

# Social Entrepreneurship and the Financing of Third Sector Organizations

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## ABSTRACT

In this paper, we review the literature on entrepreneurship and the skill sets required by entrepreneurs operating in different sectors of the economy.<sup>1</sup> Case studies from the social enterprise literature are examined in some detail. We search for distinctions between entrepreneurship in the business and public sectors and entrepreneurship in the nonprofit sector and relate this to the variations in financial support found among nonprofit sector organizations. We conclude that third sector social entrepreneurs are likely to require a different mix of skills than business entrepreneurs. In particular, political skills broadly defined, and the ability to secure and maintain charitable support, appear to be common to successful social enterprise ventures. Hence, taking too narrow a view of social entrepreneurship and social enterprise by confining it to the traditional business model of entrepreneurship constrains the potential benefits of developing social entrepreneurship in the third sector. This implies that education of potential social entrepreneurs should be broadly construed, combining business, public and nonprofit based instruction.

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While the concept of entrepreneurship has a long history in the commercial sector, it has been embraced relatively recently in the social economy or third sector. Nonetheless, social entrepreneurship is now one of the hottest topics for policy makers and practitioners seeking new solutions to social problems in the United States, Europe, and other parts of the world. However, there is not yet conceptual clarity on the nature of social entrepreneurship and how it is similar and different from business sector entrepreneurship. Indeed, Dees and Anderson

(2006) argue that the concept of social entrepreneurship represents a confluence of two schools of thought: the idea of generating earned (market) income in support of social purposes (e.g., through commercial activity by nonprofit organizations) and the undertaking of innovation for social change.

The latter idea is generic and sector-agnostic, and consistent with the ideas of Jean-Baptiste Say, Joseph Schumpeter, and Peter F. Drucker. Say (1803) is credited with associating the French term *entrepreneur* (“one who undertakes”) with venturesome individuals who stimulate economic progress by finding new and better ways of doing things. Schumpeter (1934) wrote of entrepreneurship as the bringing about of “new combinations” of the means of production. Schumpeter’s emphasis was on innovation, leading to new kinds of economic goods and services, new ways of producing them, the opening of new markets, development of new sources of raw materials, or the creation of new organizational structures. Drucker (1995) characterized entrepreneurs as searching for change, responding to it, and exploiting change as an opportunity. D. Young (1983) and later Brinckerhoff (2000) adapted these notions of entrepreneurship specifically to nonprofits and social entrepreneurship, respectively. D. Young (1986) described nonprofit entrepreneurs as “innovators who found new organizations, develop and implement new programs and methods, organize and expand new services, and redirect the activities of faltering organizations” (p.162).

As Bielefeld (2009) noted, the confusion surrounding the distinction between for-profit and nonprofit entrepreneurs raises important questions for the teaching and practice of social entrepreneurship. How should we prepare nonprofit managers to become social entrepreneurs? To what degree do social entrepreneurs do the same things that business entrepreneurs do? What can managers and academics learn from the study and practice of commercial and social entrepreneurship?

The proper conceptualization of social entrepreneurship in the third sector—in particular, the nature of its link with the commercial marketplace—matters because it defines the skill sets that will be sought by third sector organizations to address their social missions. If social entrepreneurship is primarily about marketplace success, then the traditional model of the business entrepreneur is appropriate. However, if the broader concept of innovator and catalyst for social change is adopted, then a different skill set may be required of social entrepreneurs.

In this paper, we argue that the broader conception of the social entrepreneur is appropriate because social enterprise does not depend solely on marketplace success. Indeed, the financial foundations of third sector organizations are quite varied, and this variation is likely to be reflected in the financing packages for new ventures, implying that social entrepreneurs must be able to negotiate public sector and philanthropic environments as well as markets. Given that these environments require different knowledge and skill capacities, social entrepreneurs need capabilities that are somewhat different from those of the typical business

sector entrepreneur. This in turn suggests that would-be social entrepreneurs require a different educational preparation than business sector entrepreneurs.

The next part of this paper examines the literatures on business, public sector, and social entrepreneurship with an eye toward identifying similarities and differences in required skills. An important finding is that required skill sets are related to the resource opportunities available to entrepreneurs in different sectors and that social entrepreneurs must be able to negotiate resources from all three sectors. Thus, in the next section, we examine the economic foundations of various third sector environments, in particular the dependence of nonprofits in different fields of service on sources of income derived from the market, government, and philanthropy. This provides the context for reviewing a set of published case studies of social enterprise that reveal, at the micro level, the variety of financing sources and entrepreneurial skills required for successful social enterprises.

Subsequently, we classify these skills into three general categories: market, political, and generic (organizational) management skills. We conclude that social entrepreneurship is not only distinct from business entrepreneurship in its mix of skill requirements but also that these requirements vary substantially within the third sector. In the final section, we reflect on the implications of this analysis for education of successful social entrepreneurs. This in turn suggests that would-be social entrepreneurs require different educational preparation than classical business sector entrepreneurs.

#### ENTREPRENEURIAL CAPACITIES

The modest but growing literature on social entrepreneurship must be put into the context of a much more robust overall literature on entrepreneurship, most of which is implicitly focused on the business sector but is often generic in its approach to entrepreneurship as a phenomenon. The broader literature considers various perspectives on entrepreneurship, including the personality traits of entrepreneurs (e.g., Cunningham & Lischeron, 1991), the motivations for entrepreneurial behavior (e.g., D. Young, 1983), the contexts and circumstances of entrepreneurship (e.g., Kearney, Hisrich, & Roche, 2008), the decision-making processes through which entrepreneurship takes place (e.g., Hisrich, 2006), the role of entrepreneurship in economic theory (e.g., Baumol, 2002; Kirzner, 1979), and the skills and capacities required for success. Our review focuses primarily on the latter, with an eye toward identifying those skills and capacities that can be addressed in educational curricula for social entrepreneurs.

