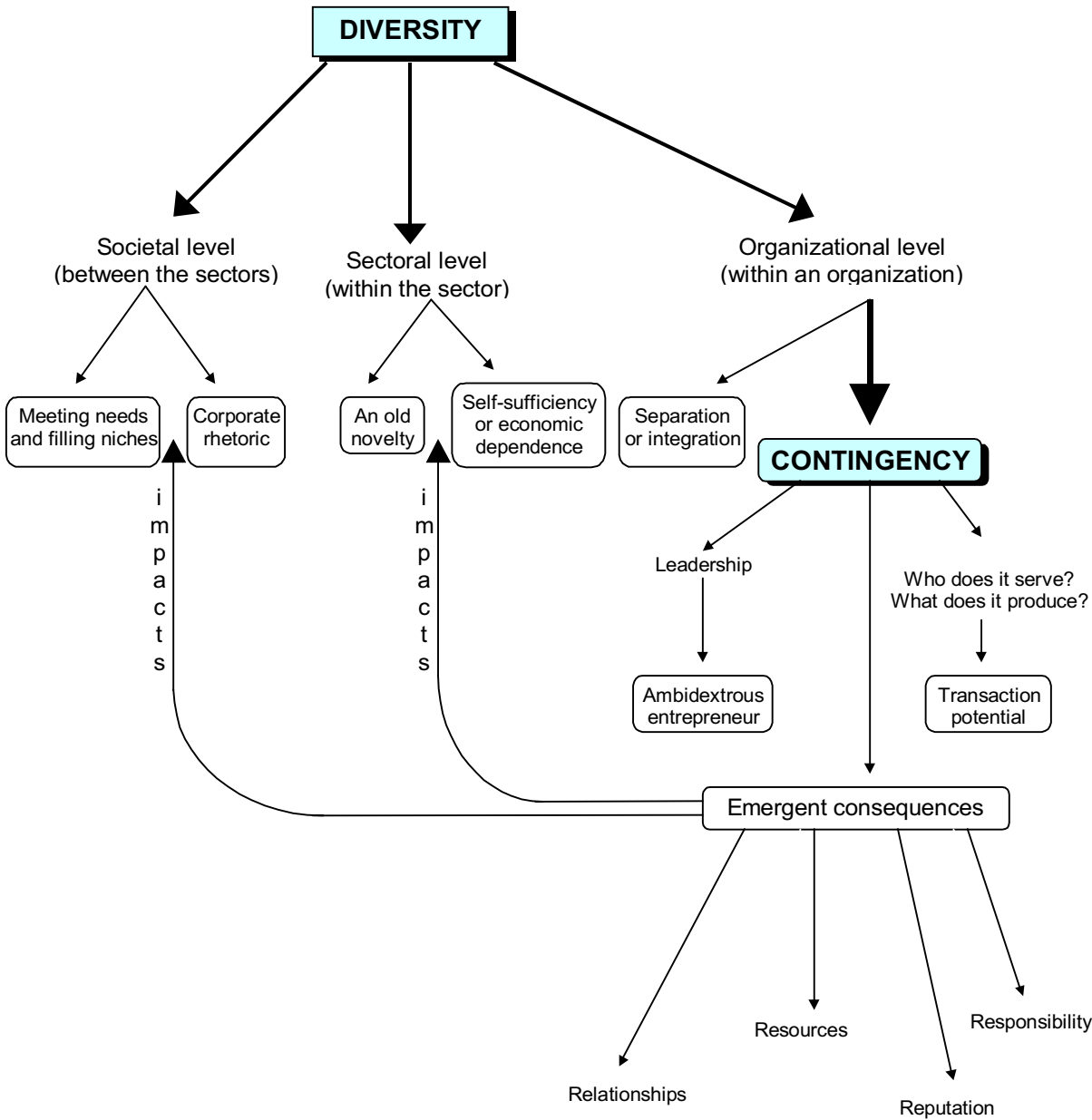
tries where the same limitations lead to disaster (Hurst and Zimmerman, 1994). Wilson explains that in ecosystems, diversity is information. The more information available, the more capacity there is to evolve and adapt to changing conditions. Reducing diversity or the available level of information at a macro level is problematic in both biological and human contexts. In this paper, the challenge of diversity is whether charities undertaking commercial ventures increases or decreases diversity. In other words, does a shift toward more commercial venturing in charities improve or reduce the long-term sustainability of society.

We can view diversity from a number of vantage points: societal, sectoral and organizational levels. Viewing diversity at the societal level, the question becomes whether society needs distinct sectors that perform fundamentally different roles and means to fulfil these roles. For this paper, this question is narrowed to look at how charities undertaking commercial ventures, which have primarily been the domain of the market sector, influences the overall level of diversity in society. The societal level is where the need for diversity seems most critical. At a sectoral level, the question of diversity is the degree of differences between organizations within the sector that is needed to maintain a capacity for the overall sector to evolve and change but not lose its overall identity.

Peter Drucker sees diversity as key at the community and societal levels, but not at the organizational

Exhibit 1

Themes from the Research



level. Drucker argues that the organization must be highly focused and should not try to diversify.

Diversification destroys the performance capacity of an organization, whether it is a business, a labour union, a school, a hospital, a community service, or a house of worship. Society and community must be multidimensional; they are environments. An organization is a tool. As with any other tool, the more specialized it is, the greater its capacity to perform its given task. (Drucker, 1992, p. 100)

The question remains as to whether replacing all or a large proportion of a charity's revenue base from government funding to commercial ventures changes the nature of the organization, or changes the capacity to perform its given task. This is where the contingency meta-theme becomes important. Whether commercial ventures fundamentally change a charity is contingent on the context. Rather than abstractly suggesting one conclusion or another about charitable commercial activity, the most appropriate decisions made in this regard will depend upon the context in which they are made. Context includes stakeholders, staff skills and beliefs, client attitudes, the fiscal environment, and the charitable subsector in which the focal organization is located. These attributes will combine to determine whether a commercial activity is appropriate and give direction to the nature of appropriate commercial activity. While we raise many general or universal issues relevant to charities in this report, we acknowledge that their application and utility are highly context dependent.

The picture painted by our analysis is complex. It cannot be explained by looking at only one or two dimensions – i.e., the nature of the product or service, the form of commercial venture or the proportion of revenue from the venture. Identifying one or two factors at a time can be helpful and we have attempted to do so throughout the paper, but it runs the risk of oversimplifying a complex phenomenon. A more holistic approach to the issue is required to understand the impact to diversity – and hence sustainability – at all three levels of analysis.

There is no single answer or authoritative conclusion possible concerning charities and commercial

ventures. Rather, many different solutions will be equally possible, practical and ethically defensible. For some charitable organizations, commercial activity may be fundamentally improper because it would distract from the mission or refocus energies away from collective goods and services with long-run impact. For others it may be precisely the lever that triggers useful organization-wide innovation and creativity. For some charitable organizations, commercial activities should be visibly and directly related to the key outcomes of the organization. In some charities, commercial activities should be invisible and fully decoupled from the organization's core activities.

The shift at the organizational level can impact the level of diversity (either increasing or decreasing) for the sector and hence for society as well. The three levels of analysis – society, sector and organization – are interdependent, as depicted by the feedback arrows in Exhibit 1.

In this paper, we argue that there are both intended and emergent outcomes from commercial venturing by charities. Emergent outcomes are results or implications that were not the original intent of the commercial venture. The fact they are emergent simply means they were unplanned and may have positive or negative consequences for the organization. In some cases, commercial venturing does have the impact of fundamentally altering the organization. Twenty-four emergent outcomes were identified under the categories of resources, reputation, responsiveness and relationships. The theme of emergent outcomes is elaborated in Section 4.

We recognize that although we suggest that many responses to commercial activity are possible, we do not advocate any and all activity. Both our literature sources and our interview subjects were emphatic that commercial activities should only occur when framed within the context of the mission. It is the mission, and the social and moral commitments that it implies, that provides the only meaningful context by which we can evaluate the value and/or problems posed by commercial activities for charities.

With the two meta-themes in place, the major substantive themes from our research are listed below.

At the level of society, two themes emerged:

1. **Meeting needs and filling niches** – *Where charities see a need that should be met, commercial businesses see a niche that could be filled.*
2. **Corporate rhetoric permeates the sector** – *The language of the market place has put management at the centre of our organizations, corporate business at the centre of society and defined government and nonprofit organizations as nonproductive or burdensome.*

At the sectoral level, the two key themes were:

3. **An old novelty** – *Charities have been selling goods and services forever and yet it is an “invisible” option to many charities.*
4. **Self-sufficiency or economic dependence** – *“Unless you invent the next pet rock, you are not going to replace your government funding with your business profits. Sorry.” (Brinckerhoff, 1994c)*

At the organizational level, there was the theme of:

5. **Separation or integration of commercial and social ventures** – *There are practical and philosophical arguments for both integration and separation of commercial and social ventures.*

In addition, the contingency meta-theme at the organizational level revealed three themes related to the leadership, the nature of the products or services and the beneficiaries, and the emergent outcomes as opposed to the intended outcomes of commercial ventures.

6. **The ambidextrous entrepreneur** – *It takes a special person to succeed as a commercial entrepreneur. Even fewer can combine commercial entrepreneurship with a focus on meeting charitable needs.*

7. **Transaction potential – Fee-for-service** – *Profitable fee-for-service depends on the client base served and the nature of goods or services produced.*

8. **The emergent outcomes of commercial ventures** – *Although there are intended or planned outcomes of commercial ventures, many emergent outcomes result from this activity. These emergent consequences can be positive or negative. In this paper they are categorized under 4 Rs: reputation, resources, relationships and responsiveness.*

This last theme was very significant in this research and is described in detail in Section 4.

Theme 1 – Meeting Needs and Filling Niches

Where charities see a need that should be met, commercial businesses see a niche that could be filled.

Sometimes charities and commercial businesses perform the same services in a community. For example, both types of organizations may conduct skills training for employment. We can examine why the services would be performed by both sectors from either the organizational (or supplier) perspective or from the perspective of the recipient of the service.

From a supplier perspective, the issue relates to the overall goals of the organization. John Pepin, a Toronto-based consultant and former executive director of a nonprofit day care organization, argued that the difference between a social service agency and a business was the primary organizational goal. A social service agency targets the societal need and then looks for ways to address the need. Services and products are created to address the overall target. A commercial business looks to create profitable products and services. Societal needs open up potential niches that a business can exploit.

John Pepin provided a clear illustration of this pattern. He argued that although a charity and a commercial business may provide the same services at a given time, it is critical to understand that their targets are quite different. For example, a social service charity will see the need to eliminate poverty. The thousands of people in poverty in their given region would be defined as their target. The charity might then offer employment-training services to 1,000 individuals who are unemployed knowing that this is only addressing a portion of the need. Their target is the overall need even if their activities address only a segment. A commercial business may offer the same services to the same clientele, but their target would be to find some group among the thousands of disadvantaged where they can make a return for their investment. The unemployed are “a means to an end” in the sense that services are justified in terms of their ability to generate surplus revenues. This is not to argue that commercial businesses do not make socially responsible investments. It is merely to state that their fundamental *raison d’être* is not to address social needs, such as eliminating poverty, but to make a return for the owners. Charities see a need to be met and commercial businesses see a niche that could be filled.

From the perspective of the recipient of the service, we can look to theoretical reasons that clarify the distinction between charities and commercial businesses. Several theories highlight the relationship between service “clients/customers” and the organization that provides services. The economics literature argues for the existence of nonprofit organizations where there is market failure, contract failure or government failure (DiMaggio and Anheier, 1990; Salamon, 1995). These economic explanations of the nonprofit sector are not universally accepted. However, they do provide one potential rationale for the sector.

Market failure is seen to happen when the amount of services produced by the commercial sector are insufficient to meet the demands of the public. Contract failure (Hansmann, 1980; Weisbrod, 1988) happens due to the asymmetrical information between suppliers and consumers. Suppliers have more

product or service information than consumers. DiMaggio and Anheier state that people need nonprofit organizations in circumstances when “they cannot make informed choices because a) donors buy services for unknown third parties (overseas charities), b) known beneficiaries are seen as unreliable witnesses to service quality (day care centers, mental hospitals), c) pooled donations cannot be tracked to specific services (political advocacy), or d) services that are so complex that ultimate consumers cannot evaluate their quality and so important that low quality poses unacceptable risk (medical care)” (1990, p. 140). Governmental failure will not be dealt with in this paper because it is premised on the inability of the public sector, rather than businesses, to deliver certain kinds of services.

From the reasoning of market and contract failure perspectives, the nonprofit organization form, with the primacy of its mission orientation and its nondistribution-of-income constraint, is more likely to provide certain kinds of services with higher quality and greater reliability than commercial businesses. An alternative to “residual” theories, Lohmann’s (1992) concept of “the commons” frames the sector more from the basis of what it is, rather than what it is not. This model characterizes the sector on the basis of pro-social behaviours, mutuality, voluntary labour and the production of common goods. From this perspective, nonprofit organizations will exist distinct from commercial businesses because they have fundamentally different purposes in society. Both the market failure and commons theories are premised on a clean and unambiguous distinction between nonprofits/charities and commercial businesses. Therefore, important questions are raised when we consider the impacts of “hybridizing” charity and business organizational forms. For example, how would a commercial revenue generating orientation affect a charity’s reliability and ability to meet needs? How would a charity’s mission and its legal nondistribution constraint affect its ability to fill niches? Are “meeting needs” and “filling niches” necessarily as separate and distinct as they appear?

Theme 2 – Corporate Rhetoric Permeates the Sector

The language of the market place has put management at the centre of our organizations, corporate business at the centre of society and defined government and nonprofit organizations as nonproductive or burdensome.

Commercial language and definitions of success are dominant in today's society (Saul, 1995; Galbraith, 1996; Kuttner, 1997; and Soros, 1997). This language and all that it implies are the visible manifestations of a nearly pervasive ideology that views all aspects of human society as a kind of market. This language or lens has put management at the centre of our organizations, corporate businesses at the centre of society and defined government and nonprofit organizations as nonproductive or burdensome. Tim Broadhead, Executive Director of the J. W. McConnell Family Foundation, characterizes this clearly:

In Canadian society at the moment, business values have become dominant. This means that everybody focuses on the concerns around efficiency or the turnaround of an investment. The usual indicators of business are seen as applying to everything, including government. [At present] there is no well articulated alternative set of values.

There are two ways of understanding this dominance of the lens or mental models we currently use to judge value and worth. The first is as a deliberate, thoughtful, conscious choice. The second is as an unconscious or unthinking choice. After briefly examining the source of this dominance in society, we analyze some of its potential implications for charities in Canada in the next section of this paper.

The Deliberate Choice of the Dominant Rhetoric

Arguments for a deliberate use of commercial thinking or market mindset for charities are based on the fundamental assumption that there is little difference between the sectors. "Nonprofit organizations

do differ from their for-profit counterparts, but the differences are not as pronounced as they first appear. Advertising is in many ways analogous to fundraising, foundations play the role of the stock market in providing initial equity capital, and sales of goods and services are important sources of revenue for both types of organization" (Steinberg, 1987, p. 134).

The deliberate choice school of thought states that "without a profit motive there is little incentive either to produce services in an efficient manner or to accommodate the desires of consumers" (Steinberg, 1987, p. 118). The logic follows that providing subsidies or grants to charities promotes unfair competition and worsens the overall quality of service provision by charities because it fosters inefficiencies. The forces of competition are paramount in the nonprofit sector just as in the market economy (Steinberg, 1987, p. 134). Following this reasoning, respecting the laws of competition would improve the functioning of the charitable sector.

The line of argument used by those who deliberately look to shift the mental models of charities toward a corporate mentality is that by adopting a commercial mindset and decision metric, charities would be more innovative and efficient. Loren Cole (1996), a consultant to the nonprofit sector in the United States and Canada, stated that "nonprofits need to be constantly reminded that they are corporations first and nonprofits second." He said that often people in the charitable sector incorrectly assume there is something inherently unethical about business. If that assumption is abandoned, "there are no business ventures which are or should be off-limits to charities" (Cole, 1996). Business ventures would increase the viability of the charitable purpose and improve the efficiency of operations, according to Cole. They would also push charities to be more client or customer focused.

