International Business

Bachelor Thesis

For-profit and Nonprofit Businesses: Analyzing Indicators of Convergence

A thesis submitted by

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Just as people cannot live without eating,
so a business cannot live without profits.
But most people don’t live to eat, and neither
must a business live just to make profits.

John Mackey
Rethinking the Social Responsibility of Business

Abstract

The purpose of this bachelor thesis is to find out whether there are indicators that point out a convergence of nonprofit and for-profit businesses. Therefore, various business concepts and the money markets of for- and nonprofit businesses are analyzed by implementing a qualitative content analysis. The results show that most of the concepts and both money markets show clear features of for- and nonprofit businesses. In conclusion, indicators of convergence could be identified.

Keywords: Businesses, For-profit, Nonprofit, Convergence, Business Concepts, Capital Markets, Indicators.

Statutory Declaration

I hereby certify this thesis is my own work and contains no material that has been submitted previously, in whole or in part, in respect of any other academic award or any other degree. To the best of my knowledge all used sources, information and quotations are referenced as such.

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List of Abbreviations

2008 SNA	System of National Accounts, Version 2008
BOP	Bottom of the Pyramid
CSE	Corporate Social Entrepreneurship
CSR	Corporate Social Responsibility
CSV	Creating Shared Value
FP	For-Profit
FPB	For-profit Businesses
FPC	Financial Profit Creation
FPI	For-Profit Institution
GDP	Gross Domestic Product
n/a	Not applicable
NP	Nonprofit
NPB	Nonprofit Businesses
NPI	Nonprofit Institution
NPI Handbook	Handbook on Non-Profit Institutions in the System of National Accounts from 2003
NPISH	Nonprofit Institutions Serving Households
SDGs	Sustainable Development Goals
SI	Social Intrapreneurship
SNA	System of National Accounts
TSE	Third, or Social Economy
TSES-SA	Third, or Social Economy Sector Satellite Account
UNSD	United Nations Statistics Division

1 Introduction

In 2015, heads of governments from all over the world signed the Agenda 2030, and thus committed to lead their countries towards seventeen goals, including social, environmental and economic aspects. These sustainable development goals (SDGs) draw attention to the various social shortcomings, especially poverty and sustainability, of today's global society. Looking at the wealth that is accumulated in the industrialized world, it is hard to understand why these inequalities exist. Money is donated by individuals, nonprofit businesses and state development aid have made ceaseless efforts – and still, poverty, a lack of health services, education, clean water and energy and other social ills prevail.

Representatives of nonprofit and for-profit businesses make presumptions about why previous approaches have not yielded the expected results so far, and make suggestions on how to get them.

Dan Pallotta, fundraiser, author and speaker, looks at the nonprofit sector from a bird's eye view in order to identify what is necessary to further the success of nonprofit businesses in their mission to bring forward social progress. In his famous TED Talk "The way we think about charity is dead wrong" (2013), Dan Pallotta criticizes the distorted moral standards society requests from nonprofit businesses, in contrast to for-profit businesses. He points out how destructive society's mindset is for nonprofit institution, when they ask how much of their donations go straight to the cause. The demonizing of overhead leads to significant disadvantages of nonprofit compared to for-profit businesses. Pallotta identified five different areas of discrimination: Firstly, a modest compensation of employees and consequently the difficulty to get access to highly qualified staff; secondly, a low budget for advertising and marketing, hence no market share growth; thirdly, no error tolerance leading to cumbersome precaution concerning innovative approaches to generate revenue; fourthly, no time concessions for new nonprofit businesses to build up scale before it produces positive outcomes, and fifthly, no access to the common capital markets because of prohibition to distribute profits. He argues that these aspects in nonprofit businesses, hinder social progress and lessen the effectivity of the efforts they make, to work against the causes and effects of social evils. Pallotta is sure that if society changes its assumptions on nonprofit businesses "(...) the non-profit sector can play a massive role in changing the world for all those citizens most desperately in need of it to change" (from TED talk, 2013).

Porter and Kramer (2011), believe that a shift from solely profit oriented businesses towards more social and environmental conscious business practices is underway and that businesses need to take an active role to regain trust and legitimacy from society and governments. For this cause the authors have developed the creating shared value (CSV) concept. It encourages for-profit businesses to connect their strategy to social challenges and to reconnect businesses with society. They summarize CSV as follows (2011, p. 62):

> Shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the center. We believe that it can give rise to the next major transformation of business thinking.

Porter (2013) believes that innovations resulting from CSV activities, will have the potential to make social and environmental change happen. He argues that in contrast to the change nonprofit businesses can effectuate, for-profit businesses have the capability to develop processes, products and services that are not only social, but profitable, too. He and Kramer (2015) emphasize that profit ensures sustainability, makes growth possible, and consequently increase the impact of their social effect (2013; Kramer and Porter 2015).

