

VU Research Portal

The dawn of social enterprise?

Khieng, S.

2014

document version

Publisher's PDF, also known as Version of record

[Link to publication in VU Research Portal](#)

citation for published version (APA)

Khieng, S. (2014). *The dawn of social enterprise? NGOs balancing between social value creation and profit-making in Cambodia.*

General rights

Copyright and moral rights for the publications made accessible in the public portal are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

- Users may download and print one copy of any publication from the public portal for the purpose of private study or research.
- You may not further distribute the material or use it for any profit-making activity or commercial gain
- You may freely distribute the URL identifying the publication in the public portal ?

Take down policy

If you believe that this document breaches copyright please contact us providing details, and we will remove access to the work immediately and investigate your claim.

E-mail address:

vuresearchportal.ub@vu.nl

CHAPTER 2:

2 SOCIAL ENTERPRISE AS A NEW WAY FORWARD FOR DEVELOPMENT NGOs? A THEORETICAL DISCUSSION²

Abstract

Increasingly, nongovernment organisations (NGOs) are looking to a strategy of social enterprise (SE) as a way to generate income. This strategy has advantages as well as drawbacks. An important advantage is to reduce dependency on donor funding, thereby increasing organisational autonomy and avoiding donor-induced *goal displacement*. In addition, SE generates social capital that can be mobilised to make operations more sustainable. Compared to donor-funded NGOs, SEs also have a much stronger incentive to be accountable to their beneficiaries (or clients) or even to prioritise them completely, thereby empowering local communities. However, a risk is that commercial activities may end up overshadowing social aims. Reduced accessibility of services may also occur, as people may have to start paying for them. There is good cause for NGOs to explore SE, but it needs to be approached with care. Since each funding strategy has its drawbacks, a diversification of funding sources is desirable.

Key words: commercialisation, autonomy, social enterprise, NGOs, Cambodia

² This article is co-authored by Khieng and Verkoren and is under review at *Development Policy Review*.

2.1 Introduction

Non-governmental organisations (NGOs) are increasingly under financial pressure. Many struggle to survive. New expressions of civil society, from internet activists to youthful demonstrators, have taken the forefront and the old guard of professional NGOs has difficulty linking up to these new developments. To make matters worse, NGOs have had to face mounting criticism over their perceived lack of autonomy (Edwards & Hulme, 1996) and their incorporation into a neoliberal agenda (Dagnino, 2008). In particular, two problems have haunted NGOs over the past years: first, a dependency on official development funds, and later, when these funds began to decrease, financial challenges.

NGOs in developed countries have come to depend on foreign funding, leading to a loss of independence and a reduced political role (Bebbington, Hickey, & Mitlin, 2008). In turn, NGOs in developing countries have been highly dependent on their funders—often NGOs from developed countries or international organisations (IOs)—leading to their incorporation in the same aid system and very similar questions about a lack of independence. Both Northern and Southern NGOs have been criticised for having their agendas set by their donors (Bebbington et al., 2008).

In developing countries, much funding has gone into the creation and support of local NGOs. Though the initial aim of such financing was *civil society building*, it has created a sector of professionalised NGOs that carry out donor agendas and are versed in international jargon, but have often little connection to the local constituencies on whose behalf they are supposed to act.

Recently, development funds available to NGOs have been reduced, which is due to at least two reasons. First, due to the global economic crisis as well as growing doubts about aid effectiveness, development funds as a whole have decreased. Second, it appears that the heyday of ‘civil society’ financing is over and aid is increasingly being channelled again through developing country governments, whether through direct budget support, decentralisation schemes, or otherwise.

These developments have put NGOs under pressure. As a result, many have started searching for alternative ways of financing themselves. NGOs have sought to diversify their funding strategies, seeking sustainable and locally available financial resources to fund their social programmes in order to gain independence from the foreign aid cycle and be able to have

more control of projects' contents. Social entrepreneurship is one possibility. Some NGOs use commercial practices such as raising fees and selling products and services to meet their social aims. This results in hybrid agencies that are often referred to as social enterprises (SEs).³ Increasingly, NGOs are coming to partly or even fully depend on generating incomes from sales of goods and services as they try to diversify their sources of funding. This development is not uncontroversial, as it calls into question NGOs' defining feature of being *nonprofit*.