The Unconscious Choice of the Dominant Rhetoric

John Ralston Saul (1995) posits that what we are experiencing in the 1990s is not simply a blurring of

the traditional boundaries between the public, private and charitable sectors but a take-over or colonization of all civil models of society by the commercial mindset. He argued that this is not a conscious choice by most citizens but rather an unconscious acceptance of the now-dominant ideology. If we accept the assumptions underlying the commercial model without examining the context or limitations of their application, we could blindly or unconsciously apply inappropriate decision models to societal choices.

Saul's thesis suggests that citizens have become passive and have been seduced by the dominant ideology of the market because it presents a simple answer to complex problems. In the context of this paper, the one simple answer could be that charities undertaking commercial ventures is a solution to government cutbacks. This provides a convenient ideological rationalization for not only the rollback in public sector support of human services, but also the trend toward commercialization and marketization of those services that remain (Leduc Brown, 1996; Mwarigha and Murphy, 1997). The market ideology is powerful because it has 1) the support from groups that control the resources; 2) a consistent, coherent language; and 3) measurement tools. The market rules and logic will "decide" which charitable activities are valuable in society.

The passive acceptance of market ideology is insidious to open and civil society, according to even major voices from the corporate and public policy communities such as financier George Soros (1997) and Robert Kuttner (1997). Kuttner notes that the market ideology creates a kind of self-referential analysis that defies our own experience:

There is at the core of the celebration of markets a relentless tautology. If we begin, by assumption, with the premise that nearly everything can be understood as a market and that markets optimize outcomes, then everything else leads back to the same conclusion – marketize! If, in the event, a particular market doesn't optimize, there is only one possible inference: it must be insufficiently market-like. This epistemological sleight of hand is an astonishing blend that blurs the descriptive with the normative – it is a no-fail system for guaranteeing that theory trumps evidence.

(Kuttner, 1997, p. 6)

There are other issues relevant to the charitable sector that suggest that we consider the emerging hegemony of the market ideology (and the not unrelated suggestions to undertake commercial ventures) with suspicion. Saul's argument also states that the market is essentially and literally "anti-social" because it is based on self-interest rather than disinterest. In the long term, it is "self-destructive because [it] cannot take seriously the long-term view or the wider view, both of which are dependent on a measure of disinterest, which could also be called the public good" (Saul, 1995, p. 33). The long-term or wider view of the public good is the *raison d'être* for many of the educational, social service, health and cultural arms of the charitable sector. Doing business ventures that are short term in outcome and in measurement could not only be damaging to the core of the work, they may inadvertently overtake the mission. Because of this, goals and success benchmarks proposed by the commercial mindset map onto the charitable sector in only a highly problematic manner.

Economist John Kenneth Galbraith (1996) echoes this conclusion. He argues that we have become a society that accepts without question the ideology that free markets are the basis of an ideal social system. If this logic is extended, it would follow that charities would be more successful if they emulated a commerce-based model. However, Galbraith points out a key weakness of this perspective. In his analysis, business thinking works very effectively for decisions with short-run returns. One way to make sense of Galbraith's conclusion is to look to the models used for commercial decisions. Our business and finance models are based on the time value of money that quantifies investment choices based on their proximity to the present. For example, assets today are worth more than assets tomorrow. Depending on the assumed interest rate, assets or returns a generation from now (rather than a return in the next fiscal year) may have little or no value in the financial model. Thus this perspective is antithetical to a core element of charitable endeavour – the long-term investment in social needs and collective interests.

If a commercial mentality is essentially based on self-interest, charities undertaking commerce run the inherent risk of losing their focus on the public interest. Also, and at a more macro level, the public risks losing its understanding of the distinct moral metrics of the public and charitable sectors.

The Implications of the Dominant Rhetoric

Galbraith (1996) argued that we are heading toward a “democracy of the fortunate.” The old dichotomy used in classical economics of “capital versus labour” has been replaced with the “rich and comfortably endowed” versus the “economically disadvantaged.” Liberals and conservatives both believe that large, intrusive governments were a political creation of liberals. Since they are political creations, the logic follows that they can be politically reversed. However, Galbraith argues that government grew because of historical changes and progress. Therefore, it is not a trivial matter to reverse the role of government. It is also clear that the victims of reversing the role of government are the economically disadvantaged who look to government either for survival or at least as central to their well-being. Government is a burden to the economically fortunate who also tend to be more articulate, and more apt to vote than the poor in our society. It follows that government grants to charitable or public good purposes will be seen to be more burdensome to the fortunate in society.

Arguments that deliberately apply the dominant rhetoric point to the advantages of innovation, efficiency and client satisfaction for charities doing commercial ventures. The unconscious or unthinking argument suggests that we need to be aware of the risks of commercial ventures for charities if we are to protect many positive aspects of society that are not addressed by market models and commercial transactions. These two dynamics create political, moral and practical challenges that must be addressed at the organization and sector level when the development of larger-scale commercial activities by charities is considered.

Corporate businesses arguably also address the social needs of society. Bartlett and Ghoshal (1994) have been studying international corporations for many years and echo the corporate social responsibility arguments of Drucker (1992) and others. Bartlett and Ghoshal argue that the self-serving definition of corporations “grossly understates reality” because companies are “one of society’s principal agents of social change” (p. 81). They advocate corporate social responsibility as both a necessity for society and also “good for business.” Yet, they acknowledge that in spite of the logic of this argument, “most companies focus almost entirely on financial results.... [and see themselves] as simply agents of economic exchange” (p. 88). In this paper, we run the risk of leaving the impression that all commercial businesses ignore social responsibility. We do not believe this to be the case, but we are aware that the transaction-based model on which commerce is built does not automatically incorporate the values needed by the commons as expressed by Lohmann (1992).

Theme 3 – An Old Novelty

Charities have been selling goods and services forever and yet it is an “invisible” option to many charities.

The history and present reality of charities selling goods and services is paradoxical. Every interviewee pointed out examples of established charities that had been involved in commercial activities for decades. Yet there is a spotlight on commercial activities as a “new” way for charities to generate revenue. Ratna Omidvar, Executive Director of Skills for Change, said that in the last few months she has received information every week about new seminars or letters from consultants focusing on revenue generating ventures. This is seen by many as the “new” way for charities to survive and thrive.

The “new” way has been around a long time. Commercial nonprofit organizations have always existed (Steinberg, 1987). “Some firms rely almost exclusively on sales (Hansmann’s commercial

nonprofits [1980]), whereas others rely heavily on donations (Hansmann’s donative nonprofits)” (Steinberg, 1987, p. 121). The Y was the most common example cited by interviewees when talking about successful commercial ventures by charities. Another old charity with successful commercial activities is Girl Guides, which raised more than \$6.2 million in revenue from Canadian cookie sales in 1996 (Nyp, 1997). This is not a new phenomenon for the sector.

The scope of the current practice of charities undertaking commercial ventures in Canada today is not clear. Most interviewees felt it was more rhetoric than reality, despite some of the well-known, well-established and high profile examples. For example, most interviewees suggested that there are many more charities talking about getting into business-like ventures than are actually doing it.

There is some empirical grounding for this kind of assertion, despite the inadequate data gathered in Canada to this point. The Canadian Centre for Philanthropy’s “1994/95 Survey of Charities” reported that among 1,500 surveyed nonreligious charities, 41 percent of them had attempted some form of selling goods or services. (This does not include the full range of charitable commercial enterprise discussed in the previous section.) The Canadian Centre for Philanthropy also found that product sales accounted for only 4 percent of their total fundraising revenue on average. This figure was roughly the same for the 1995/1996 (Hall, 1996) survey. In another report, Campbell (1994) used different data and different categories to segment revenue sources of Canadian charities. In his “first general map of Canada’s third sector,” he reported (from 1990 Revenue Canada data) that “net business income” accounted for only 1 percent of total revenue reported. This compares with “government funding” accounting for 53 percent of total revenue, and “investment” (i.e., a related-to-business category), 4 percent. Campbell’s research also noted that only 8 percent of registered charities reported any business income. While the range and nature of the figures presented in both of these studies are both somewhat confusing and ambiguous for our purposes, they do highlight

the relatively marginal role that business activities play on a sector-wide basis.

Perhaps because of their relatively infrequent occurrence across the Canadian charitable sector, we found that the commercial venturing is still an “invisible” option to many charities despite its current popularity with consultants and educators.

[Appendix C provides an explanation for this “old” novelty using institutional theory.]

Theme 4 – Self-sufficiency or Economic Dependence

Unless you invent the next pet rock, you are not going to replace your government funding with your business profits. Sorry.
(Brinckerhoff, 1994c)

Commercial enterprises are not likely to be the panacea for the major funding woes faced by the charitable sector in Canada today. There was a broad consensus among our interviewees, concurred by the experience of American charities documented by our literature review, that only rarely and in very specific circumstances do commercial ventures by charities generate revenues that represent “substantial” proportions of total revenue.

In most circumstances, revenue from commercial ventures serves to supplement core funding obtained elsewhere. While perhaps disappointing to those members of the charitable sector who have been desperately seeking to replace lost government funding, for example, this should not be surprising. Charities have limited business experience, limited ability to focus on business activities and need to be primarily focused on their charitable mission. In addition, there is very little “easy money” to be made and most commercial entrepreneurs would access what is available before charities would even be aware of its existence.

That said, there are important reasons why charities undertake commercial ventures and important

uses to which commercial income can be allocated. Primarily, commercial income is important for charities as a means of diversifying their funding base and reducing their dependence on single or “narrow” sources of funding.

Some suggest that charities attempt to be more “self-sufficient,” but this is a deceptive concept. David Armour, President of the United Way of Canada/Centraide Canada, said self-sufficiency is a meaningless concept for most community-based organizations. Instead, he maintains, the term is used by funders as code for “don’t depend only on us.” Charities are therefore being asked to diversify their funding base. In the for-profit sector, accounting guidelines state that a business that is economically dependent on another entity (e.g., a supplier or a customer) should disclose this economic dependence in the notes to the financial statements. The rationale is that economic dependence increases potential business risk because the influence on the level of supply or sales is outside of the direct influence of the business. Charities that have a major portion of their funding with one government ministry, department or agency have the equivalent of economic dependence and hence increased business risk.

Some organizations are more proactive than reactive in reducing economic dependence on any one funder. In some cases, they are reluctant to accept grants from certain sources (often government) because of the implicit or explicit strings attached to the money. They see diversifying their funding base as increasing their degrees of freedom.

One method of diversifying funding is, of course, commercial ventures. A caveat that was mentioned by several interviewees is that commercial ventures cannot be seen as a full substitute for government funding to meet the needs of the people. The primary reason for this is that the market is largely saturated and provides limited opportunities for the incursion of charities.

Theme 5 – Separation or Integration of Commercial and

Social Ventures

There are practical and philosophical arguments for both integration and separation of commercial and social ventures.

If a charity undertakes a commercial venture, should it be separated from or integrated with the charitable activities? Different schools of thought provide different insights and conclusions, as outlined below. However, this paper uses theory for practical insights, rooted in the present context. Thus we will also examine some of the organizational experience to date with integration and separation of commercial and charitable activity.

Most theories tend to come down squarely on one side or the other of the integration or separation debate. In contrast, our conclusion is that the ideal or best situation will always depend on the context in which this initiative is proposed. We would suggest that local conditions and local contingencies will propose both the viability, utility and appropriateness of commercial ventures that are separated from or integrated with charitable activities.

Separation Theories

Researchers who oppose integrating social and commercial ventures are not simply the traditional proponents of nonprofit and charitable endeavour and defenders of the status quo. Henry Mintzberg, a business strategy professor at McGill University, contends that public, nonprofit and commercial activities are fundamentally different and should not be integrated (Mintzberg, 1996). The basis for this argument is that there are fundamentally different modes of relationship between people and organizations and that each mode has its distinct integrity and logic. Rather than following the now sociopolitically legitimated program of “seeing government as a business,” Mintzberg notes the differences between organizations, which see people as customers, clients or citizens. “I am not a mere customer of my government, thank you. I expect something more than arm’s length trading and something less than the encouragement to consume” (Mintzberg, 1996, p. 77). In

Mintzberg's model, the appropriate organizational type depends on the relation between the people and providing organizations: companies serve customers, nonprofits/charities serve clients and governments serve citizens.

Social theorist Jane Jacobs (1992) echoes Mintzberg's assertion that commercial and social ventures require distinct logics to be successful and that they should, by extension of this line of reasoning, be managed and housed separately. Jacobs distinguishes between the "commercial" and "guardian" moral syndromes (which roughly correspond with the private and public sector dichotomy). It is interesting to note that Jacobs does not recognize a distinct moral syndrome for charities/nonprofits, but rather divides them into either guardian or commercial types. In terms of the separation of moral syndromes, Jacobs' argument is subtle and complex but concludes that the constellation of values and behaviours required for success is distinct for commercial and public endeavours.

Because of her view that "success" depends on which of the two moral syndromes an organization attempts to be faithful to, Jacobs is clearly against integration of commercial and public initiatives. Attempts to integrate these she calls "monstrous hybrids" (Jacobs, 1992, p. 93). These hybrids are, she contends, typically awkward, immoral or dysfunctional.

Both Mintzberg and Jacobs focus on the sectoral division of labour at the macro/societal level. Both contend that on moral and practical grounds, principle, productivity and policy are important and valid organizational goals, but they argue passionately that only one of these goals should be chosen as the ethos of the organization. This goal will provide the frame within which the other two goals are given meaning, focus and direction.

Integration Theories

Several theorists within the nonprofit and charitable communities are more optimistic about attempts

to integrate commercial and social ventures. Of these, most advocate forms of "social enterprise" (Quarter, 1992) that apply particularly to social service and community development organizations working specifically in job training and job readiness training fields. (See Emerson and Twersky, 1996, and Budd, 1996, for recent examples; and Crimmins and Keil, 1983, for the earliest major treatment.)

The most important theme used by theorists who propose integration of social and commercial ventures is that, with some creative thinking, commercial initiatives can be developed that DIRECTLY help the organization fulfil its mission (Brinckerhoff, 1990*b*; Budd, 1996). Functioning projects documented by Emerson and Twersky (1996) typically involve an organization whose mandate is helping homeless people get "off the street." These organizations will establish a revenue-generating service business, such as a snack bar, that will be staffed by homeless clients of the organization as part of the mission-related training provided by the organization. Other major works that discuss commercial ventures within nonprofits/charities (i.e., Crimmins and Keil, 1983; Massarsky, 1994; and Skloot, 1987) typically emphasize related diversification (Oster, 1995) that integrates revenue generation directly into mission fulfilment processes housed in the organization.

One major proponent of mission-related commercial activities, for both economic and mission reasons, is Sharon Oster (1995) of Yale University. She contends that related diversification can "take advantage of production and/or distribution complementarities ('economies of scope')" (p. 89) and notes that, from a strategic management perspective, "the most successful product extensions involve products which are close to existing products and best able to share in the core assets of the organization" (p. 91). She also notes the well-documented history of dysfunctional unrelated diversification initiatives in the for-profit sector (i.e., the conglomerate corporate form) and suggests that "the further away the new activity is from the old ... the less the specialized assets of the core business – including the acumen of the managers – can be used in the new venture" (p. 91).

Practice with Separation and Integration

Some organizations have had great success at mixing social and commercial entrepreneurship. One method for achieving this is to have clear separation between the two activities. In effect, some of the successful models suggest parallel organization structures with separate advisors (or boards), management, volunteers and even physical location. This is consistent with the theme of not mixing social and commercial entrepreneurship. Neither the commercial nor social entrepreneurship will be diluted in its intensity by these parallel structures. In addition, the separation ensures that charitable dollars are not used to subsidize a commercial activity. These parallel structures can be linked in one charitable organization or as a partnership with a private sector organization.

Exceptions to this rule of not mixing social and commercial entrepreneurship were frequently found when the charitable mission was closely aligned to fairly straightforward commercial activities. Examples of this alignment include organizations whose mission is to create employment and training opportunities for their clients. In these cases, while the social goals (i.e., the mission) were paramount, they were readily made consistent with commercial goals. The commercial activities were examples of “walking the talk” of the social goals rather than being a means to achieve a social end.

Theme 6 – The Ambidextrous Entrepreneur

It takes a special person to succeed as a commercial entrepreneur. Even fewer can combine commercial entrepreneurship with a focus on meeting charitable needs.