Considering the perspectives that experienced representatives of both nonprofit and for-profit sectors point out, one might think that each side has certain characteristics that are usually attributed to the other: Nonprofit businesses crave to legitimately use the advantageous opportunities of marketing, access to the money market and highly qualified staff, lead time and risk-taking. For-profit businesses want to be acknowledged again by society for taking responsibility and driving societal change. Representatives of both sides, impatiently search for innovative and practical solutions to get closer to the SDGs, which they believe to be complex but surmountable.

With regard to these perspectives and the emergence of new business concepts and changes in the money markets of for- and nonprofit businesses, the theory has been postulated that nonprofit and for-profit businesses are converging. This bachelor thesis examines whether new business concepts contain both, nonprofit and for-profit business features, in order to find out whether they indicate such a convergence. The results show that most of the concepts and both money markets can be classified as indicators of convergence.

The bachelor thesis proceeds as follows: in the second chapter, the theoretical background for the investigation is set, presenting the basic principles and key notions and the differentiation of nonprofit and for-profit businesses. In chapter three, the objectives of the investigation is outlined and then the business concepts and the money market are methodically analysed and evaluated. In chapter four, the chain of arguments, including aspects from teh theory, and the results of the bachelor thesis are summarized.

2 Theory

This chapter introduces the theoretical basis for the analysis. It consists of two parts: the first one explains the basic principles and key notions and the second sets the focus on the objects of investigation, for- and nonprofit businesses. More precisely, in the first part, the basic principles and key notions clarify what is to be understood when the term 'business' is used. Furthermore, the meaning of financial and social value creation and why they are not mutually excluding is explained. Then, many expressions that are used for social and environmental objectives of businesses are outlined. At last, the sources that are used for the definition of for- and nonprofit businesses within the next part of the chapter are introduced. In the second part of the theory, the allocation of businesses to different sectors within the macroeconomic framework, the 'System of National Accounts', used by government but also for research, is explained. Therefore the definitions of the institutional units, corporations and nonprofit institutions have to be explained in more detail. From there, the development of the nonprofit sector definition is outlined. Ultimately, the institutional in-scope units of the Third, or Social Economy (TSE) Sector are presented, thereby the conceptual limitation of nonprofit businesses is articulated.

2.1 Basic principles and key notions

For a good understanding of this bachelor thesis, several definitions and conceptual terms need to be clarified. First, the business as organizational unit is depicted. The meaning of the terms for-profit and nonprofit in context with the business notion are clarified and information on the differentiation and the main features of for- and nonprofit businesses is given. Secondly, the supposed conflict between financial and social benefit creation within businesses is resolved. In the third chapter, the sustainable development goals of the 2030 Agenda for Sustainable Development are manifested as the underlying motivation of businesses seeking social or environmental change. After that, the concept of social innovation is presented. At last, the sources for most definitions and concepts are outlined.

2.1.1 The Business

The business is the main subject of investigation within this bachelor thesis. Therefore it is necessary to explain the concept itself and its connection with its context. First of all, a compact definition of the business is given. After that, the main activities of businesses, production and marketing of products and services, are outlined, followed by a business typology that differentiates businesses based on distinct features. Then, the business principle of economic efficiency is presented. Additionally, attention is payed to the scientific location of businesses studies, which moves between the disciplines of economic theory and behavioral science. These approaches throw light on different points of view about the purpose of the business: public welfare or long-term profit maximization? In the consideration of stakeholder versus shareholder approaches, these different point of views are also reflected. The information for this chapter is drawn primarily from Wöhe's and Döring's (2013) introduction into business studies and in some cases complemented by additional sources.

Definition

Wöhe and Döring (2013) present the following definition of business: "Als Betrieb bezeichnet man eine planvoll organisierte Wirtschaftseinheit, in der Produktionsfaktoren kombiniert werden, um Güter und Dienstleistungen herzustellen oder abzusetzen" (p. 27). (Translated: A business is defined as a systematically organized economic unit, in which factors of production are combined, in order to produce or market goods and services). The process of production within a business is presented in the next figure 2.1 and explained underneath.