#### *Generic Skills*

Cunningham and Lischeron (1991) reviewed six schools of thought about entrepreneurs. Three of these hinge on skill sets: the *management school*, which emphasizes that entrepreneurs need certain kinds of management skills to successfully run and grow their organizations; the *leadership school*, which

emphasizes abilities to adapt to change, assume responsibility, and inspire and motivate people; and the *intrapreneurship school*, which emphasizes the special capacities to recognize and exploit opportunities within existing organizations, including the ability to set up new units, services, and programs. Various contributions to entrepreneurship research elaborate on one or more of these skill sets. For example, Smilor and Sexton (1996) emphasized the leadership characteristics, capacities, and skills of entrepreneurs while Kirzner (1979) explained how entrepreneurs use their keen managerial ability to perceive profitable opportunities that go unnoticed by others.

### *Public Sector Skills*

Several scholars have compared entrepreneurship in the public sector to entrepreneurship in the business sector. For example, Kearney, Hisrich, and Roche (2008) concluded that public sector characteristics such as larger, hierarchical, and more rigid organizations; short-term budgets and planning horizons, lack of rewards and incentives to innovate, cultures of risk aversion, political reluctance to close down failing programs, coordination issues among bureaucratic entities, limits on public resources, and lack of public confidence require public sector entrepreneurs to be especially skilled in persuasion, compromise and accommodation, problem solving, vision articulation, resource development, alliance and coalition building, navigating the legislative process, and sharing credit with program participants and supporters.

### *Social Entrepreneurship Skills*

The specialized literature on social entrepreneurship identifies a number of important skill sets that social entrepreneurs need to bridge the public, nonprofit, and business contexts. D. Young (1983, 1985, 1990) identified several generic capacities, including problem-solving ability, ingenuity and creativity, analyzing risks, identifying opportunities, consensus building, mobilizing resources, and persistence. Risk taking included jeopardizing professional reputation and secure employment. Political skills included negotiating grants and contracts, securing sponsorship of key supporters, working to pass enabling legislation, and satisfying regulatory authorities. Persistence included the patience to overcome financial, regulatory, political, and bureaucratic barriers, especially in the context of government funding.

Waddock and Post (1991) argued that social entrepreneurs required the ability to understand extremely complex problems and to form a convincing vision for solving them. Social entrepreneurs needed the personal credibility to secure critical resources, build networks of support for their initiatives, and frame a sense of collective purpose for those who support them. Pilz (1995) found that nonprofit entrepreneurs needed to be able to discern community needs, take risks, develop innovations, and focus on what they could do for others. Brinkerhoff (2000)

viewed social entrepreneurs as stewards of the public interest who must be able to identify new ways of serving constituents and adding value to existing service, take reasonable risks, understand the difference between wants and needs, understand social and financial returns to investments, and focus on mission as well as financial feasibility.

Dees (2001), focusing on the role of nonprofit entrepreneurs as change agents, noted their ability to adopt a mission to create social (not just private) value; recognize and relentlessly pursue new opportunities to serve the mission; engage in continuous innovation, adaptation, and learning; act boldly even without resources currently in hand; and demonstrate a sense of accountability for desired outcomes for the constituencies served. Andersson and Helm (2008) also argued that nonprofit entrepreneurship required innovation, proactiveness, and risk taking.

#### *Comparisons With Business and Public Sector Skill Sets*

Dees (2001) observed that social entrepreneurs have much in common with business entrepreneurs, including drive, ambition, leadership skills, and a sense of how to make maximum use of resources. Thompson, Alvy, and Lees (2000) also argued that skills and characteristics of social entrepreneurs mirror those of business entrepreneurs but require an extra dose of “visionary ideas, leadership skills, and a commitment to helping others” (p. 328). In particular, social entrepreneurs must be able to discern unmet public needs and mobilize resources and people to address those needs.

Alvord, Brown, and Letts (2004), using data from seven well-established organizations, suggested that social entrepreneurs need the capacity to bridge diverse stakeholder communities and adapt in response to changing circumstances over the long term. Light (2005) identified the ability to overcome serious barriers to success as crucial to creating “pattern-breaking change” in how governments, nonprofits, and businesses address significant social problems. Successful social entrepreneurs tend to possess the skills and capabilities to develop a particular idea, capitalize on opportunities, and work within organizational constraints and particular financial environments (Light, 2008). Like Dees, Light argued that social entrepreneurs need not rely on market-based tools to accomplish their objectives, because earned income is only one of several means to support social goals.