In this article, we bring together recent literature on social entrepreneurship, and discuss its advantages and disadvantages as a strategy for, or alternative to, NGOs. Although much has been written about social enterprise, little theory as yet exists on the consequences of commercial activity as an income-generation strategy for NGOs. The discussion will show that social entrepreneurship as an income generation strategy for NGOs has important benefits, including increased organisational autonomy and a stronger incentive to be accountable to beneficiaries (or clients). However, there are risks. The mix of economic and social aims of social enterprises raises questions about which aim predominates, and at which point an enterprise crosses the line between being primarily social and primarily commercial. In addition, there are important questions about the accessibility of services offered by commercialised NGOs. We conclude that social enterprise is a promising strategy, but it needs to be approached with care. A better theoretical understanding of this hybrid form of organisation is vital. This article hopes to contribute to this by specifically looking at the potential benefits and risks associated with this strategy. Although the article is mainly theoretical in nature, it also draws on some empirical data from Cambodia.

2.2 The Social Enterprise

Entrepreneurship has been defined as “the process of attempting to make business profits by innovation in the face of risk” (Tan, Williams, & Tan, 2003, p. 10). What makes an enterprise a *social* one is that it aims at social change (Dees, 1998; Peredo & McLean, 2006), rather than, or in addition to, the usual aim of wealth creation. Social enterprises make profits, but the activities they pursue have a social objective. In addition, SEs' earned wealth is distributed beyond the individual entrepreneur and shareholders to wider communities. This social value creation proposition is seen to differentiate social entrepreneurship from traditional entrepreneurship.

³ Internationally renowned social enterprises include the Skoll Foundation and Ashoka.

In some cases, SEs are even owned by local communities (Peattie & Morley, 2008). In addition, what is innovative about social entrepreneurship is that business principles are used to solve social problems (Dacin, Dacin, & Matear, 2010; Dahles, Verduyn, & Wakkee, 2010; Martin & Osberg, 2007).⁴

Social entrepreneurship thus aims at value creation that is both social and economical. Does this really make social enterprise different from ‘regular’ enterprises? Some scholars argue that separate theorising on social enterprise is not needed, because social entrepreneurship should not be considered a distinct field of study. According to these authors, the term “social entrepreneurship is a tautology as entrepreneurship is social by nature” (Dahles et al., 2010, p. 3). Others disagree, arguing for the construction of theory on social entrepreneurship as something distinct from entrepreneurship as such (Borzaga, Depedri, & Tortia, 2009; Laville & Nyssens, 2001). These authors emphasise the inability of traditional entrepreneurship theories, such as neo-classical and new-institutionalist theory, to explain

the ability of cooperative and social enterprises to control decision-making costs through appropriate governance structures and to increase production and social surplus by defining a mutual benefit and public objective and by setting value on motivational factors not exclusively linked to self-regarding and monetary aims. (Borzaga, Depedri, & Tortia, 2010, p. 5)