Given the important political and philosophical difficulties of the relationship between charities and commerce highlighted in the previous sections, it is not surprising that many commentators propose that

only very rare people in charities will be able to successfully navigate the inherent tension between mission and commerce. In both the literature review and the interview transcripts, a theme emerged concerning the need for a special kind of person who is driven and has extraordinary integrity, and a mission orientation to lead an organization or a project from a grant-dependent state to one of increased innovation and funding diversity. However, proponents of this kind of person often also expressed significant reserve, ambivalence or concern. The orientation toward commercial enterprise could undermine the organization’s reason for being. “Not just anyone” is capable of being an entrepreneur (particularly in a charity). The role of an entrepreneur in a charity requires the existence of a special ambidextrous person who can maintain focus on twin logics of mission and commerce. This section will develop both sides of the ambivalent attitudes toward the necessarily ambidextrous entrepreneur in charitable organizations.

Paul Born, Executive Director of CODA, stated that he hires people with entrepreneurial talent to work in his organization. He likes their drive, energy, intensity and capacity to make things happen. He looks for people who are “deal makers” to achieve the mission of his organization, which is economic development for the sake of poverty reduction.

Yet Paul also argues this admiration and respect for entrepreneurship has gone too far in our society. We over-value entrepreneurship. During the 1980s, entrepreneurship became increasingly sexy to society. The media, both news and entertainment, told stories of the great business heroes who made the risky deals and huge personal gains. Entrepreneurship was elevated to the status of heroes or even God in our society. The implicit message is, the world would be better off if we were all entrepreneurs. However, Allan Broadbent, Chairman of Avana Capital, notes that this makes little sense as a dominant model for charities in the current economic climate:

When you come back to a 10% unemployment rate, this kind of rhetoric doesn’t make sense. We can’t all become (commercial or market) entrepreneurs. It is a set-up. If you’re driving all these

charities into the market economy and there already isn't enough work out there, who is winning? It is destructive. Charities are driven to this through the sense of panic.

In this paper, we make a distinction between social entrepreneurs and commercial entrepreneurs. This distinction runs the risk of oversimplifying the complexity and diversity of entrepreneurs. Some individuals have been entrepreneurs in both arenas. However, both the literature review and interview subjects are emphatic that the fundamental motivation differs in several respects between the two entrepreneurial perspectives. Whether (and how) a person can adopt both perspectives and serve both perspectives simultaneously and with integrity are questions posed in this paper.

Social entrepreneurs are the innovators in the human services sector who create goods and services, influence or create public policy and influence public perceptions and behaviours. Their primary goals are collective goals aimed at addressing perceived societal needs.

John Pepin noted that, similar to commercial entrepreneurs, social entrepreneurs see change as a norm, that it is healthy, and constantly search for change and respond to it and exploit it as an opportunity, not just something you react to. Also, they take risks and constantly shift resources to areas of high productivity and yield. [Pepin used "yield" in both mission fulfilling and revenue generating terms.]

Commercial entrepreneurs are the innovators in the economic market place that create goods and services. One of their prime goals is personal financial gain to improve their wealth, status and position in the market.

As we have stated, a charity and a commercial business may provide similar goods and services. The social entrepreneur sees a need in society and creates products to address the need. The need is paramount and is reflected in the mission of the charitable organization. The product or service is instrumental to satisfy the need. A commercial entrepreneur looks for opportunities to make money.

He sees a need in society and looks for products or services that could be used as a means to create wealth. In other words, a social entrepreneur sees the need as the end and looks to money as a means to this end. The commercial entrepreneur sees wealth creation as the end and looks to needs as opportunities or means to achieve the ends. Echoing this, John Pepin stated that "What is happening is that ... there is a pressure [in charitable agencies] to be more business-like, but the confusion is, I think, between being business-like (that is, applying some business principles) and being like a business in saying your ends are money-making."

Broadbent said the same dedication, focus and energy is required of a social entrepreneur and a commercial entrepreneur. Entrepreneurial skills are required in both arenas.

Successful entrepreneurs aren't usually that attractive. They are ... intense, focused, self-centred, driven towards success.... But it very often takes that to succeed....The sweat, energy and focus to make a business succeed is in my mind extraordinary.

The challenge is whether one individual or organization can simultaneously focus their energy on both entrepreneurial arenas – social and commercial (or business). Bill Shore's inspirational book "Revolution of the Heart" (1995) demonstrated how one organization (Share our Strength) was able to combine the efficiency motives of a commercial entrepreneurship with the mission of social charity concerned with feeding the hungry. He believes this hybrid is the new wave of the future.

Many of the interviewees were very skeptical that this dual capacity could exist in charitable organizations. Other interviewees emphasized that commercial entrepreneurship is possible under the umbrella of the mission. Kathy Allan, Executive Director of Greensaver, said that it takes extraordinary agility and integrity to contain an entrepreneurial flair within a mission-based charity.

Commercialization in nonprofits could easily [encourage nonprofits to] adopt the private sector mentality and lose its heart and soul. There is a huge caution sign here. It takes a lot of integrity

and thought or you lose your mission and your reason for being.

The capacity problems (i.e., the structure and mental challenges for charities to house and support commercial entrepreneurs and for commercial entrepreneurs to thrive in a mission-focused environment) relate to both basic business skills and to the energy or focus required. The required focus, clarity and intense energy cannot be reconciled with management or staff who regard entrepreneurial activity (whether social or commercial activity) as an “add-on.” The nature of entrepreneurship requires undistracted attention to the goal.

Peter Drucker warned against an excessive emphasis on entrepreneurs to solve our social ills. He said, “I don’t care for the popular theory that a generation of entrepreneurs can solve our problems. Entrepreneurs are monomaniacs” (Harris, 1993, p. 118). “Monomaniac” conveys the idea of undistracted attention to a single goal.

The literature review and the interview transcripts provided wide concurrence that entrepreneurs (as individuals) and entrepreneurial attitudes, skill sets and structures are essential pieces of a charity that wishes to initiate a commercial enterprise. However, the commitment by charities to the commercial revenue potential they offer remains intrinsically and fundamentally ambivalent because of:

1. the difficulties of integrating commercial entrepreneurs and their necessary perspectives and organizational structures into those of mission-based organizations;
2. the challenge of relating simultaneously and ambidextrously to two bottom lines (Emerson and Twersky, 1996); and
3. the limited capacity of Canada’s economy to absorb a significant surge in commercial entrepreneurial activity by charities.

Theme 7 – Transaction Potential

– Fee-for-service

Profitable fee-for-service depends on the client base served and the nature of goods or services produced.

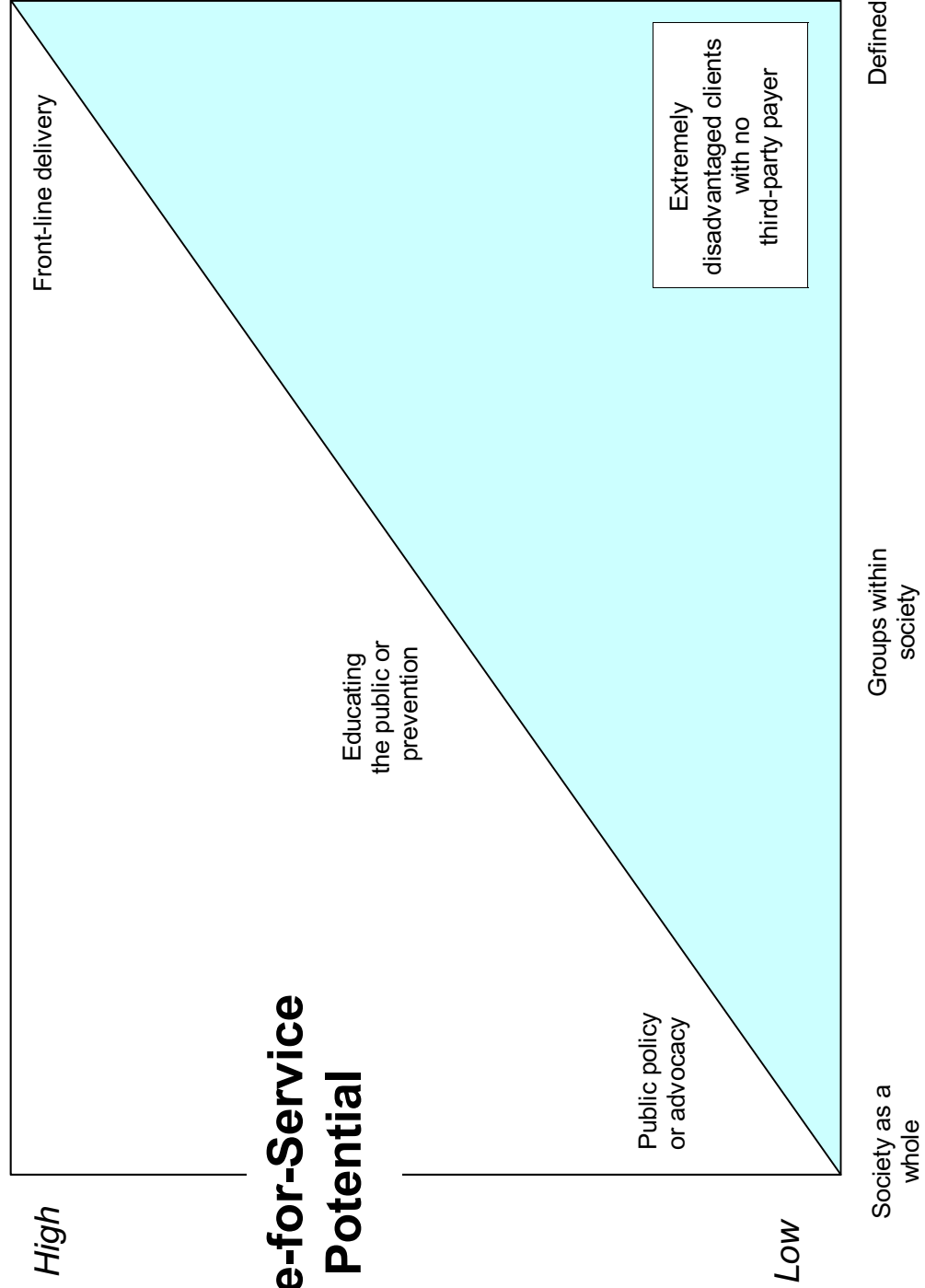
The paper addresses issues relevant to all three forms of commercial venturing: 1) fees for services, 2) related, and 3) unrelated businesses. This section addresses the first of these three categories to create a map of the different potentials for this activity. Our premise is that the capacity of an organization to generate profits from fees for services is dependent on the client base served and the nature of goods or services produced.

Exhibit 2 depicts the transaction potential based on the nature of the activity. The horizontal axis relates to the relationship between the good or service produced and the beneficiaries of the service. At the right, we have single defined clients. The left side of the chart represents work where the deemed beneficiary is society as a whole. The shaded area represents the increasing likelihood of transaction potential. For example, it is unlikely that a public policy organization can charge their “client” fees for their services. Related to this, Oster (1995, p. 100) suggests that user fees should be avoided (for strategic reasons) when the product is a public good, when collection costs are either high or complex and when there are major ideological barriers to fees. Most public policy and advocacy groups would fall under this umbrella.

The front-line service delivery organization may have high or low potential for charging fees for services. If they have extremely disadvantaged clients, it is unlikely they could pay. However, there may be third-party payers that may pay a fee on behalf of a client. The intermediate level of the chart uses the example of a public education and prevention program. Their capacity for charging fees for services is highly dependent on the nature of their mission.

Greensaver, an environmental organization based in Toronto, provides an example that illustrates how third-party payers provide increased opportunities

EXHIBIT 2



Nature of beneficiary

for fee-for-service work. This organization dispatches crews to households to perform energy and water conserving improvements as well as provide related advice. Greensaver is able to link pieces of their mission-related services with diverse groups of third-party payers. Their “clients” are both the direct recipient of their services and the indirect corporate and institutional recipients of their services who are willing to share the price.

For example, a homeowner receives the benefits of alterations provided by Greensaver, which make their house more environmentally friendly as well as less expensive to heat and service. The homeowner may be willing to pay for part of this service but generally cannot pay full cost, let alone a price that could generate profit for Greensaver to transfer to other charitable endeavours. The direct client market will not bear the full price. The indirect beneficiaries of this service may be the energy companies, public utilities and public works departments who are encouraging reduced usage of power, wastewater services, etc. When Greensaver approaches them to pay part of the price of the home alterations, service fees are rationalized by the paying organization on the basis of the avoided costs, such as infrastructure upgrades, that service provision will assist in deferring. This example highlights a potentially significant way in which the fee-for-service potential across other portions of the charitable sector might be reevaluated and upgraded without reducing the

reach and accessibility of programs.

Theme 8, the intended and emergent outcomes, addresses the question of what happens when charities undertake commercial ventures – in particular, the emergent outcomes from these activities. Twenty-four emergent outcomes are identified and described in Section 4.

Intended and Emergent Outcomes (Theme 8)

We will assume that the primary or at least a key motivation for charities undertaking commercial ventures is to generate profits to fund charitable work. The intentions are to 1) increase the money available to support charitable work and, often, 2) to increase the independence from a single funding source, such as government. But commercial activities in a charity lead to emergent or unintended outcomes – both positive and negative. This section of the paper outlines a series of emergent outcomes in practice. Not all will apply in all contexts. Much more research is needed on the emergent outcomes or consequences before we can state more definitively the likely outcomes of a specific charity undertaking commercial ventures.

The emergent outcomes have been grouped in four categories or 4 Rs: resources, relationships, reputation and responsiveness (see Exhibit 3). In some cases, the same title or topic is noted in more than one category (e.g., volunteers) because there are impacts under more than one of the 4 Rs.

Resources

Resources include financial and human resources.

Cannibalization

During his interview, Patrick Johnson, Executive Director of the Canadian Centre for Philanthropy,

worried that charities that undertake commercial ventures may weaken their appeal to donors. Some donors may see the commercial activity as evidence of a change of focus of the organization and may worry that their donations will be used to prop up a business rather than for the original charitable purpose. Also, revenues from commercial activities that are intended to add to the donation base may inadvertently become substitutes for donations.

David Armour argued that some individuals view their money given to a charity as donations whether or not they receive goods or services in return. This can lead to a perception of increased generosity when a charitable commercial activity is supported, despite the fact that the actual amount that may be used for the charitable mission is quite low.

Armour gave an example of a United Way campaign, which involved an opening event selling hot dogs and soft drinks, a book sale and a direct request for employee donations. An employee responded with surprise when asked for a donation.

But I already gave to the United Way. I bought a hot dog and a drink and a couple of books at the book sale. I have already contributed \$20.

The actual contribution to the United Way may be a small fraction of the \$20 collected, but the perception was that it was a “gift.” If prospective donors see the commercial exchange as a gift, then the total dollars available for charitable works could decrease

EXHIBIT 3

Emergent Outcomes

Resources	Relationships	Reputation	Responsiveness
<ul style="list-style-type: none"> • cannibalization 	<ul style="list-style-type: none"> • boards of directors 	<ul style="list-style-type: none"> • community perception 	<ul style="list-style-type: none"> • increased productivity
<ul style="list-style-type: none"> • shifts away from intentional giving 	<ul style="list-style-type: none"> • recipients/beneficiaries/clients 	<ul style="list-style-type: none"> • market perception – unfair competition 	<ul style="list-style-type: none"> • change to less hierarchical more adaptable structure
<ul style="list-style-type: none"> • synergies/decreased financial risk 	<ul style="list-style-type: none"> • donors/funders 	<ul style="list-style-type: none"> • shifting definition of success 	<ul style="list-style-type: none"> • “low-hanging” fruit
<ul style="list-style-type: none"> • increased financial risk 	<ul style="list-style-type: none"> • volunteers 		<ul style="list-style-type: none"> • customer focus
<ul style="list-style-type: none"> • using more energy to get fewer dollars 	<ul style="list-style-type: none"> • organized labour 		<ul style="list-style-type: none"> • mission and values of charity are undermined by business venture
<ul style="list-style-type: none"> • burning charitable dollars 	<ul style="list-style-type: none"> • professional staff 		
<ul style="list-style-type: none"> • volunteers 			
<ul style="list-style-type: none"> • cost of hiring “business” managers 			
<ul style="list-style-type: none"> • reward structures would have to be changed 			
<ul style="list-style-type: none"> • commercial activities can be undermined by the mission and values of a charity 			

with the cannibalization of donations for exchanges. Inadvertently the donor has switched from giving a contribution to making an exchange.

