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Sweet Charity and Filthy Lucre:
The Social Construction of
Nonprofit Business Venturing in
Australia, the United Kingdom
and the United States of
America

Bronwen Dalton
Jenny Green

December 2005

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Nonprofit Business Venturing in Australia, the United
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TABLE OF CONTENTS

Abstract.....	2
Introduction.....	2
What is the difference between business venturing and social enterprise?.....	2
The rise and rise of nonprofit business venturing	3
The legal perspective: business venturing and tax exemption arrangements in Australia, the UK and the US	5
Practitioner and academic perspectives.....	6
Perspectives from business: funding good works or a source of unfair competitive advantage	8
What does the public think?	9
The media perspective	9
Business venturing: profitable or expensive?.....	15
Conclusion	17
References.....	19

Abstract

Many nonprofits have come to embrace the idea of participating in the market to maximise their revenue. However, the tone of several recent media reports suggests that, at least in the eyes of some, such forays into the market are unjustifiable or even morally unacceptable. After an examination of the taxation status of charities' business activities in Australia, the United Kingdom and the United States the paper examines its treatment by scholars, nonprofit practitioners, and the business community. To gain some understanding of public opinion regarding nonprofit business venturing the paper then examines its treatment by the media in these countries. The paper argues that it is important that charities understand the meanings and contestation surrounding their ventures into business, and social enterprise more broadly, if they are to apply it critically and reflectively in practice and participate in contemporary debates about its place in nonprofit management. This will enable nonprofits to ensure that more commercially-focused operations do not damage their reputation and status as providers to needy and neglected communities.

Introduction

The literature on business venturing provides us with few clues as to how people outside the nonprofit sector understand the concept and more generally form judgements about the commercial activities of charities. However, several recent media reports suggest that there is a gap between the perceptions of the public and the charities that undertake such activities. While many nonprofits have come to embrace the idea of participating in the market to maximise their revenue, the tone of recent media reports suggests that, at least in the eyes of some, such forays into the market are unjustifiable or even morally questionable. The paper looks at nonprofit business venturing in Australia, the United Kingdom and the United States. After an examination of the legal status of charities' business activities in these countries, interpretations of business venturing by scholars, nonprofit and business representatives and the media are examined. The paper argues that it is important that charities understand the meanings and contestation surrounding their ventures into business, and social enterprise more broadly, not only to protect their reputation, but also if they are to apply it critically and reflectively in practice and participate in contemporary debates about its place in nonprofit management. It is also important for charities to be aware how such public sentiment can be exaggerated or manipulated by for-profits who argue that nonprofit business venturing is a source of "unfair" competition and grounds for revoking a nonprofit's tax exemption status.

What is the difference between business venturing and social enterprise?

Nonprofit associations draw their revenue from a wide range of sources. These sources include governments (in the form of grants and contracts), members and other users of their services who pay fees and revenue raised through fundraising activities. In recent times, however, one of the fastest growing sources of revenue has been from the returns made from commercial activities. Behind this trend are a wide range of motivations from

those non-profits who seek involvement primarily to secure a reliable revenue stream to others whose hope to achieve some social purpose.

The practice by which nonprofits engage in entrepreneurial activity as a means of raising revenue is generally referred to as business venturing, a term that will also be used in this paper. Business venturing can be defined as regularly conducted activities that involve the sale of goods and services to benefit a nonprofit organisation's income. As stated by one of Australia's largest charities, the Smith Family, business venturing includes commercial activity that "supports our work in the community by generating untied funds and offsetting the costs of running the organisation" (Smith Family 2005).

Business venturing is often addressed in literature on social enterprise or social entrepreneurship, in particular the strain that looks at elements of social enterprise as an earned income strategy for nonprofits (Dees 1998). Other terms used to describe these social enterprises include social purpose businesses, community-based businesses and community wealth enterprises (Emerson and Twersky 1996). The literature on social enterprise refers to a broad set of entrepreneurial strategies to address social goals (Boschee 2001; Boschee and McClurg 2004; Borgaza and Deforny 2001; Simons 2000; Healy 2001; Thompson 2002). Lyons (2002) refers to social enterprises as "an organisation with primarily social goals that it pursues in an entrepreneurial and business-like manner." Thus, social enterprises are often characterised as having two major organisational goals, one, to generate earned income and the other, to expand the organisation's social impact. Unlike social enterprise-related activity, business venturing does not necessarily involve the internalisation of entrepreneurial principles to reorganise existing activities to improve operational efficiency or to realise significant social change. Given that much of the business venturing-related literature focuses specifically on social enterprises it is – it is important to note that this paper is about business venturing that nonprofits, and charities in particular, use as a way of building new revenue sources and *not about the development of a new organisational form.*

The rise and rise of nonprofit business venturing

Charities have been involved in commercial businesses for a long time. It was a key feature of the poorhouse system in Victorian England, in particular institutions known as workhouses (May 1997). However, for most of the 20th century, UK, US and Australian charities, often affiliated with Christian denominations, raised donations from the public as well as relying on government grants rather than engaging in commercial businesses.