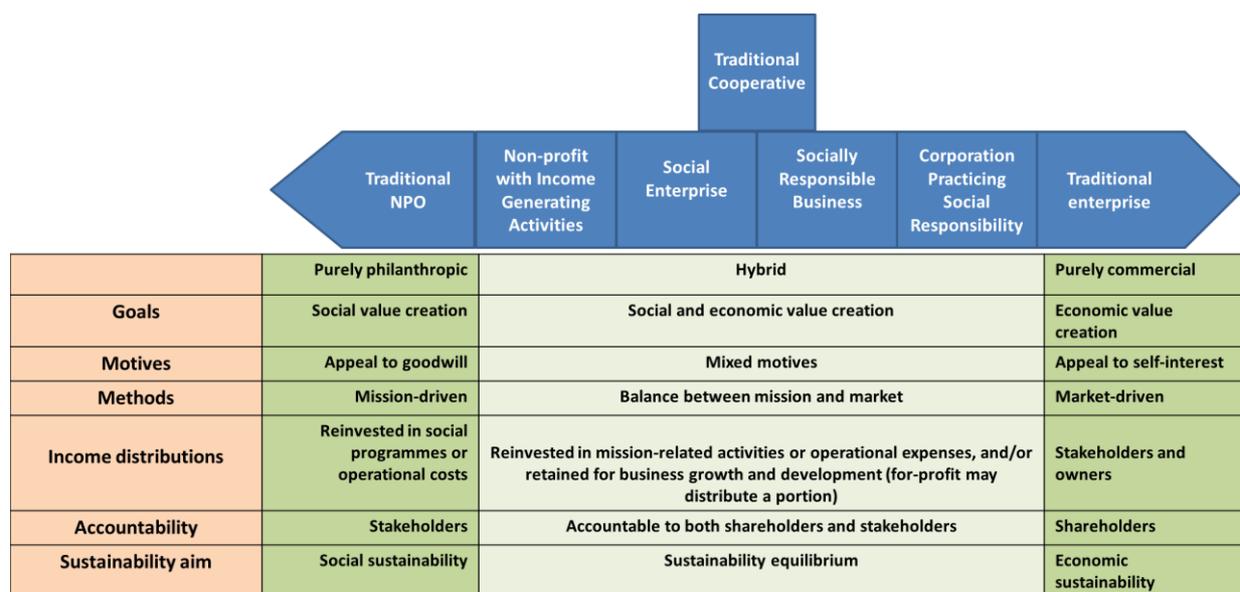
To some extent, this theoretical discussion is also reflected in practice, as a wide range of more-or-less commercial actors employ the term *social enterprise* to describe their activities. Organisations involved range from civil society organisations undertaking commercial activities to commercial businesses formulating social aims. Phenomena included under the social enterprise umbrella are community entrepreneurship, public entrepreneurship, cooperatives, fair trade, microfinance schemes, corporate social responsibility, socially responsible business, philanthropic ventures (or “philanthropreneurship”), volunteerism, civic entrepreneurship, and social economy (Alter, 2007; Lundqvist & Middleton, 2010). In response to what may be seen as an inflation of the term SE, various authors argue for a narrowing of the definition of social entrepreneurship (Certo & Miller, 2008; Martin & Osberg, 2007). However, a fixed definition may not capture

⁴ Some give more specific definitions of social enterprise, arguing that it should contain elements of social mission, innovation, sustainability, autonomy, and risk (Hervieux, Gedajlovic, & Turcotte, 2010).

the ever-evolving organisational forms both in the not-for-profit and business sectors, constantly creating new hybrid forms of organisation (Dacin et al., 2010).

A way to make sense of all this is to place organisations that can be associated with social entrepreneurship on a continuum. Austin et al. (2006) argue that “the distinction between social and commercial entrepreneurship is not dichotomous, but rather more accurately conceptualised as a continuum ranging from purely social to purely economic. Even at the extremes, however, there are still elements of both. That is, charitable activity must still reflect economic realities, while economic activity must still generate social value” (p. 3). In line with this, various authors (Alter, 2007; Borzaga et al., 2010; Dacin et al., 2010; Dees et al., 2002; Hansmann, 1987) have constructed figures such as the one below (Figure 2.1).

Figure 2.1: Continuum of Organisational Diversity in Social Enterprise Discourse



Source: Adapted from Alter (2007)

In this figure, on the far left we find the mission-driven traditional not-for-profit organisation aiming to create social value. On the opposite end, we have the market-driven, purely commercial enterprise that is only concerned about its economic sustainability. In between these two extremes we find a wide variety of hybrid forms of organisation, from not-for-profits with some minor income-generating activities to socially responsible businesses. These hybrid organisations usually have mixed missions and motives. Social enterprises and traditional cooperatives stand out almost in the middle due mainly to their ability to balance between social value creation and economic accumulation (Alter, 2007).