Shifts Away from Intentional Giving

There is the risk that corporations and/or individuals can also deliberately switch from being donors to purchasers. As a donor, the corporation is making an intentional gift to the charity. A gift, by definition, is not a reciprocal transaction. As a purchaser, a corporation may expect certain benefits to accrue from a “gift” to a charity.

Examples of transactions or return-based contributions include donations that result in publicity and exposure for the corporation. From the corporation’s perspective, this is in substance a marketing expense even if the form is called a charitable donation. In these instances, often the contribution to the charity is a mix of marketing expense and charitable giving. The charitable portion is the extra payment above market cost for comparable advertising or promotion. If the corporation allocates the full amount in their donation budget, then there are fewer “gift” dollars given to the sector. If the charitable portion is less than the fair market value for the promotion, then the corporation has in effect been given a “gift” by the charity. This oversimplifies the case, but we can see that there is a potential for gifts to the charitable sector to be replaced with exchanges.

Synergies/Decreased Financial Risk

The other side to cannibalization is that commercial ventures may add to the mission by creating synergies between the commercial and charitable activities. Commercial ventures may allow opportunities for cross-subsidization from one activity to another (Oster, 1995). This may allow for earnings stability and growth for the total organization (p. 88). Diversification may buffer the inherent instability created by economic dependence on any one line of work or source of revenue. The economic synergies created may allow further development of the charitable programs in part because they can

share some costs and reduce the financial risks of economic dependence on funders.

In addition to improved financial stability, Skloot (1987) states that commercial ventures can “strengthen program activity, increase organizational visibility, enhance fund-raising capacity and improve managerial ability” (p. 387). The synergies from the commercial activities may improve the overall health of the charity and hence enhance its ability to achieve its mission.

Increased Financial Risk

If a charity creates a related or unrelated business, there is always a risk that the financial costs will exceed the benefits. Business involves financial risk. There are no guarantees that a business venture will create a return, particularly given the low level of commercial business skills found in many charities. Building a business almost always requires investment and development capital. You only make money by spending money. The amount of money required for investment varies greatly. In addition, there is almost always a time lag between investing the money in a business venture and reaping the rewards. These are realities for commercial ventures in any sector.

There is an important distinction to be made here. Commercial businesses are bottom line operations. Costs are incurred to generate future revenues. In contrast, most charities are “top line” operations. This opposite perspective means that costs are contained by the amount of revenue granted. Bottom line thinking means that costs will be incurred before revenues are generated. This is a new risk for many top line charitable operations.

Exhibit 4 illustrates the differences between top line and bottom line thinking. The challenges to overcome for a charity that has been accustomed to top line rational decision making includes rethinking, in a bottom line context, the definition of a cost, the relationship between costs and revenues, risk taking, time lines for cash flows and return.

EXHIBIT 4

Top Line Thinking versus Bottom Line Thinking

Top Line Thinking	Bottom Line Thinking
<ul style="list-style-type: none">• Revenue = money available for charitable work	<ul style="list-style-type: none">• Revenue \neq profits
<ul style="list-style-type: none">• Costs (must not exceed revenues)	<ul style="list-style-type: none">• Costs (required to create revenues)
<ul style="list-style-type: none">• Revenues determine future costs	<ul style="list-style-type: none">• Costs are incurred to create revenues
<ul style="list-style-type: none">• Timeline \rightarrow revenues precede costs	<ul style="list-style-type: none">• Timeline \rightarrow costs precede revenues

Top line thinking is derived from the history of many charities in which the revenue is relatively inflexible and grants are set ahead of the activities performed. Hence the “business challenge” for charities in a typical situation is to contain costs under the top line limit. In a “grant” regime, every new dollar of revenue can be used toward charitable works. An increase of revenue of 15 percent means there are 15 percent more dollars available for the mission. There is no profit concept here, only a revenue concept. Revenues determine future costs. The time line is that first revenues are determined and then costs are incurred.

Bottom line thinking is derived from commercial activities in which costs are incurred with the expectation that they will generate future revenues. This is a complete reversal of top line thinking. Revenues are derived after costs are incurred. Costs are not contained by revenues but are expected to generate revenues. Revenues are not dollars available directly for additional charitable activity. Revenues must first cover costs and then the surplus or profit is available for additional “investment” in mission activities. This is a fundamental shift for many managers of charities.

Using More Energy to Get Fewer Dollars

Unless an organization is prepared to take some risks, put some money up front, really devote some staff time to this, you are not going to develop a business that is going to produce any significant kind of revenue. I can go out and raise \$50,000 from five donors with a lot less effort than it would take to start a business that would make that much money. (Gordon Wolfe, Executive Director, Jewish Family Services)

The top line focus suggests that every dollar of revenue can be used toward the charitable mission. Thus revenue is “profit” in top line thinking. But in bottom line thinking, revenue is not profit. Charities often talk about revenue generating activities. This is consistent with top line thinking. It may also be dangerous because it may imply that revenues are fully available for the charitable mission. In reality, \$20,000 of donations is worth a lot more than a typical \$20,000 of revenue from a commercial venture. Commercial ventures must deduct all the costs associated with generating the revenue to create the profit or surplus that can be used for charitable works. With a 25 percent profit margin (which is high in most industries with low entry barriers), a commercial venture would have to generate \$80,000

of revenue to equal the charitable donation of \$20,000. In other words, it may be a lot more work to generate the money for charitable works using commercial ventures than donations.

Burning Charitable Dollars

In the charitable sector, there is an additional problem associated with increased financial risk. Donors to charities traditionally have expected their dollars to be used directly for the charitable purpose. A charity could “burn a lot of charitable dollars establishing a business,” said Alan Broadbent, “before or if the business generates a return.” Donors would normally expect their “return” to be in charitable purpose returns. If no improvement to the charitable purpose is seen as a result of a donation, a charity may begin to erode its donor base.

Volunteers

If volunteers are attracted to the mission and values of a charity, would the capacity of an organization to attract and retain volunteers increase or decrease as more commercial ventures are undertaken? One of the key success criteria for most charities undertaking commercial ventures according to Ken Wyman, a consultant to the nonprofit sector, is a large and well-organized volunteer base (Nyp, 1997). Paradoxically, a charity needs volunteers for commercial ventures and yet volunteers may be looking to their volunteer activity as a means to connect more directly with the mission of the charity. Charities that have a well-established pool of volunteers need to understand why they volunteer. If their reasons for volunteering are not well connected with commercial activities, the charity will need to find ways to mitigate this. One potential disaster scenario is a charity that undertakes a commercial activity depending on their volunteer base to support it only to find the volunteers are unwilling or unable to fulfill the objective. The volunteer base may be eroded not only for the commercial venture but also for the charitable works as well. The opposite may equally be true – a commercial venture might enhance the image of a charity and provide the impetus for a whole new cadre of committed and energized

volunteers – Oxfam, Bridgehead and the World Wildlife Fund are all charities that have found ways of integrating committed volunteers into commercial ventures designed to generate revenues for mission-based activities.

Cost of Hiring “Business” Managers

The charitable sector tends to pay senior management less than their counterparts in the corporate sector. Martin Connell argued that a charity would have to hire someone with commercial experience if they wanted to be financially successful in commercial ventures. “Capital is a tougher task master than a grant.... You are going to have to pay more to have someone willing to work for this tougher task master,” he argued. Depending on the success of the venture, this could increase or decrease the indirect costs of operating the charity.

In addition to potential cost shifts for the organization, hiring “corporate” business managers may result in a two-tier organization if compensation to the “commercial” types are on a different scale or based on different criteria than the rest of the managers (Skloot, 1987). This may send an unintended message about the value or worth of the different activities performed in the organization, and it will certainly add to the complexity of the roles of the Executive Director and the Board.

Reward Structures Would Have to Be Changed

Few charities compensate staff based on performance criteria, financial or otherwise (Nelsen, 1991). To ensure the financial success of commercial ventures in charities, compensation and reward structures will need to be altered. John Pepin believes this is not a trivial matter. The reward structures reflect the implicit motivations of an organization and new criteria such as financial productivity. By entering into new activities with new criteria for success, the reward structures will need to be altered to complement and not undermine the objectives. This may be a challenging obstacle for charities that

intend to undertake commercial ventures.

Commercial Activities Can Be Undermined by the Mission and Values of a Charity

If the mission, values and culture of a charity are inconsistent with making a profit, then they can compromise the original objective of the commercial venture. Ratna Omidvar talked about this problem in social services where the tendency is to give away services for free or at least less than cost. A commercial venture, if it is to generate profits for the charitable work, must sell at a price that is above the full costs. Bob Vokey also argued this point. He said that unless a charity is willing to really think about pricing in a commercial sense, the venture will have little chance for financial success. He has found tremendous resistance to the concept of pricing products and services in a commercially viable way in this sector. He has been surprised at the number of people who cannot comprehend the need to price in a competitive sense rather than in a charitable sense when trying to generate profits. Vokey said this is not to suggest charities should not be giving away products and services to clients or free or low prices. But when the objective is a commercial or profit objective, the concept of pricing must shift to be consistent and supportive of this goal. The very values that are central to the charitable mission of many organizations may undermine the potential for successful commercial ventures.

Relationships

Internal and external relationships will be affected when a charity undertakes a significant commercial activity. We have identified some of these potential shifts in relationships with boards of directors, clients, donors/funders, volunteers, organized labour and professional staff.

Boards of Directors

Members of the Board of charities will need to

adjust their roles and responsibilities if a charity undertakes commercial ventures. For many business people who already sit on these boards, the new skills required may be a close match to the competencies they have developed in the corporate world. Risk assessment, financing of commercial ventures, market analysis and strategic planning will be needed in the organization.

In some organizations, the requisite commercial skills may reside more in the board than in the staff. Hence board members may become more directly involved in the operations of the charity. For many charities who have tried to maintain their boards as policy bodies (Carver, 1990) this will represent a fundamental shift in emphasis.

In addition, the financial liability of a board member may increase as the charity undertakes commercial ventures other than fees for services. The increased liability, the shift in role, and increased responsibility may change the charitable board in several ways – recruitment may be more difficult, oversight responsibility will have to be more clear and the importance of board members from the corporate sector will likely be increased.

Recipients/Beneficiaries/Clients

In a consumer society, clients can experience cognitive dissonance when they receive a good or service for free or for very low cost. “If somebody pays absolutely nothing for counseling, and yet they can go to a ‘professional’ and pay a fairly high fee, what do they think the free counseling is worth – especially if they can afford to pay?,” asked David Armour. Gordon Wolfe echoed these sentiments when he said even a very low user fee encourages clients to take the service more seriously, to see it as a real commitment for both the provider and the client and to be less likely to cancel appointments because it is seen as having a low value or worth.

It is important to note that fee-for-service commercialization (discussed in the Canadian context in Mwarigha and Murphy, 1997) is considered dis-

tinct from “commercial ventures” by some commentators such as Skloot (1987). This distinction is likely to be particularly pertinent here where the fee, in the case described above, is primarily a program efficiency lever rather than a revenue generator.

Another dimension of the consumer society is that customers are increasingly demanding to be put “first” in the decision metric. If this is a move toward increasing the “ownership” of the charitable work by those who benefit from the services, this could be positive. It could have spin-off benefits of improving their ability to self-advocate for changes rather than relying on experts or professionals. It may reduce the passivity that Saul (1995) argues is so damaging to our society.

Ratna Omidvar cautioned that charging clients who are extremely disadvantaged is antithetical to the values espoused by the charitable sector. Fee charging in these cases would not likely improve the relationship between the service provider and the beneficiary but reduce access to the services available.

Donors/Funders

The relationship with funders and donors may shift with commercial ventures. Brinckerhoff (1994a) suggest that some funders may believe that a successful commercial venture would mean that a charity would require fewer funds – and this might provide a reason to reduce grants. Skloot (1987) proposed, alternately, that a commercial venture might make a charity look more “cutting edge” and worthy of additional funder support. (This parallels the discussion of “socio-political legitimacy” discussed in Appendix C.)

These two superficially opposing perspectives likely mean that a variety of outcomes are possible and that managers of charities would be well advised to follow Emerson and Twersky’s (1996) advice to include funder input in the planning stage of a commercial enterprise and to keep funders apprised of its development.

From a different perspective, some of the interviewees suggested that certain funders may gradually relate to charities in a manner that has strong similarities to that between a venture capitalist and the proponents of a business proposal. This change has not yet been explored in the research literature, but its implications for charities are enormous.

Volunteers

Commercial ventures often require a large and well-organized volunteer pool of labour. This creates opportunities to open up new, specific volunteer “contracts.” If a volunteer wants to be able to perform a concrete task, with specific expectations and measurable results, commercial ventures may be a method to attract more volunteers. On the other hand, if volunteers are attracted to the organization for the mission and want to be able to see their contribution as directly impacting the social, health or cultural dimensions of the organization, performing all of their volunteer activities on commercial ventures may be less attractive.

Regardless of whether commercial ventures increase or decrease the potential to attract volunteers, the expectations of what volunteers are expected to contribute are likely to have increased measurements, with very specific goals and targets to achieve. For organizations that have used volunteers in a very “loose” manner, using volunteers for commercial ventures will require rethinking management control.

Organized Labour

We can look at implications with organized labour both within the charitable organization itself and at a societal level. Within the organization, undertaking commercial ventures may require a radical change to the collective agreement. Compensation based on financial performance indicators, or changing job descriptions to include commercial dimensions, may require a fundamental shift in the traditional relation-

ship between management and staff.

In the general community, organized labour could react to volunteers performing work that is traditionally paid work in a commercial setting. They may object to the reduction in the pool of potential jobs for their labour force. Given Rifkin (1995) and others' assessment that the unemployment level will not improve with current trends in technology, the concern from organized labour about shifting the same "work" from a paid context to an unpaid context is a real threat to the long-term benefits of charities undertaking commercial ventures.

Professional Staff

Tim Broadhead said that "the comparative advantage of a not-for-profit is often the motivation of the staff who choose to work for lower financial reward because there are psychic benefits." Shifting to commercial ventures has the potential to reduce the perceived psychic benefit advantage held by the charitable sector. As charities look, act and feel more like businesses, staff may expect similar financial incentives and reduce the discretionary energy that is an unaccounted for contribution in the charitable sector.

On the other hand, commercial ventures may increase the professional staff's interest in improving client satisfaction, in measuring and valuing outputs and outcomes, in innovating partnerships that can reduce costs without reducing the impact on the outcomes desired.

Reputation

A charity's only true source of capital is its reputation or integrity. This reputation must be protected and enhanced for long-term sustain-ability.

Community Perception

How a community perceives a charity is critical to

most charities. Undertaking commercial ventures may improve or harm the community perception of a charity. In some cases, such as CODA, the commercial activities were seen by the community as supporting the work of the charity and were an indication of a "soundly run" organization by community members. Commercial ventures may tell funders and donors that an organization is willing to innovate and fight for its cause on all fronts.

However, in the area of unrelated diversification, the evidence we gathered was slanted toward hindering community perception rather than enhancing it – although relatively small "unrelated activities" such as bake sales or special events were thought to be relatively unproblematic. Kathy Allan and David Armour argued that unrelated business ventures do not make sense for community-based charities. Their argument was that if there is a need to create an unrelated business to keep a charity afloat, this is an indication that there is not community support for the charitable work. As a funder, this is a red flag, said David Armour. Kathy Allan added that entering into unrelated businesses is unnecessary. "If you can't create revenue to support mission-based activity, then there's something wrong," she said.

Unrelated business ventures take opportunity energy away from the core competencies of a charity. (In fact, this is in several respects similar to the impacts of many corporate and public fundraising campaigns on charitable activities.) Unrelated diversification has proven to be very challenging in the for-profit sector and is likely to be even more challenging in the charitable sector. In addition, the community perceptions of unrelated diversification of a charity could be diminished and thereby jeopardize the core programs or services.

These caveats, however, should be understood in the context of our experiences with unrelated-to-mission businesses (such as a hospital auxiliary used clothing store), which the public has a history of supporting because "it goes to a good cause." In many cases, the legitimacy generated by the charitable activity of a nonprofit organization is extended even to commercial ventures that are not directly

mission related.