Handy, Ranade, and Kassam (2007) also saw strong parallels between nonprofit and business entrepreneurs in their ability to overcome challenges and constraints, identify new opportunities, promote innovative ideas, mobilize resources, and bear risks. Wei-Skillern, Austin, Leonard, and Stevenson (2007) found both substantial similarities and differences between social and commercial entrepreneurs. Both must be able to engage the human talent they need for their ventures; both must know, and be known for their abilities in, the industries within which they work; and both must maintain robust networks of contacts that gain them access

to funds, human talent, and other resources. The differences pertain largely to how they raise and utilize capital: Commercial entrepreneurs can draw on a much more robust and competitive field of commercial investors and a wide range of financial instruments to meet needs at different stages of organizational development. Social entrepreneurs face a much more diverse field of potential funders, ranging from individual contributors and volunteers to foundations and government sources, each with different interests, preferences, and motivations. Moreover, investors in social enterprise tend to cover smaller proportions of overall resource needs for shorter periods of time. This requires social entrepreneurs to spend much of their time continually cobbling together numerous grants, contracts, and contributions while responding to the diverse requirements and constraints of each source of funding.

In sum, the literature on social and nonprofit entrepreneurship exhibits substantial consensus around various generic entrepreneurial capabilities that transcend sectors, but also a recognition that the particular nature and mix of these capacities differs across sectors. In particular, it recognizes that social entrepreneurs essentially operate (simultaneously and in varying degrees) in three resource environments—charitable or voluntary, public and business—hence they require varying mixes of talents and skills to mobilize the resources deriving from each of those environments. In the next section, we consider how the resources required for social entrepreneurship deriving from different sources—markets, government, or philanthropy—vary among different parts of the nonprofit sector. This establishes the overall context for revisiting the necessary skill sets and ultimately the educational preparation required for successful social entrepreneurship.

#### ECONOMIC FOUNDATIONS OF THE THIRD SECTOR

The economic foundations of social entrepreneurship are not uniform across the third sector. Social entrepreneurs draw funding from different sources because the contexts in which they work vary by country, sector, and field. Thus, it is likely that the skill sets entrepreneurs need to successfully acquire and manage financial resources in different contexts also vary.

Comparative studies clearly demonstrate that the revenue base of the third sector differs from country to country (Salamon, Sokolowski, & Associates, 2004). On average, a 34-country compilation attributes over half of financial support of nonprofit organizations to fee income, another third to government revenue, and 12% to philanthropic sources. However, as illustrated in Table 1, individual countries vary widely in their mixes of revenues from different sources. This suggests that social entrepreneurs operating in different countries will encounter substantially different economic environments in which to find support for their initiatives.

Table 1.  
*Sources of Revenue of Third Sector Organizations, Selected Countries*

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| <b>Country</b>                       | <b>% Fees</b> | <b>% Government</b> | <b>% Philanthropy</b> |
|--------------------------------------|---------------|---------------------|-----------------------|
| <b>Mexico</b>                        | 85%           | 5%                  | 3%                    |
| <b>Sweden</b>                        | 62%           | 29%                 | 9%                    |
| <b>U.S.</b>                          | 57%           | 31%                 | 13%                   |
| <b>Japan</b>                         | 52%           | 45%                 | 3%                    |
| <b>France</b>                        | 35%           | 58%                 | 8%                    |
| <b>U.K.</b>                          | 45%           | 47%                 | 9%                    |
| <b>South Africa</b>                  | 32%           | 44%                 | 24%                   |
| <b>34-Country Average</b>            | 53%           | 34%                 | 12%                   |
| <b>34-Country Standard Deviation</b> | 18%           | 20%                 | 9%                    |

*Source.* Salamon et al. (2004).

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Within countries, substantial variation also exists among different parts of the third sector. This is well illustrated by data from the United States. Overall, some 70% of the revenue of reporting public charities is derived from fee income broadly defined, consisting of a combination of privately paid fees and charges as well as fee and contract revenues paid to nonprofits by government (Wing, Pollak, & Blackwood, 2008). Another 12% of revenue derives from charitable contributions, 9% from government grants, 5% from investment income, and 3% from other sources. However, these overall proportions vary widely by subsectors within the nonprofit sector, and indeed among individual organizations within subsectors.

Table 2 illustrates some of these differences. Organizations in health care, for example, are very largely dependent on fees (substantially through government insurance programs) while those in the arts, environment, and international work depend more on gifts and grants. Social services and education are also highly fee dependent. Government sources are particularly important in human services, health care, and international work.

The degrees to which revenue portfolios within subsectors vary also differ among fields of service. Table 3, which reproduces data from Chang and Tuckman (1994) using a Herfindahl index, indicates that the average concentration of revenue from particular sources among organizations within a field, as well as the variation of this concentration, differ from field to field within the U.S. nonprofit

Table 2.  
*Sources of Revenue for U.S. Nonprofit Organizations by Field of Service*

|                       | <b>Fees</b> | <b>Private Gifts</b> | <b>Gov't Grants</b> | <b>Invest. Income</b> | <b>Other</b> |
|-----------------------|-------------|----------------------|---------------------|-----------------------|--------------|
| <b>All</b>            | 70.3%       | 12.3%                | 9%                  | 5.4%                  | 2.9%         |
| <b>Arts</b>           | 31.3%       | 40.8%                | 12.5%               | 7.7%                  | 7.7%         |
| <b>Education</b>      | 55.9%       | 14.9%                | 11.9%               | 14.1%                 | 3.1%         |
| <b>Environment</b>    | 25.1%       | 48%                  | 14.1%               | 5.8%                  | 6.9%         |
| <b>Health</b>         | 87.5%       | 4%                   | 3.4%                | 2.9%                  | 2.2%         |
| <b>Human Services</b> | 53.1%       | 16.4%                | 22.7%               | 2.9%                  | 4.9%         |
| <b>International</b>  | 7.6%        | 67.3%                | 21.9%               | 2.2%                  | 1%           |

Source. Wing et al. (2008).