In this article, we focus on a specific category: nonprofit organisations (NPOs)⁵ that develop commercial activities as a way to generate income to support their social agenda. An NPO is a private, self-governing, voluntary organisation that does not distribute its profit to its owners or stakeholders (Simsa, 2003). It is private in the sense that it is institutionally separated from the state; and it is voluntary since membership is not legally bound and as such the organisation solicits voluntary contribution in time and money. Similarly but more narrowly defined, according to Hansmann (1980), an NPO is an organisation that, although not barred from making a profit, is limited in distributing its profit to its controller, be it the organisation's members, officers, directors, or trustees. Rather, the surplus can be retained, reinvested, or given as grants to other NPOs. Hansmann (1980) distinguishes an NPO from a for-profit organisation mainly by the "absence of stock or other indicia of ownership" (p. 838) that provide both profits and control of the organisation to its owners.

To illustrate the rise of social enterprise, not just in developed but in developing countries, we consider Cambodia. In Cambodia, social entrepreneurship is quite a recent phenomenon but has gained increasing popularity, especially among local NGOs operating in the country. SE practices in Cambodia range from hospitality, handicrafts, and IT to microfinance. Some of the first local NGOs that started social entrepreneurship in the country are Friends-International (Mith Samlanh), Digital Divide Data (DDD), CEDAC (Cambodian Centre for Study and Development in Agriculture). *Mith Samlanh* (Khmer word for *friends*) has its *social businesses* that provide various services (vocational training, restaurant, nail bar, clothes and accessories shop), and sell products produced by disadvantaged groups. Launched in 2001, DDD is a successful social enterprise, through its IT outsourcing approach, provision of jobs and educational opportunities to people from disadvantaged backgrounds ("DDD," 2010). Working in the agriculture sector with rural farmers, CEDAC has been working across the country to provide training and technical assistance for efficient farming methods, organic farming, fair trade, and creating farmer saving groups (CEDAC, 2010). Another varied practice of SE is in microfinance; instances of such are Angkor Mikroheranhvatho Kampuchea (AMK), which originated from a saving and credit programme of an international development organisation Concern Worldwide, and ACLEDA Bank, a former local NGO for micro and small enterprises development and credit supported

⁵ In this article, we use both the term nonprofit organisation (NPO) and nongovernmental organisation (NGO). The two are not entirely the same, although the two categories often overlap. NGOs can be seen as a type of NPO.

by the International Labour Organisation (ILO) and the United Nations Development Programme (UNDP) in Cambodia. While DDD describes itself as a not-for-profit company, the other four organisations mentioned above are either local NGOs or former NGOs, and so are many other social enterprises that are officially listed with the government as local NGOs. Some social enterprises are based in the urban areas; many others are closely located in the rural, poor and disadvantaged communities throughout the country.

Donors provide both financial and technical support to social enterprises in Cambodia. This support ranges from direct funding to local NGOs to start up an enterprise to collaboration among various key stakeholders (donors, corporations, academic institutions, rural communities) on funded projects that promote public-private partnership initiatives for improved competitiveness for SMEs. A few of these programmes include the Mekong Private Sector Development Facility (MPDF) and the Grassroot Business Initiatives of the International Finance Corporation (IFC), UNDP and German Technical Cooperation (GTZ) Programme on Growing Sustainable Business Initiative, the Netherlands Development Finance Company (FMO) programme that support a few key MFIs, and Total Cambodia's Corporate Social Responsibility Programme with UNDP.