Market Perception – Unfair Competition

Charities are alleged to have several key resources that the corporate sector does not. As charities undertake more commercial ventures using volunteers to sell their wares or services, generating income that may not be taxed and using grant-subsidized management and fixed assets to reduce operating costs, cries of unfair competition from the for-profit sector will be heard. For-profit organizations often argue that they cannot “compete” with the advantages of the charitable sector. This issue becomes more significant when the commercial venture is unrelated or only loosely related to the charitable purpose of the organization.

If we engage this issue not just as a matter of perception, we can propose several reasons why charities are not likely to be the robust competitors that they are alleged to be. Emerson and Twersky (1996) refute the “unfair competition” suggestion by noting that charities typically have intrinsically high cost structures (due to the need to integrate mission-related work with business) and are also often committed to hiring and employing marginal and underskilled staff, particularly when the mission of the charity is related to job training and skills development. They also note that charities are likely to have disadvantages because of their limited experience in most industries.

In addition, the tax-free status of charities can be challenged as unfair competition. Whether the criticisms of “unfair competition” are fair is not as important as the fact that there is evidence in the United States (Scruggs, 1996), and to a lesser extent in Canada, that the media are paying attention to the increased murmurings of unfair competition levelled at charities who do activities similar to those of commercial businesses. The extent to which these perceptions will affect other dimensions of charitable function (e.g., philanthropy, public sector grants) has not yet been examined.

Shifting Definition of Success

As the energy to create a successful commercial venture grows, one implication is the shifting definition of success for a charity. The customer orientation of a commercial venture may lead an organization to determining success based on the reaction of customers to its products or services. This can be a positive consequence if the charitable purpose would be better served by a closer link between the consumers of the service and the charity. The implication would be that more satisfied consumers would be an indicator of success. Would the concept of satisfied consumers be a good test for all charities?

Exhibit 5 sorts charities on two dimensions. The first dimension is whether the charity produces private or collective goods and services. A private good or service has defined single clients or beneficiaries. Collective goods or services are for the benefit of groups in society as a whole. They cannot be parcelled out into individual client “packets” of service. The vertical axis represents the cause and effect lag between the provision of service and the attainment of the desired outcome. Continua rather than discrete options better represent both axes.

We have labeled the four cells A to D, and provided some examples of services in each cell. Our contention is that cell A is most closely aligned with the success criteria used by commercial ventures. Cell D is the least aligned with this mindset. Hence to be successful in commercial ventures, one would need to move more toward cell A. This could lead to a reduction in the activities that have longer time lags or are more collective goods. This could impact the resources available to organizations in cells B, C and D. Within a single organization, this could lead to a reduction in efforts toward activities that fall outside cell A.

The reputation of organizations whose mission dictates that they be in cell D, but begin to act and make decisions as if they were in cell A, could hurt their capacity to attract resources, their ability to achieve their mission and their reputation in the

EXHIBIT 5

Typology Framework for Charities¹

Goods and Services

Private *Collective*

<p>A <i>Examples:</i></p> <ul style="list-style-type: none"> • Cultural interpretation • Food banks • Training adults for future employability 	<p>B <i>Examples:</i></p> <ul style="list-style-type: none"> • Environmental group focused on recycling • Creating parks in low income neighbourhoods
<p>C <i>Examples:</i></p> <ul style="list-style-type: none"> • Educating children to prevent welfare status • Family counseling 	<p>D <i>Examples:</i></p> <ul style="list-style-type: none"> • Advocacy for literacy • Environmental group focused on prevention/diversification • Disease prevention

Short

**Cause
and
Effect
Lag**

Long

¹ The exhibit does not include all organizations in the nonprofit sector. Nonprofit organizations can be classified as self-beneficial or public-beneficial. Self-beneficial organizations are organizations in which the members or donors are also the recipients of the goods or services provided by the organization. Examples include trade unions and condominium associations. These are excluded because the focus is on charities or public-beneficial organizations.

community. If reputation is eroded, this could lead to a further reduction in noncommercial sources of revenue setting off a vicious cycle of replacing further cuts by increasing commercial activities.

Responsiveness

Commercial activities may impact a charity's responsiveness to community needs. This section highlights areas where responsiveness is enhanced and eroded by increasing commercial ventures.

Increased Productivity

Commercial ventures may enhance an organization's productivity and its ability to achieve its mission. The measurement and evaluation criteria necessary to make commercial ventures successful may provide a rigour and discipline in fields that have been exempt from productivity assessments. This is no easy task and there are plenty of reasons to suggest that the measurement tools we currently have available are not adequate to address the complexities of many charitable activities. Some of these mission-related activities lend themselves more easily to productivity gains by being more "business-like" in their thinking than others. The closer the good or service is to the market concepts of transaction-based relationships between client and provider, the more likely will commercial ventures help improve the productivity measures in a charity.

Change to Less Hierarchical More Adaptable Structure

One of the unintended consequences mentioned by some interviewees was the necessity to change the organizational structure for commercial ventures. Because the market moves quickly, with rapid feedback loops between the customer and the provider, the organization needs to have a capacity for quick shifts in direction. Many of the large charitable organizations have developed strong hierarchical structures that are useful to protect programs and prevent changes from happening too quickly. There

are areas of charitable work where this is appropriate. However, these rigid structures are ineffective for market place manoeuvring.

The move to more adaptable structures for commercial ventures is necessary to allow the innovation and quick responses to flourish. These benefits have the potential to spill over into other charitable activities. More adaptable structures may increase the potential of both commercial and social innovations.

"Low-hanging Fruit"

Several interviewees used the metaphor of "low-hanging fruit" to demonstrate the risk that commercial ventures could limit the clients served by charities. Low-hanging fruit are the activities that can demonstrate a readily measurable and easily attainable financial return. They usually are fast, easy to access and cost less to service than other options. The more challenging fruits (or activities) are further out of reach, more difficult to see and may take more time to service.

The success of a commercial venture is defined by the return, both in speed and size. The risk in commercial venturing by charities is that an organization may be tempted to go after the activities that are easier to demonstrate fast and measurable success. Calmeadow Foundation provides small loans for community economic development. The temptation that must be resisted, argued Martin Connell, is to go for fewer larger loans because they are easier to manage, cost less to address and have a higher likelihood of success. This temptation must be resisted because if they succumbed, then Calmeadow would become a "bank" when the original mission or intention was to provide a service to citizens who do not have access to banks for start-up loans.

At a societal level, there may also be an unintended consequence of the low-hanging fruit phenomenon. If commercial venturing is seen as a replacement for government grants, we may see a shift in the kinds of charitable organizations that have the capacity to

thrive. Skloot, a proponent of commerce in the charitable sector, summarizes this threat to society.

There is reason to believe that the organizations in greatest need of funds to replace [government] grants and contracts – social service, criminal justice and environmental organizations and advocacy groups – are those least able to create commercially viable ventures.... The things that they do may be less commercially viable while the populations they serve may well be the neediest. In such instances, as the rich get richer, commercial ventures might separate some groups even further from others, enhancing their visibility and possibly their fund-raising ability at the expense of others. (1987, p. 388)

Customer Focus

One of the advantages of commercial ventures is the feedback mechanism that is fast and usually quite clear. A product or service will not be commercially viable if the paying clients or customers do not deem it of sufficient value. A criticism that has been leveled at professionally run charities is that they have become professional-centred rather than client-centred. If the client can choose to purchase or not purchase a service from an organization, whether or not there is a third-party payer, the charity will get a quick reading on how its services are perceived. Innovations to improve the value of the services to clients could be enhanced by commercial ventures such as fee-for-service or related businesses. Being client focussed is most valuable when the beneficiary of the mission is a defined client and when there is a short lag between the delivery of the good or service and the perceived benefit (see Exhibit 5).

Mission and Values of Charity Are Undermined by Business Venture

The business venture can undermine the effectiveness of a charity achieving its mission because of the focus on efficiency. Efficiency is the relationship between the amount of inputs required to create the outputs. Effectiveness is the relationship between the outputs and the intended outcomes or fundamental

objectives of the organization. There is a great deal of talk about outcome measurement these days in the charitable sector. However, there is often confusion between the terms.

In the for-profit sector, there is often little difference between outputs and outcomes. The outputs are intended to be sold to create a profit that is the intended outcome. Effectiveness is defined as more customers wanting and willing to pay for the good or service at a level above the cost. Therefore efficiency and effectiveness are closely linked. In the charitable sector, the connection between efficiency and effectiveness is often not as easy to determine.

If the implicit decision metric of an organization has a close link between outputs and outcomes, then a commercial activity that improves the efficiency will also improve the effectiveness. Developmental organizations are good examples where the outputs are in effect the outcomes. International aid organizations may not have closely aligned outputs and outcomes. Increasing the outputs is not necessarily an indication of an improvement in the outcomes or the overall need addressed by the charity. In these cases, a commercial venture that focuses on efficiency may lead the charity away from its original needs-based mission.

In addition, the success of commercial venture may be a distraction from the mission of the organization. Mauro Vescera, program director for the Vancouver Foundation, discussed this dilemma. At the same time as the Vancouver Foundation is encouraging charities to undertake cost recovery and profit-making ventures, he acknowledged that their are situations where it is inappropriate. He talked about organizations that had developed a marketable specialty that was not their mandate but was related to their mandate.

There is a danger if an organization has a particular mandate but sees a market niche somewhere else, that they will try to fill that niche which could end up compromising their mandate if filling the niche becomes their new focus.

As Skloot (1987) argued, there is a potential

danger that too much success may lead “the commercial tail [to] wag the program dog” (p. 388). The success of commercial venturing, in part due to the tremendous opportunity energy it will necessarily consume, may lead to mission drift.

Intended and Emergent Outcomes (Theme 8)

We will assume that the primary or at least a key motivation for charities undertaking commercial ventures is to generate profits to fund charitable work. The intentions are to 1) increase the money available to support charitable work and, often, 2) to increase the independence from a single funding source, such as government. But commercial activities in a charity lead to emergent or unintended outcomes – both positive and negative. This section of the paper outlines a series of emergent outcomes in practice. Not all will apply in all contexts. Much more research is needed on the emergent outcomes or consequences before we can state more definitively the likely outcomes of a specific charity undertaking commercial ventures.

The emergent outcomes have been grouped in four categories or 4 Rs: resources, relationships, reputation and responsiveness (see Exhibit 3). In some cases, the same title or topic is noted in more than one category (e.g., volunteers) because there are impacts under more than one of the 4 Rs.

Resources

Resources include financial and human resources.

Cannibalization

During his interview, Patrick Johnson, Executive Director of the Canadian Centre for Philanthropy,

worried that charities that undertake commercial ventures may weaken their appeal to donors. Some donors may see the commercial activity as evidence of a change of focus of the organization and may worry that their donations will be used to prop up a business rather than for the original charitable purpose. Also, revenues from commercial activities that are intended to add to the donation base may inadvertently become substitutes for donations.

David Armour argued that some individuals view their money given to a charity as donations whether or not they receive goods or services in return. This can lead to a perception of increased generosity when a charitable commercial activity is supported, despite the fact that the actual amount that may be used for the charitable mission is quite low.

Armour gave an example of a United Way campaign, which involved an opening event selling hot dogs and soft drinks, a book sale and a direct request for employee donations. An employee responded with surprise when asked for a donation.

But I already gave to the United Way. I bought a hot dog and a drink and a couple of books at the book sale. I have already contributed \$20.

The actual contribution to the United Way may be a small fraction of the \$20 collected, but the perception was that it was a “gift.” If prospective donors see the commercial exchange as a gift, then the total dollars available for charitable works could decrease

EXHIBIT 3

Emergent Outcomes

Resources	Relationships	Reputation	Responsiveness
<ul style="list-style-type: none"> • cannibalization 	<ul style="list-style-type: none"> • boards of directors 	<ul style="list-style-type: none"> • community perception 	<ul style="list-style-type: none"> • increased productivity
<ul style="list-style-type: none"> • shifts away from intentional giving 	<ul style="list-style-type: none"> • recipients/beneficiaries/clients 	<ul style="list-style-type: none"> • market perception – unfair competition 	<ul style="list-style-type: none"> • change to less hierarchical more adaptable structure
<ul style="list-style-type: none"> • synergies/decreased financial risk 	<ul style="list-style-type: none"> • donors/funders 	<ul style="list-style-type: none"> • shifting definition of success 	<ul style="list-style-type: none"> • “low-hanging” fruit
<ul style="list-style-type: none"> • increased financial risk 	<ul style="list-style-type: none"> • volunteers 		<ul style="list-style-type: none"> • customer focus
<ul style="list-style-type: none"> • using more energy to get fewer dollars 	<ul style="list-style-type: none"> • organized labour 		<ul style="list-style-type: none"> • mission and values of charity are undermined by business venture
<ul style="list-style-type: none"> • burning charitable dollars 	<ul style="list-style-type: none"> • professional staff 		
<ul style="list-style-type: none"> • volunteers 			
<ul style="list-style-type: none"> • cost of hiring “business” managers 			
<ul style="list-style-type: none"> • reward structures would have to be changed 			
<ul style="list-style-type: none"> • commercial activities can be undermined by the mission and values of a charity 			

with the cannibalization of donations for exchanges. Inadvertently the donor has switched from giving a contribution to making an exchange.

Shifts Away from Intentional Giving

There is the risk that corporations and/or individuals can also deliberately switch from being donors to purchasers. As a donor, the corporation is making an intentional gift to the charity. A gift, by definition, is not a reciprocal transaction. As a purchaser, a corporation may expect certain benefits to accrue from a “gift” to a charity.

Examples of transactions or return-based contributions include donations that result in publicity and exposure for the corporation. From the corporation’s perspective, this is in substance a marketing expense even if the form is called a charitable donation. In these instances, often the contribution to the charity is a mix of marketing expense and charitable giving. The charitable portion is the extra payment above market cost for comparable advertising or promotion. If the corporation allocates the full amount in their donation budget, then there are fewer “gift” dollars given to the sector. If the charitable portion is less than the fair market value for the promotion, then the corporation has in effect been given a “gift” by the charity. This oversimplifies the case, but we can see that there is a potential for gifts to the charitable sector to be replaced with exchanges.

Synergies/Decreased Financial Risk

The other side to cannibalization is that commercial ventures may add to the mission by creating synergies between the commercial and charitable activities. Commercial ventures may allow opportunities for cross-subsidization from one activity to another (Oster, 1995). This may allow for earnings stability and growth for the total organization (p. 88). Diversification may buffer the inherent instability created by economic dependence on any one line of work or source of revenue. The economic synergies created may allow further development of the charitable programs in part because they can

share some costs and reduce the financial risks of economic dependence on funders.

In addition to improved financial stability, Skloot (1987) states that commercial ventures can “strengthen program activity, increase organizational visibility, enhance fund-raising capacity and improve managerial ability” (p. 387). The synergies from the commercial activities may improve the overall health of the charity and hence enhance its ability to achieve its mission.

Increased Financial Risk

If a charity creates a related or unrelated business, there is always a risk that the financial costs will exceed the benefits. Business involves financial risk. There are no guarantees that a business venture will create a return, particularly given the low level of commercial business skills found in many charities. Building a business almost always requires investment and development capital. You only make money by spending money. The amount of money required for investment varies greatly. In addition, there is almost always a time lag between investing the money in a business venture and reaping the rewards. These are realities for commercial ventures in any sector.

There is an important distinction to be made here. Commercial businesses are bottom line operations. Costs are incurred to generate future revenues. In contrast, most charities are “top line” operations. This opposite perspective means that costs are contained by the amount of revenue granted. Bottom line thinking means that costs will be incurred before revenues are generated. This is a new risk for many top line charitable operations.

Exhibit 4 illustrates the differences between top line and bottom line thinking. The challenges to overcome for a charity that has been accustomed to top line rational decision making includes rethinking, in a bottom line context, the definition of a cost, the relationship between costs and revenues, risk taking, time lines for cash flows and return.