Until recently, most nonprofit business venturing involved low risk, small-scale activities such as operating second-hand clothing outlets (charity shops); and were often directly mission-serving such as a few specialist nonprofits that operated businesses to employ people with disabilities. In Australia, one well known exception was the non-woven goods business run by the Smith Family. In the US, well known examples are the

business activities associated with Goodwill Industries and the Scouts movement, such as Girl Scout cookies as well as museum stores.

More recently, interest among nonprofits in commercial practices and the breadth of these nonprofits' commercial operations has grown significantly. This development has occurred in a context where the nonprofit sector has assumed many welfare service provision functions previously provided by the state and where state funding has moved to contracting and project-based models (Lyons 1997; Nowland-Foreman, 1998). This role has stretched nonprofit organisations' resources and stimulated them to find new ways to increase their revenues. In particular, income generated from business activities has become valued as a source of "unallocated" funds that can be used in any area of charitable work.

In a related trend, many nonprofits are also looking to alternative investment strategies. A Harvard Business School case-study estimates that in the area of venture capital in the 1990s, nearly 40% of venture disbursements in the United States originated from what they describe as "groups that do not have economic return as a primary goal". The case notes that US foundations, such as the Ford and McArthur Foundations, have been particularly active backers of community development venture funds (Harvard Business School 2004). Also in the US, there are increasing numbers of nonprofits investing in hedge funds (Bernacchi 2004).

Parallel to nonprofits engaging in business activities is a range of other trends related to the area of nonprofit commercial activity. These trends include:

- nonprofits fully converting into for profits, notably in the US health industry where there has been significant privatisation of health care;
- nonprofits becoming or creating for profits: for example large corporate foundations; and
- the emergence of new hybrid organisations (discussed in much of the social enterprise literature but also note Bryant's (2002) discussion of "mutant NGOs").

These trends create new challenges for nonprofits and can complicate the relationship between mission and profitability as well as raising issues relating to trust, accountability and reputation.

The legal perspective: business venturing and tax exemption arrangements in Australia, the UK and the US

The issue of the tax status of charities that engage in business venturing has prompted government inquiries (investigation into the tax status of charities have been conducted in Australia by the Commonwealth Department of the Treasury (2001), and Industry Commission 1995, for example) and remains a source of confusion notably within taxation authorities. This confusion has been a boon for the legal and tax consultancy industry that specialises in advising nonprofits. As one US consultancy states:

Of all the legal and public-perception problems faced by the nonprofit sector, probably no issue has caused more debate and confusion ... Many nonprofit organizations operate under a vague fear that commercial operations imperil their tax-exempt status (Hurwit and Associates 2005).

In Australia, there is no clear ruling as to how revenue from commercial activities that flow to nonprofits should be taxed. According to the Australian Tax Office as long as the funds generated by commercial operations are used within the organisation then it should be regarded as an appropriate activity of a charity (ATO 2005).

The legal arrangements in the UK are more clear cut. British law states there is a difference between charitable purposes for which fees are charged and business activities operated to generate funds for charitable purposes. The Charity Commission for England and Wales states that:

Charity law does not permit charities to exercise a trade on a substantial or regular basis simply for the purpose of raising funds. This is because of the general expectation that contributions made to a charity will be applied for its purposes or invested prudently, rather than being risked in trading activities which are undertaken simply to raise money (Charity Commission for England and Wales April 2000, CC35 - Charities and Trading).

Trading activities of this type can only be conducted through a separate non-charitable entity.

In the US, the Internal Revenue Code distinguishes between two 'types' of commercial activity (under section 501(c)(3)). According to the Internal Revenue Regulations:

An organization may meet the requirements of section 501(c)(3) although it operates a trade or business as a substantial part of its activities, if the operation of such trade or business is in furtherance of the organization's exempt purpose or purposes. Reg. 1.501(c)(3)-1(e).