Table 3.  
*Concentration of Nonprofit Revenues by Field of Service*

| <b>Subsector</b>      | <b>Mean Concentration</b> | <b>Standard Deviation</b> | <b>Coefficient of Variation</b> |
|-----------------------|---------------------------|---------------------------|---------------------------------|
| <b>Arts/Culture</b>   | 0.50                      | 0.22                      | 0.44                            |
| <b>Education</b>      | 0.67                      | 0.22                      | 0.33                            |
| <b>Health</b>         | 0.71                      | 0.22                      | 0.31                            |
| <b>Human Services</b> | 0.65                      | 0.23                      | 0.32                            |
| <b>Total</b>          | 0.66                      | 0.24                      | 0.36                            |

Source. Chang and Tuckman (1994).

sector. (This index varies between 0 and 1; the lower the index, the more diversified is the revenue portfolio of a given organization.)

Revenue sources in health care are much more concentrated from one source (fees) than they are for education and human services; arts and culture nonprofits

are the least concentrated in one source. However, arts organizations tend to vary more widely in their concentration as measured by the coefficient of variation (calculated as the standard deviation of the concentration index divided by its mean).

Most of the research on income sources for third sector organizations in the United States is based on data from Internal Revenue Service Form 990, which focuses almost entirely on money income. It is well to note for purposes here, however, that a substantial proportion of the economic support for nonprofits in the United States derives from volunteer labor and that this too varies substantially by subsector. Reasonable estimates suggest that, overall in the U.S. nonprofit sector, it is roughly equal to the value of private charitable contributions; moreover, volunteering tends to be concentrated in particular fields of activity, especially religion and educational or youth services (Wing et al., 2008).

In the United States and Western Europe, various types of resources funded social enterprise in the 1980s and 1990s. The proportion of earned income generated by nonprofit organizations in the United States grew significantly in the 1980s, predicated theories that defined social enterprise by earned-income strategies (Kerlin, 2006). In recent years, however, private foundations increasingly supported individual social entrepreneurs through education programs and grants (Kerlin, 2006). Meanwhile, in Western Europe, the forms rather than the volume or the share of government funding changed. European social entrepreneurial initiatives relied on a mix of public and private resources that varied according to the needs to be addressed and local contexts (Defourny & Nyssens, 2008).

If the entrepreneurial skills needed to acquire and sustain fee income, charitable contributions, government funding, investment income, and volunteer support differ, then the foregoing data suggest that social entrepreneurship capacities required for success in different parts of the third sector also vary. The implications for social entrepreneurship may be subtle, however, because the sources of support in the third sector not only overlap with business and government sources but also vary more widely than they do for government or business ventures. Moreover, the sources of support for new ventures may be different from the average patterns of support for third sector organizations in their particular fields of activity. Furthermore, venture support may vary over the life cycle of social enterprises to which social entrepreneurs devote themselves. Social entrepreneurs may thus require skills common to business sector and public sector entrepreneurs as well as various other skills that are distinct.

#### METHOD AND CASES

The exploratory analysis that follows is based on a close reading of cases of successful social entrepreneurs. It examines how specific entrepreneurs approached the task of securing funding for their organizations. The principal funding sources were identified for each organization (see Tables 4 and 5), and a ranking of skills in order of importance for resource development was assigned for each case,

based on authors' judgments (see Table 4). The analysis then compared the case-specific rankings and revenue sources to discern the skill sets needed for each funding source (see Tables 6 and 7).

The selected cases are varied both by field of service and by whether they are start-ups of independent organizations or ventures within existing organizations. They constitute an illustrative but small and nonrepresentative sample, gathered from several recent published compilations that included both descriptions of entrepreneurial capacities and financial histories (i.e., Dorsey & Galinsky, 2006; Oster, Massarsky, & Beinhacker, 2004; Wei-Skillern et al., 2007; Wolk, 2008). (Where available, financial information from the literature was supplemented with 990 tax documents retrieved via GuideStar. We used this data only for general background and not quantitative comparisons, given the lack of universal availability and differences in the years when the selected cases took place. Hence, we do not report these numbers here.) In general, we sought to include as many published cases of social entrepreneurship as we could find that contained sufficient detail on the entrepreneurial skills at work and the financial foundations of the venture.

A close reading of each case revealed the unique entrepreneurial capacities that supported each venture. Table 4 offers a compact description of our case-by-case findings.

#### RESOURCES AND ENTREPRENEURIAL SKILL SETS

While our varied cases in social entrepreneurship are similar in many ways to entrepreneurship in the business sector, they also vividly illustrate some key differences with business entrepreneurship. While most cases do begin with the grit and determination of an entrepreneur willing to invest "sweat equity" in building the enterprise, few of these cases mirror the typical business scenario of private venture capital investment followed (hopefully) by the generation of a stream of sustaining earned income from market sales. Concomitantly, the entrepreneurial capacities required in these ventures vary considerably in the degree to which they emphasize marketplace skills, political and public sector skills, and skills of organizing and managing a formal organization. Table 5 offers a rough prioritization of the importance of these skill sets for each of the previous cases. (These rankings are based on the authors' judgments following a close reading of the cases.)

A few patterns stand out in the table. First, philanthropy is by far the most common principal source of sustaining funding for the selected social enterprise ventures. Only 3 of our 14 selected cases depend principally for their sustenance on earned income. This is not to imply that these ventures are failures, but merely to say that there appears to be a serious misconception that social enterprise is just about earned income. Although these ventures generate substantial public benefits, they are generally not sustainable or best supported by the marketplace but rather by some combination of sources, among which philanthropy stands out.