EXHIBIT 4

Top Line Thinking versus Bottom Line Thinking

Top Line Thinking	Bottom Line Thinking
<ul style="list-style-type: none">• Revenue = money available for charitable work	<ul style="list-style-type: none">• Revenue \neq profits
<ul style="list-style-type: none">• Costs (must not exceed revenues)	<ul style="list-style-type: none">• Costs (required to create revenues)
<ul style="list-style-type: none">• Revenues determine future costs	<ul style="list-style-type: none">• Costs are incurred to create revenues
<ul style="list-style-type: none">• Timeline \rightarrow revenues precede costs	<ul style="list-style-type: none">• Timeline \rightarrow costs precede revenues

Top line thinking is derived from the history of many charities in which the revenue is relatively inflexible and grants are set ahead of the activities performed. Hence the “business challenge” for charities in a typical situation is to contain costs under the top line limit. In a “grant” regime, every new dollar of revenue can be used toward charitable works. An increase of revenue of 15 percent means there are 15 percent more dollars available for the mission. There is no profit concept here, only a revenue concept. Revenues determine future costs. The time line is that first revenues are determined and then costs are incurred.

Bottom line thinking is derived from commercial activities in which costs are incurred with the expectation that they will generate future revenues. This is a complete reversal of top line thinking. Revenues are derived after costs are incurred. Costs are not contained by revenues but are expected to generate revenues. Revenues are not dollars available directly for additional charitable activity. Revenues must first cover costs and then the surplus or profit is available for additional “investment” in mission activities. This is a fundamental shift for many managers of charities.

Using More Energy to Get Fewer Dollars

Unless an organization is prepared to take some risks, put some money up front, really devote some staff time to this, you are not going to develop a business that is going to produce any significant kind of revenue. I can go out and raise \$50,000 from five donors with a lot less effort than it would take to start a business that would make that much money. (Gordon Wolfe, Executive Director, Jewish Family Services)

The top line focus suggests that every dollar of revenue can be used toward the charitable mission. Thus revenue is “profit” in top line thinking. But in bottom line thinking, revenue is not profit. Charities often talk about revenue generating activities. This is consistent with top line thinking. It may also be dangerous because it may imply that revenues are fully available for the charitable mission. In reality, \$20,000 of donations is worth a lot more than a typical \$20,000 of revenue from a commercial venture. Commercial ventures must deduct all the costs associated with generating the revenue to create the profit or surplus that can be used for charitable works. With a 25 percent profit margin (which is high in most industries with low entry barriers), a commercial venture would have to generate \$80,000

of revenue to equal the charitable donation of \$20,000. In other words, it may be a lot more work to generate the money for charitable works using commercial ventures than donations.

Burning Charitable Dollars

In the charitable sector, there is an additional problem associated with increased financial risk. Donors to charities traditionally have expected their dollars to be used directly for the charitable purpose. A charity could “burn a lot of charitable dollars establishing a business,” said Alan Broadbent, “before or if the business generates a return.” Donors would normally expect their “return” to be in charitable purpose returns. If no improvement to the charitable purpose is seen as a result of a donation, a charity may begin to erode its donor base.

Volunteers

If volunteers are attracted to the mission and values of a charity, would the capacity of an organization to attract and retain volunteers increase or decrease as more commercial ventures are undertaken? One of the key success criteria for most charities undertaking commercial ventures according to Ken Wyman, a consultant to the nonprofit sector, is a large and well-organized volunteer base (Nyp, 1997). Paradoxically, a charity needs volunteers for commercial ventures and yet volunteers may be looking to their volunteer activity as a means to connect more directly with the mission of the charity. Charities that have a well-established pool of volunteers need to understand why they volunteer. If their reasons for volunteering are not well connected with commercial activities, the charity will need to find ways to mitigate this. One potential disaster scenario is a charity that undertakes a commercial activity depending on their volunteer base to support it only to find the volunteers are unwilling or unable to fulfill the objective. The volunteer base may be eroded not only for the commercial venture but also for the charitable works as well. The opposite may equally be true – a commercial venture might enhance the image of a charity and provide the impetus for a whole new cadre of committed and energized

volunteers – Oxfam, Bridgehead and the World Wildlife Fund are all charities that have found ways of integrating committed volunteers into commercial ventures designed to generate revenues for mission-based activities.

Cost of Hiring “Business” Managers

The charitable sector tends to pay senior management less than their counterparts in the corporate sector. Martin Connell argued that a charity would have to hire someone with commercial experience if they wanted to be financially successful in commercial ventures. “Capital is a tougher task master than a grant.... You are going to have to pay more to have someone willing to work for this tougher task master,” he argued. Depending on the success of the venture, this could increase or decrease the indirect costs of operating the charity.

In addition to potential cost shifts for the organization, hiring “corporate” business managers may result in a two-tier organization if compensation to the “commercial” types are on a different scale or based on different criteria than the rest of the managers (Skloot, 1987). This may send an unintended message about the value or worth of the different activities performed in the organization, and it will certainly add to the complexity of the roles of the Executive Director and the Board.

Reward Structures Would Have to Be Changed

Few charities compensate staff based on performance criteria, financial or otherwise (Nelsen, 1991). To ensure the financial success of commercial ventures in charities, compensation and reward structures will need to be altered. John Pepin believes this is not a trivial matter. The reward structures reflect the implicit motivations of an organization and new criteria such as financial productivity. By entering into new activities with new criteria for success, the reward structures will need to be altered to complement and not undermine the objectives. This may be a challenging obstacle for charities that

intend to undertake commercial ventures.

Commercial Activities Can Be Undermined by the Mission and Values of a Charity

If the mission, values and culture of a charity are inconsistent with making a profit, then they can compromise the original objective of the commercial venture. Ratna Omidvar talked about this problem in social services where the tendency is to give away services for free or at least less than cost. A commercial venture, if it is to generate profits for the charitable work, must sell at a price that is above the full costs. Bob Vokey also argued this point. He said that unless a charity is willing to really think about pricing in a commercial sense, the venture will have little chance for financial success. He has found tremendous resistance to the concept of pricing products and services in a commercially viable way in this sector. He has been surprised at the number of people who cannot comprehend the need to price in a competitive sense rather than in a charitable sense when trying to generate profits. Vokey said this is not to suggest charities should not be giving away products and services to clients or free or low prices. But when the objective is a commercial or profit objective, the concept of pricing must shift to be consistent and supportive of this goal. The very values that are central to the charitable mission of many organizations may undermine the potential for successful commercial ventures.

Relationships

Internal and external relationships will be affected when a charity undertakes a significant commercial activity. We have identified some of these potential shifts in relationships with boards of directors, clients, donors/funders, volunteers, organized labour and professional staff.

Boards of Directors

Members of the Board of charities will need to

adjust their roles and responsibilities if a charity undertakes commercial ventures. For many business people who already sit on these boards, the new skills required may be a close match to the competencies they have developed in the corporate world. Risk assessment, financing of commercial ventures, market analysis and strategic planning will be needed in the organization.

In some organizations, the requisite commercial skills may reside more in the board than in the staff. Hence board members may become more directly involved in the operations of the charity. For many charities who have tried to maintain their boards as policy bodies (Carver, 1990) this will represent a fundamental shift in emphasis.

In addition, the financial liability of a board member may increase as the charity undertakes commercial ventures other than fees for services. The increased liability, the shift in role, and increased responsibility may change the charitable board in several ways – recruitment may be more difficult, oversight responsibility will have to be more clear and the importance of board members from the corporate sector will likely be increased.

Recipients/Beneficiaries/Clients

In a consumer society, clients can experience cognitive dissonance when they receive a good or service for free or for very low cost. “If somebody pays absolutely nothing for counseling, and yet they can go to a ‘professional’ and pay a fairly high fee, what do they think the free counseling is worth – especially if they can afford to pay?,” asked David Armour. Gordon Wolfe echoed these sentiments when he said even a very low user fee encourages clients to take the service more seriously, to see it as a real commitment for both the provider and the client and to be less likely to cancel appointments because it is seen as having a low value or worth.

It is important to note that fee-for-service commercialization (discussed in the Canadian context in Mwarigha and Murphy, 1997) is considered dis-

tinct from “commercial ventures” by some commentators such as Skloot (1987). This distinction is likely to be particularly pertinent here where the fee, in the case described above, is primarily a program efficiency lever rather than a revenue generator.

Another dimension of the consumer society is that customers are increasingly demanding to be put “first” in the decision metric. If this is a move toward increasing the “ownership” of the charitable work by those who benefit from the services, this could be positive. It could have spin-off benefits of improving their ability to self-advocate for changes rather than relying on experts or professionals. It may reduce the passivity that Saul (1995) argues is so damaging to our society.

Ratna Omidvar cautioned that charging clients who are extremely disadvantaged is antithetical to the values espoused by the charitable sector. Fee charging in these cases would not likely improve the relationship between the service provider and the beneficiary but reduce access to the services available.

Donors/Funders

The relationship with funders and donors may shift with commercial ventures. Brinckerhoff (1994a) suggest that some funders may believe that a successful commercial venture would mean that a charity would require fewer funds – and this might provide a reason to reduce grants. Skloot (1987) proposed, alternately, that a commercial venture might make a charity look more “cutting edge” and worthy of additional funder support. (This parallels the discussion of “socio-political legitimacy” discussed in Appendix C.)

These two superficially opposing perspectives likely mean that a variety of outcomes are possible and that managers of charities would be well advised to follow Emerson and Twersky’s (1996) advice to include funder input in the planning stage of a commercial enterprise and to keep funders apprised of its development.

From a different perspective, some of the interviewees suggested that certain funders may gradually relate to charities in a manner that has strong similarities to that between a venture capitalist and the proponents of a business proposal. This change has not yet been explored in the research literature, but its implications for charities are enormous.

Volunteers

Commercial ventures often require a large and well-organized volunteer pool of labour. This creates opportunities to open up new, specific volunteer “contracts.” If a volunteer wants to be able to perform a concrete task, with specific expectations and measurable results, commercial ventures may be a method to attract more volunteers. On the other hand, if volunteers are attracted to the organization for the mission and want to be able to see their contribution as directly impacting the social, health or cultural dimensions of the organization, performing all of their volunteer activities on commercial ventures may be less attractive.

Regardless of whether commercial ventures increase or decrease the potential to attract volunteers, the expectations of what volunteers are expected to contribute are likely to have increased measurements, with very specific goals and targets to achieve. For organizations that have used volunteers in a very “loose” manner, using volunteers for commercial ventures will require rethinking management control.

Organized Labour

We can look at implications with organized labour both within the charitable organization itself and at a societal level. Within the organization, undertaking commercial ventures may require a radical change to the collective agreement. Compensation based on financial performance indicators, or changing job descriptions to include commercial dimensions, may require a fundamental shift in the traditional relation-

ship between management and staff.

In the general community, organized labour could react to volunteers performing work that is traditionally paid work in a commercial setting. They may object to the reduction in the pool of potential jobs for their labour force. Given Rifkin (1995) and others' assessment that the unemployment level will not improve with current trends in technology, the concern from organized labour about shifting the same "work" from a paid context to an unpaid context is a real threat to the long-term benefits of charities undertaking commercial ventures.

Professional Staff

Tim Broadhead said that "the comparative advantage of a not-for-profit is often the motivation of the staff who choose to work for lower financial reward because there are psychic benefits." Shifting to commercial ventures has the potential to reduce the perceived psychic benefit advantage held by the charitable sector. As charities look, act and feel more like businesses, staff may expect similar financial incentives and reduce the discretionary energy that is an unaccounted for contribution in the charitable sector.

On the other hand, commercial ventures may increase the professional staff's interest in improving client satisfaction, in measuring and valuing outputs and outcomes, in innovating partnerships that can reduce costs without reducing the impact on the outcomes desired.

Reputation

A charity's only true source of capital is its reputation or integrity. This reputation must be protected and enhanced for long-term sustain-ability.

Community Perception

How a community perceives a charity is critical to

most charities. Undertaking commercial ventures may improve or harm the community perception of a charity. In some cases, such as CODA, the commercial activities were seen by the community as supporting the work of the charity and were an indication of a "soundly run" organization by community members. Commercial ventures may tell funders and donors that an organization is willing to innovate and fight for its cause on all fronts.

However, in the area of unrelated diversification, the evidence we gathered was slanted toward hindering community perception rather than enhancing it – although relatively small "unrelated activities" such as bake sales or special events were thought to be relatively unproblematic. Kathy Allan and David Armour argued that unrelated business ventures do not make sense for community-based charities. Their argument was that if there is a need to create an unrelated business to keep a charity afloat, this is an indication that there is not community support for the charitable work. As a funder, this is a red flag, said David Armour. Kathy Allan added that entering into unrelated businesses is unnecessary. "If you can't create revenue to support mission-based activity, then there's something wrong," she said.

Unrelated business ventures take opportunity energy away from the core competencies of a charity. (In fact, this is in several respects similar to the impacts of many corporate and public fundraising campaigns on charitable activities.) Unrelated diversification has proven to be very challenging in the for-profit sector and is likely to be even more challenging in the charitable sector. In addition, the community perceptions of unrelated diversification of a charity could be diminished and thereby jeopardize the core programs or services.

These caveats, however, should be understood in the context of our experiences with unrelated-to-mission businesses (such as a hospital auxiliary used clothing store), which the public has a history of supporting because "it goes to a good cause." In many cases, the legitimacy generated by the charitable activity of a nonprofit organization is extended even to commercial ventures that are not directly

mission related.

Market Perception – Unfair Competition

Charities are alleged to have several key resources that the corporate sector does not. As charities undertake more commercial ventures using volunteers to sell their wares or services, generating income that may not be taxed and using grant-subsidized management and fixed assets to reduce operating costs, cries of unfair competition from the for-profit sector will be heard. For-profit organizations often argue that they cannot “compete” with the advantages of the charitable sector. This issue becomes more significant when the commercial venture is unrelated or only loosely related to the charitable purpose of the organization.

If we engage this issue not just as a matter of perception, we can propose several reasons why charities are not likely to be the robust competitors that they are alleged to be. Emerson and Twersky (1996) refute the “unfair competition” suggestion by noting that charities typically have intrinsically high cost structures (due to the need to integrate mission-related work with business) and are also often committed to hiring and employing marginal and underskilled staff, particularly when the mission of the charity is related to job training and skills development. They also note that charities are likely to have disadvantages because of their limited experience in most industries.

In addition, the tax-free status of charities can be challenged as unfair competition. Whether the criticisms of “unfair competition” are fair is not as important as the fact that there is evidence in the United States (Scruggs, 1996), and to a lesser extent in Canada, that the media are paying attention to the increased murmurings of unfair competition levelled at charities who do activities similar to those of commercial businesses. The extent to which these perceptions will affect other dimensions of charitable function (e.g., philanthropy, public sector grants) has not yet been examined.

Shifting Definition of Success

As the energy to create a successful commercial venture grows, one implication is the shifting definition of success for a charity. The customer orientation of a commercial venture may lead an organization to determining success based on the reaction of customers to its products or services. This can be a positive consequence if the charitable purpose would be better served by a closer link between the consumers of the service and the charity. The implication would be that more satisfied consumers would be an indicator of success. Would the concept of satisfied consumers be a good test for all charities?

Exhibit 5 sorts charities on two dimensions. The first dimension is whether the charity produces private or collective goods and services. A private good or service has defined single clients or beneficiaries. Collective goods or services are for the benefit of groups in society as a whole. They cannot be parcelled out into individual client “packets” of service. The vertical axis represents the cause and effect lag between the provision of service and the attainment of the desired outcome. Continua rather than discrete options better represent both axes.

We have labeled the four cells A to D, and provided some examples of services in each cell. Our contention is that cell A is most closely aligned with the success criteria used by commercial ventures. Cell D is the least aligned with this mindset. Hence to be successful in commercial ventures, one would need to move more toward cell A. This could lead to a reduction in the activities that have longer time lags or are more collective goods. This could impact the resources available to organizations in cells B, C and D. Within a single organization, this could lead to a reduction in efforts toward activities that fall outside cell A.

The reputation of organizations whose mission dictates that they be in cell D, but begin to act and make decisions as if they were in cell A, could hurt their capacity to attract resources, their ability to achieve their mission and their reputation in the

EXHIBIT 5

Typology Framework for Charities¹

Goods and Services

Private *Collective*

A	B
<p><i>Examples:</i></p> <ul style="list-style-type: none"> • Cultural interpretation • Food banks • Training adults for future employability 	<p><i>Examples:</i></p> <ul style="list-style-type: none"> • Environmental group focused on recycling • Creating parks in low income neighbourhoods
C	D
<p><i>Examples:</i></p> <ul style="list-style-type: none"> • Educating children to prevent welfare status • Family counseling 	<p><i>Examples:</i></p> <ul style="list-style-type: none"> • Advocacy for literacy • Environmental group focused on prevention/diversification • Disease prevention

Short

**Cause
and
Effect
Lag**

Long

¹ The exhibit does not include all organizations in the nonprofit sector. Nonprofit organizations can be classified as self-beneficial or public-beneficial. Self-beneficial organizations are organizations in which the members or donors are also the recipients of the goods or services provided by the organization. Examples include trade unions and condominium associations. These are excluded because the focus is on charities or public-beneficial organizations.

community. If reputation is eroded, this could lead to a further reduction in noncommercial sources of revenue setting off a vicious cycle of replacing further cuts by increasing commercial activities.