However, a nonprofit may be liable for tax on its unrelated business income (that is, an ongoing trade or business that is not substantially related to achieving the exempt purpose of the organisation). Unrelated business income is income derived from activities unrelated to a tax-exempt organisation's purposes. It is taxed as if earned by a

comparable for-profit entity at regular corporate rates. Establishing a for-profit subsidiary is a common way of protecting the tax exemption status of the parent organisation.

Despite this variation in tax arrangements, each year only a fraction of nonprofit organisations in these countries have lost their tax exemption status on the grounds of engaging in business activity (and this is in stark contrast to growing size and complexity of nonprofit business venturing).¹ Moreover, it appears that when a penalty for business activity is incurred it is primarily due to failure to show adherence to basic charitable purposes, intentional malfeasance or evidence that profits were distributed to private individuals (see for example IRS 2005 and ATO 2005). Still taxation authorities are aware of concerns and a greater need to monitor nonprofit business venturing. The former head of the IRS Exempt Organizations Division, Marcus Owens, said:

Charities depend on support from donors, and to the extent donors believe their money will be used improperly or inefficiently, that support is going to decline ... There is a clear recognition that it is in the interest of the charitable sector to have someone policing the margins (*The Nonprofit Times* June 1, 2004).

Practitioner and academic perspectives

For many charities and those that study them, business venturing has become the new orthodoxy – accepted as the most logical response to a situation that calls for them to stretch limited resources. A recent statement by Dan Bader, CEO of the Helen Bader Foundation, typifies the attitude in the sector:

Non-profits have no choice but to create business-like enterprises if they are to survive... These days most non-profits rely on the money they make through their business activities (*The Washington Post*, 15 March 2003).

It also appears that nonprofits believe this approach is widely accepted. According to Australia's St Vincent de Paul Society:

there is a wide acceptance within the Australian community that charities and related organisations conduct commercial activities to support their core services... What differentiates this type of “commercial” activity from that undertaken by for-profit organisations is that the profits are used directly for the core purpose of the organisation, that is, the relief of poverty, destitution, suffering or misfortune rather than distribution to shareholders (quoted in the Report of the Inquiry into the Definition of Charities and Related Organisations: June 2001 Ch 27)

¹ The IRS processed more than 800,000 returns during the 2002 calendar year, but examined only 5,754 tax-exempt organization and related taxable returns during fiscal year 2003. Form 990s, 990Ezs, and 990PFs are among the type of returns the IRS listed under this heading. *The Nonprofit Times* June 1, 2004.

This support for business venturing has occurred in a broader context characterised by the legitimising of the business model within the nonprofit sector (Kenny 2002; Frumkin 2003). This business-orientation is evident in much of the social enterprise literature where it is often assumed that social problems are best solved through a dose of “market medicine” (Deakin & Walsh, 1996). For example, the well-known social enterprise advocate, J. Gregory Dees, writes:

Increasingly we are turning to business methods and structures in our efforts to find more cost-effective and sustainable ways to address social problems and deliver socially important goods (Dees 2003: 16)

In a similar vein, much of the fundraising and resource development literature is focussed on resource mobilization that targets the market sector rather than donors or the state, activities often described as “venture philanthropy” (see, for example, recent editions of the journal *New Directions for Philanthropic Fundraising* e.g. Reis & Clohesy (2001) and Frumkin’s (2003) discussion of this trend).

In both the social enterprise and fundraising literature the ability to simultaneously fulfil charitable and commercial roles is not generally problematised and, in the case of the social enterprise literature, “going commercial” is often treated as a tenant of the social entrepreneurial approach. A consequence of this interpretation is that activities such as developing partnerships with business or establishing social enterprises are reinforced within the sector as good practice. Thus, part of the motivation within the sector to venture into the market stems not only from a desire to generate revenue but also to meet what many nonprofit executives perceive to be commonly-held expectations that their organisations will be considered to be more disciplined and effective if they appear more businesslike.² In a Bridgespan survey of US nonprofit executives in 2003, over 50% of respondents said they believed earned income would play an important or extremely important role in bolstering their organisations’ revenue in the future (Bridgespan 2004).

Not everyone, however, has welcomed the increased commercialisation of charities. Frumkin (2003) has observed how this new focus on commercial activity and the related move towards the adoption of business terminology - from funder to investor, evaluation to measurement, grant proposal to business plan – is sometimes a case of adopting new words for old ideas. Frumkin describes “the construction of an elaborate semantic infrastructure” where business jargon is used to re-badge arrangements that have existed for many years (Frumkin 2003: 14).