These programmes may or may not be very particularly focused on social enterprises; however, they provide some necessary support for such programmes' existence, growth and efficiency. That said, however, donor support for SE is often difficult to find. One reason for this is the grey area between commercial and social enterprises and donors' reluctance to support profit-making endeavours. More broadly, sustainability and community impacts in the long run do not seem to be in many of the donors' agenda. As Lyne (2008) puts it, "the expectation of sustainability in the short term by some donor (and government) agencies often make it difficult to gain funding for new ideas which would have a high social return in the long term" (p. 183).

2.3 Social Enterprise and the 'Three Failures'

How can social enterprises compete with wholly commercial enterprises? According to theorists, NPOs fill a gap that is created by market failure and government failure. However, their ability to complement the activities of commercial and government actors is constrained by their own limitations, which have been termed "voluntary failure" (Salomon, 1987).

Market failure refers to inefficiencies in the allocation of products or services. Some products or services are inadequately provided, their access is restricted, or available products are of insufficient quality (Steinberg, 2006, p. 119). This is related to information asymmetry: consumers are often unable to evaluate exactly the quality or quantity of services or products because opportunistic for-profit firms have an incentive to withhold or exaggerate information to maximise profits. This is where NPOs have comparative advantage since they have less incentive to take advantage of their customers (Hansmann, 1987, p. 29). Indeed, Ben-Ner (1986) asserts that the rise of NPOs is often due to consumers' desire to exercise control over the firms that they purchase service or goods from.

Governments may respond to market failures by producing collective goods, regulating firms' claims about their products, subsidising particular goods and services, and introducing licensing and bonding requirements (Steinberg, 2006, pp. 121–122). However, governments' efforts are not always efficient or effective. In democratic countries, government agencies are only satisfactory to the median voters, leaving out those whose demands are different from the median (Weisbrod, 1975, p. 32). Alternatively, in political systems based on patronage, governments will tend to orient services primarily to their own political supporters. In addition, there is what Steinberg calls "the unobservable": governments cannot regulate problems or abuses by the market that they cannot detect. Governments, too, can suffer from information asymmetry.

Nonprofit agencies can meet demands left unfulfilled by commercial actors and government agencies (Hansmann, 1987, p. 29). They do not have an incentive to withhold information, nor do they have a bias toward their political supporters. However, NPOs do not solve the failures of the other two sectors altogether. This is attributed to "voluntary failure". NPOs are likely to be less efficient and more amateuristic than for-profit enterprises. They also have a tendency toward paternalism, which means they pay less attention to the demands of consumers (Salomon, 1987). This limits NPOs' ability to respond to goods and services under-provision (Steinberg, 2003). In line with this argument, Hansmann (1987) claims that:

It is almost certainly true that non-profit firms are productively inefficient in the sense that, in the absence of subsidies or a substantial degree of market failure of some type (such as contract failure) in the product market, they will generally produce any given good or service at higher cost than would a for-profit firm. (p.38)

Some commentators on social enterprise, such as Teasdale (2012), attribute the emergence of social enterprises to the failure of the government, while other forms of SE, such as cooperatives and community enterprises, thrive in areas where the markets fail. In addition, SEs are fulfilling the new needs caused by market externalities, such as pollution or child labour (Mair, 2010). To sum up, SEs offer goods or services “existing public, private or voluntary sector institutions fail to provide” (Mair, 2010, p. 19).

2.4 Comparing Different Funding Sources and Their Effect on NGOs

So far, we have established that social enterprises represent a hybrid category containing a wide variety of different kinds of organisations, and that they are seen as a possible response to the failures of public, private and fully nonprofit actors. Social enterprises fill a niche, or carve one out; they are not concerned specifically with profit making, but rather the generation of social value. This they have in common with traditional, non-commercial NGOs. But what distinguishes social enterprises from traditional NGOs? What benefits and risks can be associated with NGOs’ adoption of commercial income-generation activities?

Froelich (1999) and Viravaidya and Hyassen (2001) have compared the impacts on NPOs of different strategies for resource mobilisation: private contributions, government funding, and commercial activity (Table 2.1).

