

Business Ventures by NPOs, Social Businesses, Social Cooperatives - Different Forms of Hybrid Organizations Combining Social and Business Goals: Some Insights from a Survey in Israel

Benjamin Gidron, Dikla Yogev

Ben Gurion University, Beer Sheva, Israel

The 2008 world economic crisis, with the collapse of businesses and the resultant layoffs of thousands, had an additional ripple effect, namely on financial philanthropic contributions, with serious adverse consequences on Third Sector organizations. This state of affairs led Third Sector leaders and planners to look elsewhere for alternative funding avenues, very often towards business ventures. While the process of NPOs engaging in business ventures did not start with the current economic crisis (Young, 2006; Dees, 2004), it was clearly accelerated by it.

Yet in addition to developing *business ventures within non-profit organizations* (Segal & Weisbrod, 1998; Dees, 2004; Foster & Bradach, 2005), other organizational forms that use a market-driven approach to deal with social issues, are receiving growing attention; specifically *social businesses* (Yunus, 2007; Thompson & Doherty, 2006). and *social cooperatives* (Thomas, 2004; Harding, 2004; Mancino & Thomas, 2005) are now seen as additional means to deal with complex societal issues.

While it is customary to deal with these forms of organization separately, in this study we chose to view them within a combined framework. The rationale for that being that they share the same “hybridity”: They all have primarily a social goal (i.e. to integrate handicapped persons into society) and use a business methodology to achieve that goal. This means that they compete in the market to sell their products or services at a quality level and price that is competitive with other regular businesses, and they strive to achieve a surplus of their endeavour and make a profit (Defourny and Nyssens, 2001; Wallace, 2005; Spear, 2006). Thus, jointly, these organizational forms constitute a type of hybrid organizations that we termed “social-business enterprises¹”.

Yet those three types of institutions constitute different legal forms, and they also differ along two other critical dimensions:

- **Distribution of profits:** *NPOs* are bound by the non-distribution constraint and are not allowed to distribute profits to their members, although they can pay salaries to workers; *cooperatives* and *social businesses* are not bound by this constraint (Harding, 2004; Levi & Davis, 2008).
- **Ownership:** *Cooperatives* are owned by their members, *social businesses* by their investor(s) and *business ventures within NPOs* are owned by the NPOs (Spear, 2001; Thomas, 2004; Scott-Cato et al., 2007).

It was assumed that these structural differences will impact their organizational behaviour.

In a first study on the phenomenon of hybrid organizations combining business and social approaches (“social-business enterprises”) in Israel we formulated the following research questions: (1) What is the scope of this phenomenon in the country? How is it divided between the three legal forms? (2) What populations tend to be the beneficiaries/participants in these ventures? Do certain populations tend to organize within specific legal forms? (3) How are these organizations managed? Specifically, how do they reconcile between their business and social objectives? (4) How do they assess their achievements?

¹ There is no claim that these 3 forms are the only forms of such hybrid organizations; there obviously can be others.

As the unit of analysis in the study is the organization, and as we basically compare between different legal forms with a common feature, we used **as our conceptual framework literature** on hybrid organizations (Evers, 2005; Cooney, 2006) to inform us as to their internal dynamic.

The study itself was divided into two parts: In the first **phase** we conducted a national survey of all organizations belonging to these three types to **define** the population (N= 212). In the second phase we conducted **structured** interviews with **managers** of a sample of 31 organizations (15%) on the basis of a questionnaire used in similar studies.

Our findings indicate that “social-business enterprises“ in Israel evolve primarily around three populations: (1) Handicapped persons (both physically and mentally), (2) youth at risk and (3) women, especially those with low educational levels. In all “social-business enterprises“ we studied the goal was to integrate the population into society by engaging them in employment and teaching them skills that will help them sustain themselves in the world of work as well as other life skills. Yet we found that *social businesses* and *social cooperatives* were primarily used for handicapped persons’ and women’s organizations and tended to focus on a business orientation, whereas *business ventures of NPOs* were primarily used for youth at risk, with a much weaker emphasis on business success and a stronger one on the “therapy” of the youngsters. Additional findings portray the methods used by managers to deal with the tension of maintaining business and social orientations, and measures of success regarding these dual objectives.

Finally we take a look at the findings of our study from Third Sector and hybrid organizations theoretical perspectives. While the impact of business ventures on NPOs, both internally and externally (their relations with their environments) has been a subject extensively written about, the entrance into the social arena (dominated by NPOs), by other types, non-NPO organizations, and their claim to resources may create interesting challenges for NPOs. Furthermore, the different types of hybrid organizations with their different ownership patterns, call for studies, preferably comparative, that focus on understanding of their differential dynamics, specifically the ways they use to reconcile between the business and the social orientations.

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