Other authors have described how business venturing can have the potentially negative consequences in terms of nonprofits’ mission, capability, financial impact, legal aspects,

² Frumkin (2003) describes how the Silicon Valley Dotcom millionaires are one of the major groups driving this trend as they pressure recipients of their charitable donations to succumb to the discipline of the market.

community relations and public image (Chetkovich & Frumkin 2003; Frumkin & Andre-Clarke 2000; Ryan 1999; Keating 1998). Keating (1998), for example, suggests that problems of identity are growing, so that charities wanting to be seen as social providers - not-just profit maximisers - need to be clearer what business they are in. Similarly, Horne (2000) highlights some of the dilemmas associated with the service/profit dichotomy inherent in charity retailing (Horne, 2000).

Perspectives from business: funding good works or a source of unfair competitive advantage

Nonprofits compete with for profits in a number of key industries, most recently in areas such as child care, education and nursing homes. In Australia, there is fierce competition between the two breakfast cereal makers Kellogg's and the Seventh Day Adventist Church-owned company Sanitarium.³ In the UK, charity shops compete with major clothing stores (in 1992 there were around 3,480 charity shops in the UK with sales of £183.3 million; by 2002 there were 6,220 shops with total sales of £426.5 million in 2002 (Charity Finance 2002). In the United States, local YMCAs compete with for-profit health clubs; the American Association for Retired People vies for market share with for-profit insurance product providers and National Geographic is pitted against Discovery Channel in the competitive cable television market.

Competition from nonprofits has been an issue highlighted by various businesses. In Australia, Kelloggs and a consortium of for-profit health care related companies commissioned reports submitted to the Industry Commission inquiry into *Charitable Organisations in Australia* in 1995. The submissions argued that charitable groups had an unfair advantage when competing with for-profit organisations due to the taxation concessions which extend to their commercial operations. It presented various case studies of "unfair competition" and argued that in the health industry, for example, not-for-profit hospitals enjoy a tax advantage over for-profit hospitals equivalent to at least 5% of total costs.⁴ In the US, the International Health, Racquet & Sportsclub Association (IHRSA) has run an ongoing campaign against nonprofit health and racquet clubs operators such as the YMCA and the Jewish Community Center (JCC) (IHRSA Position Paper 2003).

³ Sanitarium holds 25 per cent of Australia's breakfast cereal market and is a \$300 million a year business.

⁴ The Industry Commission concluded that nonprofit-run businesses were price takers not price makers: ...the income tax exemption does not compromise competitive neutrality between organisations. All organisations which, regardless of their taxation status, aim to maximise their surplus (profit) are unaffected in their business decisions by their tax or tax-exempt status (Industry Commission, 1995 p K5) In contrast, however, a 1990 IRS ruling in the United States found that another US organization associated with the Seventh-day Adventist Church which operated vegetarian restaurants and health food stores did not qualify for tax exemption because its core activity was in direct competition with other restaurants and health food stores. The court stated that "Competition with commercial firms is strong evidence of a substantial nonexempt purpose." *Living Faith, Inc. v. Commissioner*, 60 T.C.M. 710 (1990).

But are these interpretations of nonprofit business venturing shared by the public? Or, is nonprofit business venturing as warmly embraced as it is by many nonprofits and nonprofit researchers?

What does the public think?

As many social scientists have acknowledged, it is difficult to tell what a “public” thinks. Public opinion is not necessarily stable, aggregated, or articulated. Rather opinions can and do vary between and among groups in society (for example between political authorities and the citizenry or within and among different classes or ethnic groups). There is also the question that within the complex “public” whose opinion matters and at what time? Timing is an issue when for example empirical research and data is collected at a time when scandals involving nonprofit run businesses can bias the results. John Gardiner raised the issue of timing when he questioned the validity of questionnaire data obtained in the US in the mid-1970s on corruption. As he pointed out, this was a time when the Watergate scandal dominated the headlines, and, he argued, may have generated a “national preoccupation with corruption.” As a result, he argues that data collected in the 1970s might not provide the best measure of the American public’s sentiments most of the time. He asks, “Is the higher percentage of people expressing anger during a scandal more accurate than the lower figures at other times? The higher figure may suggest how many people can become angry, but the lower figures show that other issues are usually more important to them” (Gardiner 1993, p. 118).

As this discussion suggests, ascertaining public opinion throws up major methodological challenges relating to how to examine public discourse. One approach has been to examine how an issue is dealt with by the mass media. William Gamson argues that the mass media plays a central role in modern societies because it is the most generally available forum for debates on meaning and it is the major site in which contests over meaning must succeed. This latter point refers to how the mass media not only indicates but influences cultural changes (Gamson 1988). Given this role it is important to be at least aware of media constructions surrounding an issue as a way of not only understanding wider discourse on an issue but also how the media or other groups may distort this discourse in ways that serve their interests.