Table 2.1: Three Types of Funding Strategies

Impacts	Funding Sources		
	Grants and Donations	Government Funding	Commercial Activity
Revenue volatility	High	Low	Moderate
Goal displacement effects	Strong	Moderately strong	Weak
Process effects	Formalisation	Formalisation, standardisation	Rationalisation
Structure effects	Professionalised administration	Professionalised bureaucracy	Professionalised business forms

Source: adapted from Froelich (1999)

Private contributions and government funding are two different types of what we in this article call *donor funding*. Private contributions include donations from individual or corporate entities and grants from foundations. In the US, individual donations constitute a large percentage of the total private contributions, representing about 85%. Froelich suggests that contributions from donations and grants provide both support and legitimacy for

organisations. Constraints relating to such sources of funding, especially grants from foundations are common; the funding is usually unpredictable and unstable and is attached with sets of conditions that can negatively impact organisations' goals and missions. Some organisations have to adjust or modify their goals or programme priority to fit or satisfy the needs or requirements of funding agencies or individual donors, *a goal displacement effect*. Private contributions are also associated with structure and process effects on NPOs; "over time, professionalised form of administration emerged, and nonprofit organisations have increasingly come to resemble for-profit corporations" (Froelich, 1999, p. 253).

Another source of funding for NPOs is government funding, which may be parts of the national budget or aids from development partners that are channelled through either government ministries or sub-national governments. Unlike grants and donations, government funding is more limited, especially in developing countries where government institutions are usually under-financed and depend on foreign aid. Despite being low in volatility, government funding is no exception when it comes to goal displacement, changes in internal process and structure of nonprofit recipients albeit to a lesser extent. Specifically, Froelich (1999) mentions "government-driven professionalization, bureaucratisation, and loss of administrative autonomy" (p. 256) of NPOs. These issues are well known in the world of development NGOs.

The last type of funding sources is through commercial income-generation activities. Results from Froelich's research suggest that commercial activities have moderate volatility, which is partially accounted for by possible failure of the venture. On the positive side, self-financing from such activities not only provides organisations with the lowest risk of goal displacement but also gives them more flexibility and autonomy than the other two forms of funding strategies. Froelich (1999) suggests that "calls of alarm over commercial strategies seem exaggerated" (p. 261) because all forms of funding strategies come with side effects. In addition, the risk of resource volatility also applies to other sources of funding; the expectation that there are always flows of unconditional funds for social missions has never been a reality (Froelich, 1999) and increasingly, NGOs today face declining donor aid.

It is, however, not self-evident that relying on commercial income generation will prevent goal displacement. Though goal displacement of SEs may be less direct and less imposed, it may nonetheless gradually occur. Indeed, a wide array of literature (Dees et al., 2002; Defourny et al., 2010; Fischer et al., 2011; Haugh, 2007; Weisbrod, 2000, 2004; Young

& Salamon, 2002) sees the risk of losing sight of one's original aims as the most important risk of NGO commercialisation. Profit making may become attractive in itself and lead to a more or less subtle diversion from an NGO's core social mission (Weisbrod, 2000). This may generate internal division and strife, or even cause an organisational split. The result may be to divert "scarce resources away from their social purpose to compete with other organisations" in the market (Haugh, 2007, p. 416). As they experiment with profit making, NGOs may be tempted to become for-profit enterprises altogether, reducing their role in public good delivery (Haugh, 2007, p. 429). Such organisations lose their role in countering contract failure, as discussed above.

In addition to goal displacement, NGO commercialisation may also lead to management displacement, when managers with experience and knowledge in business replace existing ones who do not possess these qualities (Weisbrod, 2000). This process could also affect staff more broadly (staff displacement). Staff who remain may become demotivated as a result of the changes. NGOs might also lose their connections to their original constituencies because their reliance on commercial activities forces them to devote their energies to building networks with market players instead (Eikenberry & Kluver, 2004).