Table 4.  
*Summary of Cases by Venture and Entrepreneurial Skills*

| <b>Case</b>  | <b>Nature of Venture</b>   | <b>Story</b>   | <b>Skills</b>  |
|--|--|--|--|
| National Foundation for Teaching Entrepreneurship (NFTE) | Entrepreneurial literacy program for high-risk minority youth    | Founder Steve Mariotti mobilized a variety of donors including individuals, foundations, and nonprofit organizations to support students' entrepreneurial activities.  | Donor cultivation, grant seeking, relationship building  |
| Newman's Own, Inc.                                       | For-profit food company distributes all profits to social causes | Founder Paul Newman and associates earned profits in a competitive marketplace; charitable intent enhanced the company's ability to leverage business partners and build customer loyalty and goodwill.                  | Marketing and branding, negotiation skills, business acumen  |
| Ka-BOOM!   | Organization builds playgrounds in low-income neighborhoods      | Entrepreneur Darell Hammond garnered support from neighborhood stakeholders and corporations. He successfully managed multiple partnerships, a unique program, and organizational growth.                                | Vision articulation, coalition building, negotiation skills, business management skills, growth management |
| STRIVE (East Harlem Employment Service)                  | Employment training and placement program for at-risk youth      | Founder Sam Hartwell and associates mobilized support from charitable sources, especially foundations and corporations, secured government funds, and converted press attention into support for expansion of its model. | Grant seeking, public image development, navigating government programs                                    |

Table 4.  
*Continued*

| <b>Case</b>  | <b>Nature of Venture</b>                                     | <b>Story</b>   | <b>Skills</b>   |
|--|--|--|---|
| Triangle Residential Options for Substance Abusers, Inc. (TROSA) | Residential substance abuse treatment program                | Entrepreneur Kevin R. McDonald was recruited to lead TROSA for his professional understanding of the therapeutic model on which TROSA was built, his business acumen, and his good community relations. He secured financial support from community and corporate sources. | Grant seeking, community fund-raising, negotiation, professional competence, developing public image and trust  |
| ReServe  | Volunteer placement service for skilled retirees             | Entrepreneurs Jack Rosenthal and Herb Sturz secured government contracts and philanthropic funding, growing the enterprise in response to a market demand for the services of older adult professional volunteers.   | Negotiation skills, cultivation of donors and volunteers, grant seeking, navigating government programs, building on market opportunities, managing organizational growth |
| Independent Transportation Network (ITNAmerica)                  | Transportation service for seniors and the visually impaired | Founder Katherine Freund mobilized public sector funding; negotiated voluntary, cooperative, and business arrangements with partners; and devised a self-sustaining business model based on fees and significant levels of philanthropic funding and volunteer support.    | Navigating government programs, negotiation skills, donor cultivation, grant seeking, marketing, business management skills   |

Table 4.  
*Continued*

| <b>Case</b>         | <b>Nature of Venture</b>  | <b>Story</b>   | <b>Skills</b>  |
|---------------------|---|--|--|
| College Summit      | Program to increase the numbers of high school students applying to college   | Founder J. B. Schramm was able to negotiate partnerships with school districts and colleges, raise grant funds from major philanthropic institutions, and secure substantial government funding.   | Relationship building, negotiation skills, donor cultivation, grant seeking, navigating government programs    |
| Louisiana Art Works | Nonprofit facility for artists, art organizations, and the public   | Entrepreneur Shirley Trusty Corey negotiated commitments for support and approval at several levels of government; secured funding from corporations; created a business plan to accommodate public, cultural, and economic development goals; and managed substantial financial transactions. | Negotiation skills, navigating government programs, donor cultivation, business planning, financial management |
| Benetech            | Two public charities and a for-profit subsidiary that develops high-tech products for sale to challenged, underserved populations | Entrepreneur Jim Fruchterman's harnessed substantial charitable funding to supplement the sale of technology products and services designed for social benefit.  | Grant seeking, marketing, business management skills   |

Table 4.  
*Continued*

| <b>Case</b>                                   | <b>Nature of Venture</b>  | <b>Story</b>   | <b>Skills</b>   |
|---|---|--|---|
| Mental Disability Rights International (MDRI) | Organization that advocates for human rights enforcement and the rights of people with mental disabilities          | Eric Rosenthal used his professional familiarity with the clinical and legal nature of human rights violations to negotiate with governments, generate funding from concerned donors, and involve committed volunteers.  | Vision, professional competence, negotiation skills, donor and volunteer cultivation, knowledge of government |
| Men on the Side of the Road (MSR)             | Nonprofit organization that serves unemployed men in South Africa and Namibia                                       | Entrepreneur Charles Maisel successfully negotiated to gain entry and cooperation in public and private sector workplaces and secured support from government, corporations, and private foundations.  | Negotiation skills, navigating government programs, grant seeking   |
| International Bridges to Justice (IBJ)        | Legal aid and human rights advocacy for citizens of Asia  | Founder Karen Tse convinced friends to join in her strong personal commitment of time and resources, secured resources from institutional philanthropy, and negotiated with governments.   | Cultivation of donors and volunteers, grant seeking, negotiation skills, knowledge of government              |
| Gay-Straight Alliance Network (GSA Network)   | Youth leadership organization connects school-based Gay-Straight Alliances to each other and to community resources | Founder Carolyn Laub organized volunteer efforts, negotiated with schools and a network of voluntary groups, contracted with a nonprofit fiscal agent to provide official legal status, and secured philanthropic funding for operating costs and venture capital. | Volunteer and donor cultivation, negotiation skills, grant seeking, identification of contract opportunities  |

Second, the most common skill set for these social enterprises involves political skills such as coalition building, persuasion, and negotiation with key parties including volunteer groups, funders, government agencies and others. Market skills per se, including the ability to find market niches and promote products and services, which would tend to dominate in business entrepreneurship, generally take second place to these political skills, although these ventures commonly start with an intuitive and well-conceived idea focused on some unmet social need. The ability to manage an organization and its stakeholders is also an important skill set in many of these ventures, although this does not seem to rise to the level of top priority in any one instance.