The media perspective

We sought to collect reports published in all major news and business publications in the UK, US and Australia over an 18 month period (from 1/9/ 2003 - 30/3/ 2005) that significantly focus on nonprofit organisations’ involvement in commercial activities. To identify relevant articles we used the specialist media search engine *Factiva*TM and searched major publications in each country by using - in different combinations – a variety of search words. The search terms were designed to cover a whole range of topics relating to business venturing and included terms such as nonprofits, not-for-profits, charities, NGOs, business venturing, social enterprise and social entrepreneurship along with terms such as community, economy, development and finance.

After examination of the relevant media articles relating to nonprofit business venturing we collated 17 articles that met our criteria. We readily acknowledge that these articles are indicative rather than definitive of recent media coverage. However, after analysis some key themes emerged. While some articles touched on several issues, the sample can be categorised on the basis of four key themes: business venturing as innovation; concerns with lack of transparency, corruption, misuse/ misallocation of funds involving business ventures (and some of these examining these issues' implications for taxation status); competition issues; and articles on other ethical dilemmas associated with blurring the distinction between the for-profit and nonprofit sectors. A brief summary of these articles categorised according to these themes is presented in Table 1.

Table 1. Media articles relating to nonprofit business venturing as reported in all major news and business publications in the UK, US and Australia accessed via Factiva 1/9/ 2003 - 30/3/ 2005 * by theme.

MAIN THEME	COUNTRY	SAMPLE HEADLINE / QUOTE
Business venturing as innovation	UK	CHARITIES NEED TO STAY IN BUSINESS. The past decade has seen dramatic changes in the way charities operate. Without losing their essential philanthropic purpose, working practices now closely parallel and sometimes even lead the commercial sector. <i>Daily Mail</i> , 29 March 2004.
	US	"BUSINESS PLAN" COMPETITION FOR CHARITIES The Pittsburgh Social Venture Accelerator...will launch a "business plan" competition in August for charities that want to augment traditional sources of funding ...with their own money-making ventures. <i>Pittsburgh Post-Gazette</i> , 10 July 2003.
	UK	CHARITIES NEED TO BECOME MORE BUSINESS-LIKE Major charities, including the RNID and National Trust, are now streamlining their boards to achieve better, faster decisions through business-like models, while ensuring broader representation and responsibility to service users and beneficiaries through democratic accountability. The burgeoning field of social enterprise -trading for social purposes -now aims to replicate business successes through franchising, while looking on failures as means to innovation and reinvigoration. <i>The Times</i> , 29 June 2004.
	UK	RNID MSOT INNOVATIVE NOT-FOR-PROFIT The Royal National Institute for the Deaf was last night named most innovative charity by the top voluntary organisations, in a poll promoting the growing role of not-for profit organisations in Britain. The RNID's £125m contract to modernise hospital audiology services ... puts it at the forefront of charities delivering public services. <i>Financial Times</i> , 23 November 2004.
	Aust	CHARITY BUSINESS CASES Philanthropy brokers are linking donors with charities - and insisting on better accounting of where the dollars go and what they achieve. Old-style, hand-out philanthropy is dying. A new generation of donors is demanding accountability, performance measurement, analysis of social returns on their investments, formal business plans and sustainable business models. In response, many charities are becoming more businesslike but some are reluctant to change their old ways. <i>Business Review Weekly</i> , 20 May 2004.
Lack of transparency, corruption, misuse of funds	US	MOST CHARITIES SELL DONORS' NAMES, SWAP LISTS TO RAISE FUNDS, WATCHDOG GROUP SAYS Most of the nation's charities are attempting to raise additional funds by selling the names of donors to marketing organizations or swapping mailing lists with other nonprofits. ... Although it is legal for charities to share a donor's personal information with other groups, the lack of privacy for donors is a growing concern. Increasingly, a small donation to one charity is quickly followed by solicitations from similar charitable groups. <i>The Boston Globe</i> , 2 December 2004.