Responsiveness

Commercial activities may impact a charity's responsiveness to community needs. This section highlights areas where responsiveness is enhanced and eroded by increasing commercial ventures.

Increased Productivity

Commercial ventures may enhance an organization's productivity and its ability to achieve its mission. The measurement and evaluation criteria necessary to make commercial ventures successful may provide a rigour and discipline in fields that have been exempt from productivity assessments. This is no easy task and there are plenty of reasons to suggest that the measurement tools we currently have available are not adequate to address the complexities of many charitable activities. Some of these mission-related activities lend themselves more easily to productivity gains by being more "business-like" in their thinking than others. The closer the good or service is to the market concepts of transaction-based relationships between client and provider, the more likely will commercial ventures help improve the productivity measures in a charity.

Change to Less Hierarchical More Adaptable Structure

One of the unintended consequences mentioned by some interviewees was the necessity to change the organizational structure for commercial ventures. Because the market moves quickly, with rapid feedback loops between the customer and the provider, the organization needs to have a capacity for quick shifts in direction. Many of the large charitable organizations have developed strong hierarchical structures that are useful to protect programs and prevent changes from happening too quickly. There

are areas of charitable work where this is appropriate. However, these rigid structures are ineffective for market place manoeuvring.

The move to more adaptable structures for commercial ventures is necessary to allow the innovation and quick responses to flourish. These benefits have the potential to spill over into other charitable activities. More adaptable structures may increase the potential of both commercial and social innovations.

"Low-hanging Fruit"

Several interviewees used the metaphor of "low-hanging fruit" to demonstrate the risk that commercial ventures could limit the clients served by charities. Low-hanging fruit are the activities that can demonstrate a readily measurable and easily attainable financial return. They usually are fast, easy to access and cost less to service than other options. The more challenging fruits (or activities) are further out of reach, more difficult to see and may take more time to service.

The success of a commercial venture is defined by the return, both in speed and size. The risk in commercial venturing by charities is that an organization may be tempted to go after the activities that are easier to demonstrate fast and measurable success. Calmeadow Foundation provides small loans for community economic development. The temptation that must be resisted, argued Martin Connell, is to go for fewer larger loans because they are easier to manage, cost less to address and have a higher likelihood of success. This temptation must be resisted because if they succumbed, then Calmeadow would become a "bank" when the original mission or intention was to provide a service to citizens who do not have access to banks for start-up loans.

At a societal level, there may also be an unintended consequence of the low-hanging fruit phenomenon. If commercial venturing is seen as a replacement for government grants, we may see a shift in the kinds of charitable organizations that have the capacity to

thrive. Skloot, a proponent of commerce in the charitable sector, summarizes this threat to society.

There is reason to believe that the organizations in greatest need of funds to replace [government] grants and contracts – social service, criminal justice and environmental organizations and advocacy groups – are those least able to create commercially viable ventures.... The things that they do may be less commercially viable while the populations they serve may well be the neediest. In such instances, as the rich get richer, commercial ventures might separate some groups even further from others, enhancing their visibility and possibly their fund-raising ability at the expense of others. (1987, p. 388)

Customer Focus

One of the advantages of commercial ventures is the feedback mechanism that is fast and usually quite clear. A product or service will not be commercially viable if the paying clients or customers do not deem it of sufficient value. A criticism that has been leveled at professionally run charities is that they have become professional-centred rather than client-centred. If the client can choose to purchase or not purchase a service from an organization, whether or not there is a third-party payer, the charity will get a quick reading on how its services are perceived. Innovations to improve the value of the services to clients could be enhanced by commercial ventures such as fee-for-service or related businesses. Being client focussed is most valuable when the beneficiary of the mission is a defined client and when there is a short lag between the delivery of the good or service and the perceived benefit (see Exhibit 5).

Mission and Values of Charity Are Undermined by Business Venture

The business venture can undermine the effectiveness of a charity achieving its mission because of the focus on efficiency. Efficiency is the relationship between the amount of inputs required to create the outputs. Effectiveness is the relationship between the outputs and the intended outcomes or fundamental

objectives of the organization. There is a great deal of talk about outcome measurement these days in the charitable sector. However, there is often confusion between the terms.

In the for-profit sector, there is often little difference between outputs and outcomes. The outputs are intended to be sold to create a profit that is the intended outcome. Effectiveness is defined as more customers wanting and willing to pay for the good or service at a level above the cost. Therefore efficiency and effectiveness are closely linked. In the charitable sector, the connection between efficiency and effectiveness is often not as easy to determine.

If the implicit decision metric of an organization has a close link between outputs and outcomes, then a commercial activity that improves the efficiency will also improve the effectiveness. Developmental organizations are good examples where the outputs are in effect the outcomes. International aid organizations may not have closely aligned outputs and outcomes. Increasing the outputs is not necessarily an indication of an improvement in the outcomes or the overall need addressed by the charity. In these cases, a commercial venture that focuses on efficiency may lead the charity away from its original needs-based mission.

In addition, the success of commercial venture may be a distraction from the mission of the organization. Mauro Vescera, program director for the Vancouver Foundation, discussed this dilemma. At the same time as the Vancouver Foundation is encouraging charities to undertake cost recovery and profit-making ventures, he acknowledged that their are situations where it is inappropriate. He talked about organizations that had developed a marketable specialty that was not their mandate but was related to their mandate.

There is a danger if an organization has a particular mandate but sees a market niche somewhere else, that they will try to fill that niche which could end up compromising their mandate if filling the niche becomes their new focus.

As Skloot (1987) argued, there is a potential

danger that too much success may lead “the commercial tail [to] wag the program dog” (p. 388). The success of commercial venturing, in part due to the tremendous opportunity energy it will necessarily consume, may lead to mission drift.

Conclusions and Questions for Further Research

Canadian charities are discussing the initiation of a variety of “commercial activities” at a level that is unprecedented in the sector. These activities, while foreign to many charities and involving thinking that is in some respects distinct from traditional patterns of thinking in the sector, are entirely legal for charities.

The commercial activities can take many forms and are typically ranked on a continuum in terms of how directly they are related to activities that a charity already undertakes for mission fulfilment. The sense is that while activities that are closely related to mission fulfilling activities are likely to be those for which a charity has the strongest “comparative advantage,” these are also the activities that are likely to have the potential for the greatest disruptive effects for the charities. Whatever their form, commercial activities by charities do offer opportunities for revenue generation and revenue diversification and, occasionally, can be a direct means of mission fulfilment.

We began this paper with identifying some of the causes for the increase in planned or proposed commercial activities by charities. The major reason for this increase was reactive panic and reeling from the environmental shock of drastic government cutbacks, particularly since this revenue cutback has occurred at the same time as dramatic increases in the need for many of the services that charities provide. The panic from government cuts under-

standably leads to searches for alternative revenue sources. Thus the problem definition for most charities is confined to maintaining the “workings” of the principle activities of the charitable organization by replacing dollars. The core of this report has discussed the limitations of this kind of problem definition. While it is not “wrong,” fundamentally, it is too simple. Commercial activities by charities, particularly in those charities with no history of managing them, pose challenges that are both conceptual and technical and occur at a variety of levels. The challenges also frame a variety of issues for the charitable sector as a whole and for broader issues of social policy. We believe that the “themes,” which our research has elaborated, as well as the set of “emergent outcomes” that follow from the themes adds a great deal of important complexity to questions relating to *when* and *whether* charities should undertake these kinds of activities. The answers to such questions have implications for a variety of issues relating to the role of public sector funding (and philanthropy) in the sector.

We have summarized some of the many issues that “commercial activities” have for charities at the organizational and societal levels.

Implications for the Charity

Defining the current problem as “replacing lost government revenue” results in two errors of logic

for charities. These “errors” (which we attributed primarily to over-simplistic thinking about what commercial activities mean for charities and how readily viable these activities are likely to be) are based on two oversights.

The first is that the “work” of the charity may be better served by rethinking the “workings.” In other words, reconfiguring how the mission can best be served may involve much more than replacing lost revenue with revenue from commercial ventures. Focussing energy on how to replace lost revenue may avoid more fundamental issues of how the work of charities should be accomplished and who should be doing it. Searching solely to replace lost revenue may allow some opportunities to go unexamined and thereby limit the creative options available to the charitable sector.

The second major issue is that commercial ventures, even when undertaken merely to replace lost grants, may fundamentally shift the nature of the organization. Probably the most important theme found in our research is that commercial sources of revenue represent a different way of organizing and thinking for many charities. Since they are a “way of thinking,” they may affect anything from the overall culture to some of the particular decision metrics used by a charity. They may also affect how the organization is structured and who works or volunteers for the charity. These shifts in the organization will certainly have emergent outcomes to the detriment or benefit of the mission capacity of the charity.

We have found instances where these logics and ways of organizing seem more readily compatible than others, for example, from organizations that believe their charitable mission can be directly served by commercial activity. When charitable mission and commercial logic are consistent and reinforce each other, the motivations to do commercial ventures go beyond revenue generation. The challenge to an organization is to determine if the charitable mission will be undermined by or will undermine the commercial activity in question. This is not a trivial challenge for many organizations. The emer-

gent consequences can be profound and yet may be difficult to address because of deeply embedded, unspoken assumptions of the organization, of the sector and of society. However, given the explicit value we place on “diversity” in this report, we recognize that there are some settings in the charitable sector where the net impact of the encounter of charitable and commercial mindsets will be overwhelmingly positive.

In summary, the movement toward increased commercial activity in the charitable sector may represent both the avoidance of other more productive issues or questions for charities and also the initiation of changes that shift the overall “mentality” as much as the “revenue mix” of a charity.

Fundamentally, we return to the *raison d’être* of the charitable sector for our primary criteria for evaluating the impact and value of commercial activity in the charitable sector.

The first and foremost question in considering any action (a new business venture, hiring, firing, expanding or reducing services) is: “does this decision enhance our ability to perform our mission? If so, how?” (Brinckerhoff, 1990 *b*, p. 10)

Implications for Society

One assumption that this paper challenges is the implicit idea in the discussion that the commercial or market sector has infinite capacity to absorb new business initiatives created by the charitable sector. We base our challenge on the economic literature that points to market failure as a reason for the existence of the nonprofit sector. In assuming that charities can readily enter the market to sell their goods and services, we are ignoring an extensive body of research that suggests the opposite case.

Even if we believe the commercial sector can absorb the new entrants, the question is how will society be enhanced by such a shift of energy. Although we found evidence that individual organizations can enhance their mission by commercial

activities, we were not convinced that the sector as a whole should move in this direction. The time and effort required to undertake commercial ventures is daunting and could redirect the opportunity energy of the charitable sector toward profit-making endeavours to the detriment of the principles or values of the charitable work. Galbraith argues that we as a society have a democracy of the fortunate. This explains the demand to decrease the burden of government (Galbraith, 1996). From a productivity standpoint, government spending on the charitable sector is a burden. Eliminating or reducing such spending would be of benefit to all those who do not need to partake of charitable services. Viewed from the perspective as a sustainable society for all, government spending on the charitable sector promotes and protects our principles. Using Saul's (1995) language, expecting the commercial market to fund and support our principles is an unthinking ideology. Panic may lead to short-term solutions with long-term pain. The solution to an unsustainable status quo requires us to broaden our problem definition to include the "work" not just the "workings" of the charitable sector, and to address the protection and promotion of all three dimensions (principles, productivity and policies) of a healthy society.

The conclusions of this research do not suggest that maintaining the status quo is sufficient. Nor does it suggest that a shift to commercial ideals will solve difficult problems such as poverty or degradation of the environment. Shifting from government as "ruler" to market as "ruler" is too simplistic for the issues at hand.

Dee Hock, the founding CEO of the commercially successful credit card organization VISA, argues that we need to always be willing to abandon form but must remember to preserve substance (Waldrop, 1996). As the discussion in society pushes for ever-increasing commercial venturing in the charitable sector, we need to reflect on when and where this is merely abandoning form and distinguish these situations from the context where abandoning form also leads to abandoning the substance of the charity. If we do not know the difference between abandoning form and abandoning substance, our actions could

wreak significant damage to our society. In this era of the democracy for the fortunate, the victims will likely not be heard over the noise of the richer and more comfortably endowed voters.

Questions for Further Research

The research uncovered broad themes and some potential emergent consequences of commercial ventures for Canadian charities. The interviews and the literature revealed some major gaps in our understanding of the actual activity in the sector and the implications at micro and macro levels. Any one of the two dozen emergent consequences needs further investigation. Also the seven themes in the paper need to be challenged and studied to look for insights in the potential trends of commercial venturing by charities.

In addition to the issues listed throughout the paper, we identify four categories for future research: the phenomena, the legal issues, the organization implications, the societal implications.

The Phenomena

Case Studies

We need case studies of obvious and nonobvious situations of commercial ventures by charities. These case studies would provide the rich descriptions that are necessary to understand the contingencies and context in which the commercial ventures were undertaken.

We need both success and failure stories. Success and failure can be defined within the commercial objectives as well as the mission or charitable objectives. These stories should include how ethics and values have adjusted to the commercial activities. Which kinds of outcomes emerge in which contexts? How are they most usefully managed?

Baseline data need to be developed for Canadian charities. The Canadian Centre of Philanthropy has

done some work in this area, but indicates that much more needs to be done before we can have a sense of how much movement there really has been. What level and kinds of revenue generation do we have in which subsectors? We need to move away from a sense of murmurings to a tracking of the data to ensure that we can positively influence policy and practice.

The Legal Issues

Given the current confusion and ambiguity in the legal issues (including taxation) that charities are facing in Canada vis-à-vis their ability to undertake commercial ventures, we need a comprehensive legislative review. Pieces of this work are ongoing in various bodies around Canada, but these pieces need to be integrated into some kind of comprehensive form of use to decision makers at both organizational and social policy levels.

In addition to changing the regulation and tax rules, we need interpretations of cases as they unfold. The new lessons that are learned from each case or judgement must be translated into a readable and accessible form. The interpretations should be understandable to the decision makers in charities so they can comprehend the legal trends and make their decisions accordingly.

We also need unbiased research on the claims of unfair competition (i.e., where charities are alleged to have advantages over traditional businesses in the initiation of commercial activities because of a variety of factors, but particularly the tax status of charities). This phenomenon needs to be examined at both the societal and organizational levels.

The Organizational Implications

Research is needed on a practical level on how an organization can use commercial ventures to further its mission and achieve “profits” to be used toward noncommercial activities of the charity.

We need more research on the contingency frameworks where commercial venturing is functional or

dysfunctional. What are the key attributes or interdependencies that would lead to “charitable” success as well as commercial success? When is earning revenue not a distraction from the mission? When is “not earning revenue” a drift away from the community?

What assessments of capacity does an organization need to understand before undertaking commercial ventures? For example:

- How many staff are needed?
- What volunteer base is required?
- How many dollars need to be invested and for how long?
- What core competencies or skills must be available (purchased, recruited or learned)?
- What new governance structures are needed?
- What organizational forms are needed to create the context for commercial entrepreneurial activities?

The Societal Implications

In what ways and in what contexts does the initiation of commercial activities by charities have significant “fallout” effects for those same organizations? What impact will these changes in perception and organization have for the broadest public perceptions about what charities are, what they do and why they exist? These important questions frame a sampling of the issues around “societal implications” that we frame below.

We do not yet understand the issue of cannibalization or changes in donors’ perception when charities undertake commercial ventures. In this paper, we hazard a guess at what could be the impact, but we do not know enough about why people donate, the different categories of donors and how this shift will impact the different groups. This can be researched by both statistical data to watch the trends based on baseline information and intensive interviews with

donors to understand what shifts have happened to their mental models about charities and charitable giving.