If we were to compare the results in Table 5 to a sample of conventional business sector ventures, the latter would tend to cluster on 1-3-2 as the dominant mode, emphasizing market, management, and political skills in that order and depending

Table 5  
*Entrepreneurial Skills for Selected Social Enterprise Ventures*

| Case                | Market Skills | Political Skills | Management Skills | Principal Funding Source |
|---------------------|---------------|------------------|-------------------|--------------------------|
| NFTE                | 3             | 1                | 2                 | Philanthropy             |
| Newman's            | 1             | 3                | 2                 | Earned income            |
| Ka-BOOM!            | 2             | 1                | 3                 | Philanthropy             |
| STRIVE              | 2             | 1                | 3                 | Philanthropy             |
| TROSA               | 1             | 3                | 2                 | Earned income            |
| ReServe             | 3             | 1                | 2                 | Philanthropy             |
| ITNAmerica          | 2             | 1                | 3                 | Philanthropy             |
| College Summit      | 2             | 1                | 3                 | Philanthropy             |
| Louisiana Art Works | 3             | 1                | 2                 | Government               |
| Benetech            | 1             | 3                | 2                 | Earned income            |
| MDRI                | 2             | 1                | 3                 | Philanthropy             |
| MSR                 | 2             | 1                | 3                 | Government               |
| IBJ                 | 2             | 1                | 3                 | Philanthropy             |
| GSA Network         | 2             | 1                | 3                 | Philanthropy             |

*Note.* Skills are ranked in order of importance for resource development. A ranking of 1 denotes the most important skill set.

principally on earned income for operating purposes and retained income, borrowing, sale of equity, and venture capital funds for investment capital. Clearly, social entrepreneurship exhibits much greater variety as well as different central tendencies clustering around political skills and philanthropic funding. These patterns have not to date been systematically recognized or addressed in the (social) entrepreneurship literature.

Broadly speaking, to mobilize resources for their ventures, the social entrepreneurs in our cases operated in one or more of three different environmental settings: the economic marketplace, the political arena, and the world of charity and philanthropy. Indeed, these arenas overlaid one another; but they required somewhat different sets of entrepreneurial skills, including business skills associated with securing capital and selling products and services in a marketplace, political skills associated with garnering the support of various constituencies and stakeholders, and management skills associated with making wise and responsible use of the various kinds of resources needed to sustain ventures.

It is fair to say that entrepreneurs require a mix of these skills, no matter what sector they operate within. For example, a business entrepreneur obviously needs market skills, but political skills are also needed to secure necessary permissions, licenses, and perhaps even funding from government. That same business entrepreneur will need to ensure that resources are wisely and honestly spent and accounted for, and may also need to demonstrate good citizenship in the community—for example, by sponsoring a youth club, volunteering on a board, or heading a fund-raising campaign for United Way—to create an ambiance for business success.

By and large, however, the relative importance of market, business, and managerial skills is likely to be different for business versus social entrepreneurs because these groups rely on different sources of support for their ventures. Based on our general understanding of how resources are mobilized in the different sectors of the economy, from the literature and a review of our cases, Table 6 sketches out some of the differences in the nature and importance of market, political, and management skills associated with securing and utilizing the different kinds of resources. (The most important of these skills in each category, in our view, are highlighted in italics.) In our judgment, these three categories of skills are generic; but their manifestations and relative importance are likely to be different, depending on the nature of the resources social entrepreneurs require to support their particular ventures.

Table 7 is intended to capture the relative importance of the three types of skills by revenue source on a scale of 1 to 3, where 1 indicates the most important type of skills. The suggested rankings represent the considered judgment of the authors, based on conventional conceptions of the processes required to secure resources in the market, from government, or through philanthropy as well as on an overall review of the cases. Note that there is an imperfect correlation between the nominal rankings in Table 7 and the rankings of dependence on different

Table 6.  
*Alternative Entrepreneurial Skill Sets for Mobilizing Venture Resources*

|   | <b>Market Skills</b>  | <b>Political Skills</b>   | <b>Management Skills</b>  |
|---|---|---|---|
| <b>Earned Income</b>                      | <i>Venture capital acquisition from commercial and philanthropic sources, business planning, product marketing, and pricing</i>   | <i>Cultivating relationships with business partners, suppliers, and investors; maintaining good customer and community relations; maintaining networks of colleagues and professionals within the industry addressed by the venture</i> | <i>Financial planning and management, maintaining workforce morale and productivity</i>   |
| <b>Government Funding</b>                 | <i>Assessing political needs and opportunities; framing ideas and proposals; identifying grant, contract, and partnership opportunities; competing for grants and contracts</i> | <i>Cultivating relations with government officials and politicians, advocating for favorable legislation, maintaining a positive public image, developing a good reputation within industry and community</i>                           | <i>Adherence to government regulatory and reporting requirements, evaluation and performance assessment skills</i>                      |
| <b>Charitable Giving and Volunteering</b> | <i>Prospect research, grant writing, donor solicitation through annual and capital campaigns, cause marketing and branding, developing and projecting vision</i>                | <i>Cultivating potential and current donors, cultivating volunteers, cultivating foundation and corporate officials, developing a favorable public image</i>  | <i>Volunteer management, coordinating diverse performance assessment requirements, strategic and business planning, fund accounting</i> |