	US	IT IS BETTER TO GIVE WHEN NOT BEING DECEIVED: WATCHDOG WEBSITES TRACK HOW CHARITIES SPEND THEIR MONEY "It can get very complex," said Jamie Katz, chief of the Attorney General's public charities division. "You need to look at more than one set of financial documents to understand where money for services is really going." <i>The Boston Globe</i> , 21 November 2004.
	UK	USE OF CHARITY IN CREDIT CARD SALES ANGERS MPs Angela Eagle, the Labour MP for Wallasey, has pledged to question Shane Flynn, the chairman of MBNA Europe Bank, over the promotion of the WWF card. She said: "I think using a charity's name is a bit sneaky and covers the commercial intentions with a nice, cuddly animal story." <i>The Times</i> , 26 October 2004.
	US	RADIO HOST CRITICIZES REPORT ON CHARITY Don Imus, the combative radio talk-show host who relishes skewering his enemies used his program yesterday to take on <i>The Wall Street Journal</i> . On his four-and-a-half-hour show, Mr. Imus criticized an article in <i>The Journal</i> yesterday that raised questions about financial controls and the personal use of a charity ranch he established in New Mexico for critically ill children. He called the author of the article, Robert Frank, a "dishonest reporter." <i>The New York Times</i> , 25 March 2005.
	US	CHARITY MISSPENDS FUNDS A New York breast cancer charity ... suspended its operations last week amid allegations that it misspent donations on everything from a tropical vacation to advice from a psychic. <i>The San Francisco Chronicle</i> , 18 November 2004.
	US	IRS VOWS TO STEP UP AUDITS OF NONPROFITS, CHIEF SAYS AGENCY LAX ON MONITORING CHARITIES' TAX FILINGS While most charities carry out their missions ethically, Everson said, a minority of them are hurting the credibility of the sector. A <i>Globe</i> Spotlight series last year on private foundations revealed numerous instances of foundation executives treating charitable assets as their own, by taking million-dollar salaries, rich pensions, and in some cases using foundation assets to further their business interests. <i>The Boston Globe</i> , 23 June 2004.
	US	CHARITIES FEAR NEW LAWS WILL BE COSTLY CONGRESS WEIGHS TIGHTER CONTROLS Nonprofits worry that the cost of compliance could divert money from the people they try to help. Congress is considering more stringent regulatory controls over the nonprofit sector after reported abuses by some charities, including excessive compensation for executives, inappropriate expenditures and inadequate disclosure of financial information. <i>Denver Post</i> , 25 March 2005.
Competition issues	Aust	THE \$70 BILLION SACRED COW Are you sick of paying tax? Is your entrepreneurial drive being held back by over regulation? Would you like regular government assistance in expanding your business? Sizable corporate and private donations - no questions asked? Would you like to see your competition operate at a disadvantage? If you answer yes to any of these questions and see yourself as compassionate and charitable, send your application to the Australian Taxation

	<p>US</p> <p>US</p>	<p>Office (ATO) to start your own charity or religion. You will be joining more than 700,000 other like-minded organisations in a sector that turns over more than \$70 billion a year (almost 10% of the country's GDP) in tax-free dollars and is the last bastion of the economy that is left largely to its own devices. <i>Business Review Weekly</i> 24 March 2005.</p> <p>CHARITY, D.C. STYLE ARE SOME NONPROFITS REALLY IN THE LOBBYING BUSINESS? For some tax-exempt organizations, the question is whether their charitable works are an end in themselves--or a means to one. KORUSEC's stated goals included working for peace on the Korean peninsula and building stronger ties between U.S. and Korean leaders. But KORUSEC strengthened Kim's own ties in Washington as well. <i>Time</i> U.S. Edition, 28 March 2005.</p> <p>CHARITIES FEAR NEW LAWS WILL BE COSTLY Congress weighs tighter controls Nonprofits worry that the cost of compliance could divert money from the people they try to help. Congress is considering more stringent regulatory controls over the nonprofit sector after reported abuses by some charities, including excessive compensation for executives, inappropriate expenditures and inadequate disclosure of financial information. <i>Denver Post</i>, 25 March 2005</p>
<p>Other ethical dilemmas e.g. blurring distinction between CSR and advertising</p>	<p>UK</p> <p>UK</p>	<p>NESTLE IN £1M DEAL WITH CAT CHARITY Nestle will announce a deal today worth almost £1m with Cats Protection, an animal welfare charity, in the latest example of a controversial and growing form of corporate sponsorship. Partnerships of this kind have been criticised as a controversial and increasing form of corporate sponsorship and have "blurred the distinction between corporate social responsibility and advertising," writes Rohit Jaggi. <i>Financial Times</i>, 27 October 2004.</p> <p>BOUNDARIES BLURRING BETWEEN SECTORS Saxton, who conducted the research for a report in Third Sector (October 15), says that voluntary organisations must work harder to distinguish themselves if they want to retain public support. "Charities are going to have to be clearer about what they are doing because the boundaries between the sectors are blurring," he says. "How will the public tell the difference?" <i>The Times</i>, 21 October 2003.</p>

As Table 1 shows, a number of recent media reports adopt the same position as much of the social enterprise literature, with five articles advocating that remedies for current nonprofit management deficiencies can be found in the market. For example, one report described how:

The burgeoning field of social enterprise -trading for social purposes - now aims to replicate business successes through franchising, while looking on failures as means to innovation and reinvigoration (*The Times*, 29 June 2004).