To conclude, the effects of different funding strategies on NGOs are more mixed and complex than Froehlich suggests. Her argument that commercial income is more volatile than donor funds is countered by the reality of donors' budget cuts and the way in which they shift their assistance from one country to another. Similarly, her conclusion that commercial income is not associated with goal displacement overlooks debates about the risk that commercialisation may take attention away from NGOs' social mission. If anything, we can see that any funding strategy has its pros and cons. Let us now turn specifically to the pros and cons of commercial income generation.

2.5 Pros and Cons of Commercial Income Generation for NGOs

2.5.1 Benefits

The literature mentions a number of distinct benefits of entrepreneurial income generation by NGOs. Avoiding the constraints and obligations imposed by donations may lead to the NGOs being increasingly flexible in meeting customers' diverse needs and demands (Haugh, 2007). Some authors expect that this way, organisations can stay more focused on their "bottom line" (Frumkin, 2005, p. 152), although, as discussed above, the idea that commercialisation prevents goal displacement is in fact questionable. Other benefits mentioned by authors

include more professionalised management (Alexander, 2000) and more incentive to measure their “social and economic” achievements (OECD, 2003).

However, the majority of the literature discussing social enterprise benefits focuses on three related issues: local ownership, community empowerment and social capital. We start with ownership and empowerment. A key advantage of SEs as compared to nonprofit NGOs, according to literature, is that they are better equipped at creating local ownership of community development projects. SEs can be more accountable to their beneficiaries since these beneficiaries have now become ‘clients’ and can demand value for their money. In other words, “social enterprises are held accountable through market mechanism” (W.-J. Wang, 2009, p. 13).

In order to meet clients’ needs and expectations, social entrepreneurs have to invest in understanding what these needs are. There is thus a very real incentive to take ‘clients’ seriously and to involve them in the planning of activities. Of course, donor-funded projects also aim to do this, not out of economic necessity but for normative reasons. However, genuine community ownership is in such cases often inhibited by the fact that project implementers are forced to account primarily to donors, and to fit programmes within donor’s policy frameworks. Accountability in this case is ‘upward’ to donors, and this complicates ‘downward’ accountability to target groups. SEs, too, are accountable to their financiers, but in this case, the target groups themselves are the financiers.

Being involved in social activities as ‘clients’ or even ‘owners’ can be empowering to community members. In addition, some SEs expand their income-generation activities to the broader community in which they work, assisting community members to develop income generation activities of their own. In this way, communities are empowered to take ownership of initiatives taking place.

Another relevant concept is social capital. Social capital has been defined by Putnam (Putnam, 1995, p. 67) as the features of social organisation that facilitate coordination and cooperation for mutual benefit, such as networks, norms, and social trust. A widely associated link between social enterprise and social capital is one of the key arguments found in literature in favour of social enterprise.

Social capital is also mentioned in much literature about civil society and NPOs, which considers social capital a key feature and outcome of citizens’ associations. The inventor of the social capital concept, Putnam gives examples from parent–teacher

associations to bowling clubs (Putnam, 2001). However, while in Putnam's work social capital is understood primarily as a socio-political resource that contributes to democracy, SE literature understands it more as a (socio-)economic resource mobilised and generated by SE. In the form of informal networks, trust, and embeddedness in local community, social capital facilitates coordination and cooperation. It can increase productivity by reducing transaction costs, especially ones that are associated with trust, between different stakeholders (e.g. users, donors, and government official) and the enterprise. In addition, social capital also cuts production costs by enabling the social entrepreneur to mobilise resources such as volunteer works, donations and gifts (Laville & Nyssens, 2001).

In the words of Evers (2001), social capital "indicates the key role of a number of non-material social and political factors which nevertheless materialise as an economic and financial advantage to social enterprises" (p. 301). Social capital as an economic resource adds to other kinds of resources such as government support and incomes from sales of goods and services to customers. Evers (2001) continues:

... while the third-sector organisations may survive with minimal public support and without income from sales, a certain level of social capital resources is absolutely critical for their survival as social and civic organisations. A foundation can go on as long as there is fund, but the social echo and support is finally decisive for its real status, i.e. being a social enterprise or not (p. 301).