Table 7  
*Entrepreneurial Skill Sets Ranked by Order of Importance for Principal Revenue Source*

|                      | <b>Market Skills</b> | <b>Political Skills</b> | <b>Management Skills</b> |
|----------------------|----------------------|-------------------------|--------------------------|
| <b>Earned Income</b> | 1                    | 3                       | 2                        |
| <b>Government</b>    | 3                    | 1                       | 2                        |
| <b>Philanthropy</b>  | 2                    | 1                       | 3                        |

sources of income in our specific cases as portrayed in Table 5. Table 7 is intended to describe modal patterns from which some variance may be expected. Thus, individual cases vary with particular circumstances in which the dominant revenue source is just one important factor. Overall, however, the foregoing skill sets relate directly to the educational requirements for social entrepreneurs as distinct from business entrepreneurs, largely because the former are concerned with different mixes of all three sources of funds while the latter are primarily concerned with skills associated with earned income.

#### SKILLS FOR SOCIAL ENTREPRENEURSHIP

If we juxtapose the diverse requirements associated with different funding sources (described in Table 6) with the variety of funding mixes exhibited by third sector organizations in different fields of service, it is tempting to prematurely conclude that social entrepreneurs require different skill sets according to the organizational circumstances of their ventures. However, this analysis must be further nuanced because it does not necessarily follow that the funding mix for a new entrepreneurial venture will mirror the funding mix of the organization or subsector in which the venture is embedded. In the first place, many social ventures take the form of new organizations that have no previous history of reliance on particular sources of income. Furthermore, entrepreneurial ventures emanating from established organizations are commonly activities *at the margin* that add incrementally to the preexisting programming of the organization in which they are undertaken. Hence, they are not necessarily intended to continue the existing pattern of programming and funding. Indeed, third sector organizations that are heavily dependent on a given type of revenue, say foundation grants, might specifically seek to pursue social ventures for the purpose of *diversifying* their revenue bases into earned income. Conversely, organizations heavily dependent on earned income might seek to diversify their revenue through philanthropic support. This was the case, for example, of the Steppenwolf Theater in Chicago, which began as an “edgy” performance group that supported itself solely on

ticket sales and the sweat equity of its founders. This social enterprise eventually grew by establishing a solid donor base to support itself as it evolved into a mature organization (Proscio & Miller, 2003). More generally, a recent study by Miller (2008) suggests that most individual nonprofit organizations have either one or two major revenue sources and that organizations funded by two sources tend to be financially healthier than those with only one source. A probable scenario is that organizations (like Steppenwolf) tend to start with one source and later acquire a second source. It is not clear which particular sources social entrepreneurs rely on to get started—this may vary by circumstances. It is clear, however, that ultimately many social entrepreneurs need to be well versed in the skills associated with acquiring and managing more than one source of resources to sustain their ventures.

Funding sources vary for social ventures within the same subsector providing similar services, and variation exists between individual organizations and the average funding mix for the field. For example, Cordes and Steuerle (2008) describe three entrepreneurial organizations within the human services field that provide similar services, specifically job training for at-risk populations. All three organizations rely on more than one source of revenues, and all receive earned income. Yet, each relies on a distinct funding mix different from the subsector average.

It seems fair to speculate that many if not most social entrepreneurial ventures are launched with the intent of developing strong streams of earned income. However, such ventures also need to raise venture capital, which is likely to derive from philanthropic sources; moreover, social ventures, even if successful in achieving mission-related goals, are not necessarily sustainable on the basis of market income alone. The only way to determine the required resource-related skill set is to examine the financial underpinning of social enterprise ventures from their inception, relative to their parent organizations if they are launched in this way, and in the context of the fields of service in which they arise. Moreover, as suggested earlier, the organizational life cycle of a social venture is likely to influence the funding mix and hence the requisite entrepreneurial skill sets.

Indeed, one suggestive, preliminary study in Ontario, Canada, by Dart, Armstrong, and Clow (2008) finds that so-called social purpose businesses depend very little on earned income and in fact struggle to obtain their main source of sustenance, government grant funding. This result may not be surprising in the Canadian context. However, the dependence of social enterprise on other than earned revenue, and hence the requirement that social entrepreneurs be skilled in securing nonmarket sources of revenue, is a more general phenomenon not yet fully appreciated or adequately researched.

#### EDUCATION FOR SOCIAL ENTREPRENEURS

In some ways, social entrepreneurship is no different from business entrepreneurship—both are varieties of entrepreneurship generically defined as establishing a programmatic or organizational venture that offers something

new and pathbreaking. All entrepreneurship involves certain elements, skills, and motivation. However, social enterprises develop in different economic contexts and for different purposes than new business ventures. Their sources of support both in terms of initial capital investment and long-term operating income are likely to be quite varied and only rarely exclusively reliant on conventional investment capital or a sustaining level of earned revenue from marketplace sales.