The majority of articles, however, appear less enthusiastic about nonprofits' burgeoning corporate orientation and many of these openly question the propriety of nonprofit business venturing or imply that it has enriched some charities to unacceptable levels. In particular, business activity that does not appear to be directly tied to the realisation of a charity's mission - that is activities that do not employ the disadvantaged or sell mission-driven products and services - have been the subject of media criticism.

For example, a recent article published in a major Australian business magazine, was critical of charities' profit producing ventures in areas such as poker machines, pizza chains and producing a horse racing newspaper. The journalist Adele Ferguson writes:

Without adequate supervision or transparency, the not-for-profit sector is a ticking time bomb. It would take just two or three scandals to harm all the good that the other charities are doing (*Business Review Weekly*, 2005).

Another article in the UK newspaper, *The Times* warned how:

voluntary organisations must work harder to distinguish themselves if they want to retain public support. Charities are going to have to be clearer about what they are doing because the boundaries between the sectors are blurring ... How will the public tell the difference? (*The Times*, 21 October 2003)

In an article titled "The \$70 billion sacred cow" the tone is clear:

Are you sick of paying tax? Is your entrepreneurial drive being held back by over regulation? Would you like regular government assistance in expanding your business? Sizable corporate and private donations - no questions asked? Would you like to see your competition operate at a disadvantage? If you answer yes to any of these questions and see yourself as compassionate and charitable, send your application to the ATO to start your own charity or religion. You will be joining more than 700,000 other like-minded organisations in a sector that turns over more than \$70 billion a year (almost 10% of the country's GDP) in tax-free dollars and is the last bastion of the economy that is left largely to its own devices (*Business Review Weekly* 24 March 2005).

Seven of the articles in Table 1 express concern about a lack of transparency, corruption, or some other kind of malfeasance (such as charities selling donor's names; charity

employees making personal use of charity resources (a ranch); and misspending donations (on tropical vacations and a psychic apparently). These scandals may inflate negative sentiment toward nonprofits that engage in business activity and raises the issue outlined earlier of whether this reflects public sentiment most of the time (Gardiner 1993). However, as Graeme Moodie points out, for a scandal to occur there must be more than wrongdoing or an exposé and informer. Scandals also require “an audience or public which finds the information to be scandalous” Moodie (1980, p.220).

These reports highlight the need for nonprofits to carefully consider how to conduct business ventures and astutely weigh its possible benefits against any possible reputational or other risks. This is because reputation is perhaps a nonprofit’s most valuable asset.

Business venturing: profitable or expensive?

Reputation, reputation, reputation! Oh, I have/ lost my reputation. I have lost the immortal part of/ myself, and what remains is bestial. My reputation,/ Iago, my reputation! (Cassio in *Othello* 2.3.262-265).

Unlike for-profit businesses, where its primary social justification is aligned to its capacity to generate revenue from the sale of goods and services and then deliver financial return to owners and value to customers, the social justification of a nonprofit goes well beyond its financial performance. The social purpose of a nonprofit is usually based on the achievement of its social purposes (generally set down in its mission statement) (Oster 1995: 139-143). Furthermore, as a wide range of literature has pointed out, the value created by nonprofit organisations often goes beyond its social mission to satisfying donors’ charitable aspirations or even their contribution to social capital. Nonprofit organisations’ value also lies in their capacity to create and strengthen the networks of reciprocity and trust that make life enjoyable and facilitate the millions of transactions that make society function as a whole (Putnam 1993; Onyx 2000). Given these two differing bases of social value, commitment to profits and social mission can lead to various challenges and hold broader social consequences. However, while there has been widespread promotion of and engagement in commercial activities these media reports suggest that some nonprofits are not sensitised to some potentially serious implications.