Understood in this way, social capital is what makes a social organisation sustainable, reducing its dependency on outside funds. If an organisation is able to mobilise this social capital to benefit its own continuation, then it crosses the line from CSO to SE. Indeed, it is argued that "the origins of social enterprises are supported by norms of reciprocity and networks of civic engagement", which then will be sustained through their ability to exploit different forms of the economy (market, non-market and non-monetary economy) to serve their goals (Laville & Nyssens, 2001).

Thus, although NGOs, too, may generate social capital, in the case of SEs, this capital can be an economic asset and may be used to contribute to organisational sustainability and socio-economic progress for communities. In addition, social capital and economic performance are seen as mutually reinforcing. The enhanced access to services and skills development that SEs may yield in turn can serve to strengthen social capital (Borzaga & Solari, 2001; Haugh, 2005; Massarsky, 2006).

2.5.2 Risks

There are thus important potential benefits to NGO commercialisation. But what are the pitfalls? One major risk is goal (and staff) displacement, as already discussed in the previous section. A second important risk concerns the accessibility of services offered by the NGO. For example, if an NGO begins to charge fees for its services, this may exclude the very poorest from access to these services, even though helping the most marginalised groups is core to the mission of many NGOs (Weisbrod, 2000; Young, 1998). It is also possible that NGOs begin to concentrate their activities in sectors in which profit making is most feasible, instead of the sectors where the need is highest (Frumkin, 2005).

A third risk is that profit making may compromise an NGO's reputation (Weisbrod, 2004). A fourth risk is that people involved may take advantage of the hybridity of the newly commercialised organisation and misuse it for their own ends. For example, there could be an unrightful exploitation of profits by the NGO's management, which is particularly likely in countries where laws stipulating the nondistribution of NGO surplus are weakly enforced. Another possibility is that, because of lower tax rates for NPOs, enterprises disguise themselves as social enterprises and engage in unfair competition with other enterprises (Weisbrod, 1988a). Of the risks mentioned, goal displacement and accessibility seem the most likely as well as the most salient.

2.6 Conclusion and Future Research

Social enterprise is on the rise; NGOs are increasingly looking to this strategic orientation as a way to generate income during difficult times. SE is seen as an answer to the shortcomings (or 'three failures') of commercial enterprises, government actors and NPOs. SE is an elusive category however; organisations using this label range from NPOs that have some commercial income-generating activities to commercial enterprises aiming to act in a socially responsible way. In this article, we have focused on commercial income generation as a strategy for NGOs.

We have found that this strategy has advantages as well as drawbacks. An important advantage is to reduce dependency on donor funding, thereby increasing organisational autonomy and avoiding donor-induced 'goal displacement'. However, due to commercialisation, a different kind of goal displacement may occur, as commercial activities begin to take the foreground. Another important risk is a reduction of the accessibility of services, as target groups may have to start paying for an organisation's services. In order to

avoid these risks, NGOs should remain clear about their aims and keep their ultimate mission in mind.

On the benefit side, it is also theorised that SE generates social capital that can be mobilised to make operations more sustainable. In addition, compared to donor-funded NGOs, SEs have a much stronger incentive to account to their beneficiaries (or clients) or even to place them in the driving seat, thereby empowering local communities.

Currently, academic communities are still deeply divided over the mixed consequences and implications of social entrepreneurship. More research is needed to identify ways to address negative consequences and minimize risks. In addition, more cross-country research is needed to develop more conclusive patterns on how specific country-contexts may shape the characteristics, effectiveness and success of social entrepreneurial activities.

To sum up, there is reason enough for NGOs to begin exploring SE. However, the strategy needs to be applied with care. Since each funding strategy has its drawbacks, a diversification of funding sources is desirable. If NGOs can combine donor funds with commercial resources, then this would reduce their dependence on any single source and increase their much-desired organisational autonomy.