The fact that the third sector environments in which social enterprises develop are themselves quite varied in terms of sustaining sources of income argues either that social entrepreneurs require a wide range of business, philanthropic, and government-related skills and/or that they need to become specialized to the particular subsectors in which they work. As indicated in the descriptions in Table 4, the latter may hold to a certain degree because social entrepreneurs often begin with an insight built on special knowledge, experience, and expertise in their chosen fields of service. However, it also appears that most social entrepreneurs need to be conversant with more than one institutional source of support—usually some combination of earned income, philanthropy, and government funding—and volunteer effort.

The case studies reviewed here suggest a surprising result: that philanthropy, not earned income, may be the principal sustaining source for contemporary social enterprise ventures, even though philanthropy is generally less important than earned income or government support in the nonprofit sector as a whole. The case studies summarized here are not a representative sample, and not too much confidence should be put into this observation. A definitive, representative sampling and study of social enterprises has yet to be made in the United States or elsewhere. Still, if the foregoing pattern is anywhere near the truth, it suggests some interesting explanations. First, like new businesses, new social ventures have a difficult time surviving in the marketplace. Yet they often achieve or promise important social benefits. Hence, providers of philanthropic capital help keep them going until they can mature into self-sustaining organizations. Second, those social benefits cannot often be sustained in the marketplace alone; even in the long term, social enterprises are likely to depend on a mix of income sources—earned income supplemented with philanthropy, government support, investment income, and volunteer labor.

What are the implications of this result for the education of social entrepreneurs? Today, essentially two contemporary versions of graduate education are addressed to the future social entrepreneur. Some would-be social entrepreneurs study in business schools, for example, MBA programs with an emphasis on commercial entrepreneurship education. Increasing numbers of such students hope to establish their own “social purpose businesses” that combine material and social goals. Other would-be entrepreneurs are being educated in programs of nonprofit management education, many hoping some day to establish or lead their own nonprofits. If

the preliminary observations of this paper hold true, then neither of these educational approaches appear to be sufficiently comprehensive.

The literature on entrepreneurship education focuses heavily on the need for greater rigor as well as the basic questions of whether and how entrepreneurship can be effectively taught (Green, Katz, & Johannisson, 2004). Quoting the Academy of Management website in June 2004, these authors note that major topics in academic study of entrepreneurship include “new venture ideas and strategies; ecological influences on venture creation and demise; the acquisition and management of venture capital and venture teams; self-employment; the owner/manager; management succession; corporate venturing and the relationship between entrepreneurship and economic development” (p. 238). The typical program of entrepreneurial education in business schools emphasizes market and business management skills—finance, marketing, strategy, and so on—synthesized in the context of a business plan (Hisrich, 2009). Courses include a general introduction to entrepreneurship, business planning, entrepreneurial marketing, and entrepreneurial finance as well as various venues for entrepreneurship including international entrepreneurship, family business, intrapreneurship (corporate venturing), and indeed social entrepreneurship. The focus of these curricula tends to be individual business owners in the process of starting and operating their own growth-oriented businesses (J. Young, 1997). According to J. Young (1997, p. 222), citing Hood and Young (1993):

Formally constructed entrepreneurship education...is concerned with the conveyance of entrepreneurial knowledge and developing the focused awareness that precludes flawed thinking, as it relates to opportunity recognition and the creation of new ventures, as well as pursuit of such opportunities *through the subsequent profitable growth of businesses*. (emphasis added)

Finally, it is fair to say that there is controversy in the educational community as to whether social entrepreneurship needs to be taught any differently than business entrepreneurship. Accordingly one expert, George Gendron (2004), notes:

Schools in general are trying to figure out how to respond to this, and at one end of the spectrum you have schools that basically say you know, that the traditional MBA tool kit applies....At the other end of the spectrum you have schools that are building out specialized educational programs for social entrepreneurship. Are there special sets of skills that people need who are thinking of going out and starting what we euphemistically call these new nonprofits where they want to have a social impact, but they also want to manage their business and financial affairs in a more intensive way than prior generations? (p. 311)

Our answer to that question is basically yes. While there is no question that social entrepreneurs require the generic entrepreneurial motivations and business skills for which they are respectively selected and taught in business schools, it is also the case that social entrepreneurs must be conversant with philanthropy, government, and volunteerism and the skills required to successfully negotiate those institutions. These are areas of expertise now emphasized in the hundreds of programs in nonprofit management education that have developed in U.S. universities, largely in schools of public administration (Mirabella & Wish, 2001).

In some ways, social enterprise and social entrepreneurship are nothing new—perhaps a repackaging of the entrepreneurial energies that have long characterized social purpose initiatives in the nonprofit sector of the economy in the United States and in other third sector manifestations (such as cooperatives) elsewhere in the world. What is new, and seemingly naive, is the notion that business forms can supplant these traditional manifestations (Edwards, 2008) and achieve their goals through profitable earned income activity. No doubt the business entrepreneurship tradition has brought new energy to the field of social purpose enterprise, but business education per se falls short of what is needed to prepare the new social entrepreneurs. A more considered perspective would recognize that social purposes ventures are more complex than pure business ventures and require the knowledge that can be brought to bear by combining business entrepreneurship and nonprofit management education.

#### FOOTNOTE

- 1 This paper is based on a presentation to the conference on Social and Solidarity-based Economy: New Practices and Territorial Dynamics, Nantes, France, September 29–30, 2008.

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