Empirical research by Venable et al (2005) has found that current and potential donors ascribe personality traits to nonprofit organisations and differentiate between nonprofits on the basis of the organisation’s “personality”. For charities this “personality” rests on its perceived integrity and independence. These two characteristics give the public confidence in charities and their work. Reputation is also important in that nonprofits may use it to out-compete for-profit firms in the commercial market. Favourable reputation as a charity enhances its appeal to some customers and the use of good will and other benefits from charitable activities to boost success in a commercial market is an important and viable strategy for nonprofits (Finkelstein, 1996). However, as Chetkovich

and Frumkin (2003) point out, differentiating on the basis of charitable reputation requires a delicate hand as failure to do so could alienate donors, clients and other community stakeholders and thus do irreparable damage to a charity's reputation and support.

Given the widespread support and practice of nonprofit business venturing, it is interesting to note the findings of William Foster and Jeffrey L. Bradach's (2005) study into several nonprofits that have recently ventured into commercial operations. The study found that business venturing can present serious financial risks with only a few of the organisations that were studied showing that they had actually made any money. The authors identify two main reasons for the failure of such ventures. One is that mission serving and profit making imperatives often work against each other – they cite the example of hiring the disadvantaged. The other reason, they claim, is that nonprofits' executives tend to overlook the distinction between revenue and profit. They write "For example, a youth services organization that had received funding to launch a food products enterprise hired young people and began making salad dressing. The nonprofit believed it spent \$3.15 to produce each bottle of dressing that was sold for \$3.50. But when expenses such as unused ingredients and managers' salaries were factored in, the cost per bottle reached a staggering \$90." Foster and Bradach note that this was in contrast to most nonprofit executives' expectations: "When we examined how non-profits evaluate possible ventures, we discovered a pattern of unwarranted optimism. The potential returns are often exaggerated, and the challenges of running a successful business are routinely discounted" (Foster and Bradach 2005, p.3).

A review of recent media treatment highlights broader issues relevant to an increasingly competitive nonprofit sector. In particular, it appears that the key challenge is to harmonise commercial success and mission realisation. Frumkin argues that:

The alignment of strategy with mission requires a careful appreciation of the tradeoffs involved in securing the fee-based and donative revenues necessary to support the work of an organization while protecting the public benefits that justify the special status of nonprofit organizations (Frumkin 2003: 39).

Given the realities of having to operate in an increasingly competitive environment where there has been a steady rise in demand for nonprofit services and pressures on traditional ways of resourcing them, managing the tensions that come with commercialisation is likely to become a core challenge in nonprofit management. Aligning mission, strategy and revenue streams in a coherent and effective way represents the key challenge facing the contemporary nonprofit sector.

Conclusion

Nonprofit business venturing has created new opportunities and new challenges for the sector. Business venturing has the potential to bring innovation to nonprofit management and operations and to provide an opportunity for nonprofits to augment scarce resources. This latter benefit is particularly attractive at a time when demand for nonprofit services far outstrips sector resources.

It is important, however, that nonprofits understand the meanings and contestation surrounding business venturing, and social enterprise more broadly, if they are to apply it critically and reflectively in practice and participate in contemporary debates about its place in nonprofit management. In particular, nonprofits need to be aware of the risks of being seen by the public as more of a business than a social agency and develop ways to respond to public distrust or scepticism. This is important also if the sector is to understand and appropriately respond to criticism by for-profits that are concerned about increased competition.

Nonprofits should also be aware of the potential for business venturing to challenge nonprofit organisational culture. In particular, that a new focus on the market does not lead to “value creep” and erode the moral foundations upon which these nonprofit organisations are built. Unchecked some nonprofits’ organisational cultures may drift toward competitively and economically based values where strategies deliberately avoid some services due to their non-marketable features.

This discussion points to the need for research that addresses some key research questions about nonprofit business venturing:

- Does commercialisation distort the mission of the nonprofit sectors, or provide the resources, and in some cases, the entrepreneurial skills, that enable it to perform its mission better?
- Who benefits from the commercialisation of nonprofits?
- How should charities respond? How should public policy respond?

To explore the new possibilities of commercialisation and to avoid its perils, nonprofits need to craft their strategies carefully. In considering business ventures nonprofits should pay attention to the organisation’s mission, its capability, the financial impact, legal and taxation aspects, implications for community relations, and professional and ethical considerations. It is important that nonprofits are aware of these risks and take steps to minimize them. This strategy will require a strong commitment to transparency based on assuming a comprehensive approach to governmental compliance and internal recordkeeping.

Whether nonprofits follow this path or not, one certainty is that they will continue to become increasingly businesslike as they strive for more creative forms of fundraising. The challenge is to make sure this new, more commercially aware model does not damage their status as agents for social justice.

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