Part of the appeal of commerce is the tidiness of the models. There are excellent measurement tools, evaluation tools and decision models within the market framework. We have not put the same effort into developing alternative measurement concepts, language or evaluation concepts for community or pub-

lic good actions. We do not have full cost accounting models. Nor do we have alternatives to the capital investment models that discount future benefits. Until this is accomplished, there will always be the risk of commercial models and rhetoric dominating the decisions made at organizational and societal levels.

Appendices

A

Literature Review Areas

In order to examine the implications of charities undertaking commercial ventures at organizational, sectoral and social levels, a wide-ranging literature review that crossed several substantive and disciplinary boundaries was launched. The literature review consisted of the following streams of literature:

1 Practical Aspects of Nonprofit Enterprise

There is a small, primarily American, literature that directly addresses the issues of nonprofits undertaking commercial ventures. This literature is normative and oriented towards practitioners. Essentially, it goes from the premise that “charities can/should undertake commercial ventures and here is how they can do it.” Most of the examples cited are in the job training and community economic development subsectors, where the synthesis of mission and business development objectives are likely most readily achieved. The most important treatments of this topic are Emerson and Twersky (1996) and Skloot (1987). Crimmins and Keil (1983) provide the earliest empirical study of nonprofit commercial enterprise.

2 Legal Aspects of Nonprofit Enterprise

This literature is concerned with the legality and tax implications of commercial enterprise carried out

by charities. A major focus is on the kinds of commerce that charities are allowed to carry out and the point at which commercial activity by charities becomes “unfair competition” with for-profit corporations that pay tax on revenues. Scruggs (1996) provides an up-to-date summary of the American experience, with a major emphasis on the YMCA and its ongoing legal conflict with for-profit fitness clubs. Goodman (1994) and the Canadian Centre for Philanthropy (1990) provide summaries of the Canadian situation and emphasize its ongoing and unresolved status.

We would emphasize that our treatment of legal issues here is highly preliminary and general and we suggest that readers approach legal counsel directly in their own provincial jurisdictions to clarify matters relating to specific commercial enterprise initiatives.

3 Theories of the Nonprofit Sector and the Sectoral Division of Labour

Since a nonprofit organization undertaking commercial ventures is thought to be new and/or problematic, we thought it important to understand what theorists of the sector believed was the “raison d’être” of nonprofit organizations and charities. What kinds of things could potentially be lost or gained by a major change in nonprofit funding and activity? Probably the best (and most concise)

overall summary of nonprofit/charitable theories is found in DiMaggio and Anheier (1990). Economic theories of nonprofit organization (which are also called “residual theories” because they posit the existence of nonprofits as a result of the failure of other organizational types) are clearly framed in Hansmann (1987), Weisbrod (1987) and Salamon (1995). An alternative to “residual” theories, Lohmann’s (1992) concept of “the commons” frames the sector more from the basis of what it is, rather than what it is not. This model characterizes the sector on the basis of pro-social behaviours, mutuality, voluntary labour and the production of common goods. Institutional/sociological theories of the nonprofit sector are not yet well developed but are perhaps prefigured by an excellent and hard-to-read discussion in Baum and Oliver (1996). Other less detailed works include Scott and Meyer (1990) and DiMaggio and Anheier (1990). Major works in institutional theory in general are cited in the body of this report.

4 Theories of Civil Society and Critiques of Market Ideology Encroachment

A major backdrop of the move towards commercial enterprise by charities is our theories of the kind of balanced and civil society that we believe charities have contributed to. Many writers believe that this balanced and civil society is being undermined by an encroaching corporate ideology. Interesting and distinct treatments of these topics can be found in the works of Kuttner, Soros, Jacobs and Saul. Kuttner (1997) provides an articulate public policy and economics critique of market ideology, which is paralleled closely by the simple and readable Soros (1997). Jacobs (1992) and Saul (1995) both provide theories of civil society and critiques of market ideology from a perspective that is more resonant with moral philosophy and intellectual history.

5 International Studies of Nonprofit Organizations and Nonprofit Sectors – Including Canada

How does the charitable sector in Canada compare with that of the United States, Europe and other

nations of the world? Which charitable sectors have the most significant experience with commercial enterprise and “contracting out?” These questions are engaged in our literature review by looking at the few international comparisons of charitable/nonprofit sectors. At present, comparative research on nonprofits is quite a small field. Recent work by Salamon and Anheier (Anheier and Seibel, 1992; Salamon, 1992; and Salamon and Anheier, 1996) provides the most comprehensive comparative portraits of nonprofits, and the Johns Hopkins Nonprofit Research Series of which these are a part has published (and is in the process of publishing) a number of national portraits of the nonprofit sector. This series will not, however, include a volume on Canada’s charitable sector.

6 The Consumers/Clients Perspective

Henry Mintzberg’s (1996) piece in the *Harvard Business Review* suggests that services delivered to people by organizations in different sectors might have important differences. This insight led us to examine two kinds of literature. One kind of literature was concerned with the change in service types (as perceived by their user) that might result from charitable programs being contracted out or commercialized. Very little has been written about this important topic. Some preliminary work can be found in Deakin (1996) and Baum and Oliver (1996). The other strand of literature we explored concerned the changing demographics and psychographics of society. This seemed important to the argument this report makes about “legitimacy” and the kinds of activities that are considered “legitimate.” As social groups change, different values emerge and others decline, attitudes toward charity and toward commerce are likely to change. Adams (1997) provides an insightful and relevant discussion of the psychographic transition in Canada. Rifkin (1995) looks at issues at the broader social level and suggests some of the ways that “work” and “commerce” are likely to change in the near future. Nichols (1995) looks at how demographic changes are likely to affect philanthropy and fundraising.

B

List of Interviewees

The following interview subjects generously agreed to interviews to help us develop a clear and current Canadian context for this report. In advance, we thank them for providing us with information that is not presently available in print form.

A great deal of the information from these interviews has been integrated into the body of our report. Where

indicated specifically, we have used examples or direct quotations provided to us by the interviewees. We emphasize here that while the interviewees supplied us with an enormous volume of relevant information, the exploratory scope of this report has meant that our use of information from the interviews has been selective and illustrative. The conclusions in the report, and any factual or interpretive errors are, however, those of the authors.

Kathy Allan
Executive Director
Greensaver
Toronto, Ontario

David Armour
President
United Way Canada/Centraide Canada
Ottawa, Ontario

Paul Born
Executive Director
CODA
Cambridge, Ontario

Allan Broadbent
Chairman and CEO
Avana Capital
(Maytree Foundation)
Toronto, Ontario

Tim Broadhead
Executive Director
J. W. McConnell Family Foundation
Montreal, Quebec

Martin Connell
CEO
Ace Bakery
(Calmeadow Foundation)
Toronto, Ontario

David Driscoll
Executive Director
Vancity Community Foundation
Vancouver, British Columbia

Patrick Johnson
Executive Director
Canadian Centre for Philanthropy
Toronto, Ontario

Ratna Omidvar
Executive Director
Skills for Change
Toronto, Ontario

John Pepin
John Pepin and Associates
Toronto, Ontario

Mauro Vescera
Program Director
Vancouver Foundation
Vancouver, British Columbia

Robert Vokey
(formerly of the YMCA)
Program Director
J. W. McConnell Family Foundation
Montreal, Quebec

Gordon Wolfe
Executive Director
Jewish Family Services
Toronto, Ontario

C

Institutional Theory – An Explanation for the “Old” Novelty

The apparent paradox – that many people believe nonprofits should generate some of their own revenue while many in the sector do not even really “see” it as an option – can be illuminated by recent work in “institutional theory.” (For reviews of this theory, see Oliver, 1996; Scott, 1995; and Zucker, 1987). This branch of sociology and organization theory is concerned primarily with the “taken-for-granted” assumptions that we all use to structure what we see as “legitimate” or proper (Ashforth and Gibbs, 1990; DiMaggio and Powell, 1983). These assumptions, and therefore what we think of as “legitimate,” are not necessarily rational. They come from broader ideas and values in the social environment (Granovetter, 1992). Institutional theory is premised on the idea that organizations are “open systems.” How they proceed and what we think of them is strongly affected by ideas that are part of the broader political, cultural and social environments (Scott, 1992) that the organizational system is open to.

The main way that institutional theory informs the idea of nonprofit business ventures as an “old novelty” that is invisible to some and obvious to others is through recent research on the idea of “legitimacy.” Two recent papers (Aldrich and Fiol, 1994; Suchman, 1995) note that there are two kinds of “legitimacy” that can potentially be in conflict. Suchman (1995) distinguished “cognitive” from “socio-political” legitimacy. Cognitive legitimacy refers to the way that certain ideas of organization

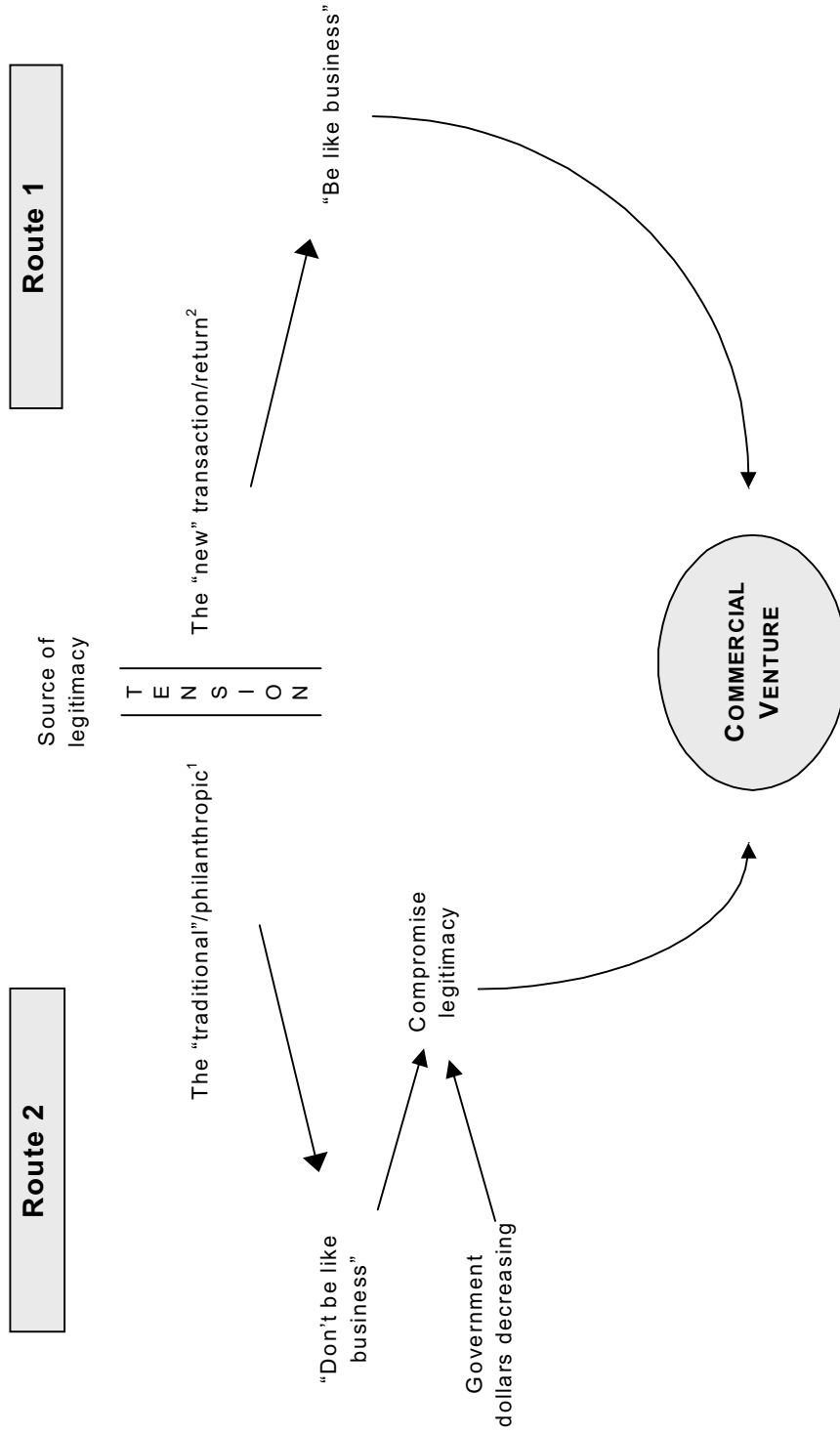
and organizational practices are almost fully taken for granted and accepted as normal and correct. Socio-political legitimacy, however, refers to the way that organizations conform to some prevailing social or political norms.

Exhibit C-1, Two Routes to Commercial Ventures, provides a graphical illustration of the two ways that legitimacy is framed for charities and the distinct sets of responses that are likely to result from them. “Route 1” shows how an organization may respond to “socio-political legitimacy” (described below) and may undertake a commercial venture to “look good” in the current socio-political environment, which emphasizes commercialization. “Route 2” demonstrates how an organization may respond to the “cognitive legitimacy” (also described below) in a traditional or philanthropic way and have considerable difficulty “seeing itself” undertake a commercial venture. Even though the cognitive legitimacy of “traditional” charitable purpose suggests that commercial ventures are not appropriate, charities may still take the route towards commercialization. This route can lead to a commercial venture when either resource constraints overwhelm an organization’s traditional conceptions of “what it is” or when a commercial venture can be developed that is separated from the core mission-related work of the organization.

The charitable sector in Canada undoubtedly has a certain cognitive legitimacy. The idea has

EXHIBIT C-1

Two Routes to Commercial Ventures



1 Assumption – market failure/market cannot fulfill society's needs.

2 Assumption – infinite capacity of market/commercial sector.

traditionally been that philanthropy and government should fund charitable human service organizations. Commercial businesses are seen as different and should, therefore, generate revenue in a different manner from a charity. Years of history and consistency have reinforced this largely taken-for-granted (i.e., cognitively legitimate) pattern – charities are not businesses and should not act like them. Thus, at this cognitive level (i.e., our deep and habitual assumptions about what a charity “is”), many will see commercial activity as improper activity for charities. We (including board members, funders, regulatory bodies, community stakeholders) may even feel that charities that undertake commercial activities are somehow less valid and less worthy of either our moral support or our funds. Even Skloot, a major proponent of commercial enterprise for charities notes that since “the public associates nonprofit activity with charity ... the more [nonprofits] engage in commerce, the less individual and philanthropic support will be forthcoming.” (Skloot, 1987, p. 388).

Because commercial activity may threaten the traditional “institutional logic” (Baum and Oliver, 1996) of the charitable organization, it follows that commercial activities are likely to be (or should likely be) only “loosely coupled” with core charitable functions. Commercial activities undertaken out of desperation for resource acquisition reasons may even be “hidden,” de-emphasized or unpublicized so that overall legitimacy is not threatened (Elsbach and Sutton, 1992).

Distinct from this idea, however, is one that focuses on the major changes that have happened in the Canadian political environment in recent years. At all governmental levels, the entire human services sector, including charitable and community organi-

zations as well as the general public, is invoked to be more “business-like” in its orientation and activities. This element of the political environment of charities argues that being more like a business and being less dependent on government and foundations (i.e., “handouts”) is a route to increased legitimacy. Note that this line of reasoning says that being business-like is not just a way to generate resources (via “earned revenue”), but it is also a broader way that charities “should be.” It is likely that increased socio-political legitimacy accorded to a commercially active nonprofit would actually increase its grant-raising potential from some funders. Skloot notes that some executives from charities have noted that “successful ventures enhance their fund-raising appeal by making them look like ‘winners’ and thereby worthy of donor or grantor support” (1987, p. 388).

From this analysis, the tension facing charities in Canada is clear. On one hand, the idea of commercial ventures for charities is virtually invisible because, with few exceptions, it has not been a “correct” means for charities’ thinking or behaviour. On the other hand, the changed political environment is telling the entire charitable sector that it is how they “should be.” Thus a charity that considers a commercial venture either risks its cognitive legitimacy by undertaking that venture in a visible manner or risks its socio-political legitimacy by holding firmly to its traditional self-concept and activity set. What makes this tension particularly problematic for all of the stakeholders of Canada’s charities is that most of this thinking and evaluation about “legitimate” activity for charities is not done consciously (Scott, 1983). What we see is the clash between different sets of assumptions about what charities should and should not be or can and cannot do.

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