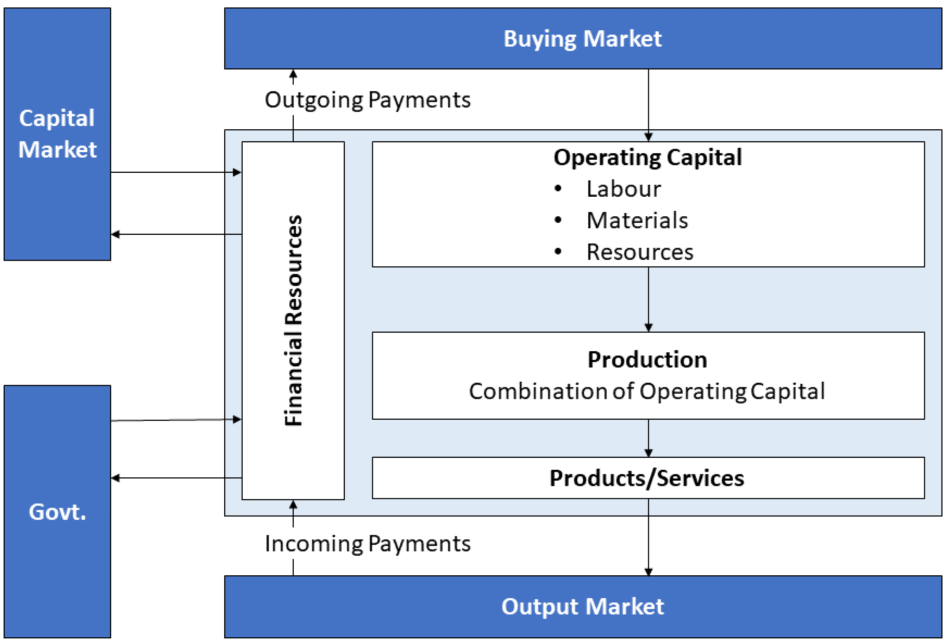

Figure 2.1: Operational Service Provition and Recovery of Efficiency (Wöhe and Döring 2013)

Main activities

The production process within the business only starts after operating capital, labour, materials and resources have been purchased in the buying market, which leads to outgoing payments. Within the production, those various factors of production are combined and turned into goods and services. Next, these goods and services are sold on the output market, to households and other businesses, thus generating incoming payments. The incoming and outgoing payments from purchasing production factors and selling goods and services increase and reduce the financial resources of the business. Furthermore, major investments require financing through the capital market in form of either equity, for instance by issuing shares, or liabilities by taking up a credit. In both cases, the financing through the capital market leads to outgoing payments: equity financing usually goes hand in hand with the distribution of dividends to the investor, and credits are amortized through interest payments. Moreover, governments can grant subsidies to businesses, but they also raise taxes from businesses. The components government, buyers, output and capital market make up the peripheral system of the business (Wöhe and Döring 2013).

Typology

Considering the total amount of businesses, an identification of a business typology according to distinct features is possible. The most used classifications are (2013):

(a) Type of business goal
(b) Type of produced output
(c) Branch of industry
(d) Business size

Different types of business goals (a) are profit making and other such as social, cultural or ecological goals. This differentiation leads to a separation of profit-oriented businesses – also referred to as for-profit businesses (FPBs), firms, enterprises, companies – and non-profit businesses (NPBs). Wöhe and Döring (2013) further differentiate profit-oriented businesses and NPBs according to their necessity of risk prevention. The authors argue that the existence of NPBs is usually secured by guarantors, for instance foundations, the church or the income from membership fees, while FPBs compete with other businesses within the free market economy and consequently are left to their own financial resources. Risk prevention in form of accumulated profits is necessary in their case because their economic success may fluctuate strongly over the time.

NPBs and FPBs usually obtain external financing from separate capital markets (Holt and Littlewood 2015, Wöhe and Döring 2013, Kaplan and Grossman 2010):

- FPBs and entrepreneurs receive either venture capital, as early stage financing, allowing venture capital providers to expect higher yields (2015) or later equity capital, for instance from shareholders in form of an investment. Shareholders are entitled to receive a proportion of the profits, the business makes (2013). FPBs mostly receive long-term investments from their investors (2010). Furthermore FPBs receive loan capital from banks (2013).
- NPBs and social entrepreneurs are primarily supported by guarantors, mainly foundations and other NPBs, collecting and distributing donations for social purposes. These provide them with funds, without expecting a return of the capital. NPBs are often incompatible for common profit-seeking investments because they distribute no profits or only in a significantly limited form (2013). The NP capital providers usually fund the NPBs for shorter periods of two or three years (2010)

As the differences between FPBs and NPBs are of major relevance within this bachelor thesis, it is important to note that other authors have identified a tendency in NPBs that is contrasting to Wöhe and Döring's (2013) representation of financially unconcerned NPBs. Smith (2010) identifies an increasingly unstable income structure and an intensification of the intra-sectoral competition for income between different NPBs and the inter-sectoral competition for income between for- and nonprofit businesses (Salamon 1993), similar to the competitive situation of FPBs. The following chapter 2.2 pays further attention to the differentiation of FPBs and NPBs.

The different types of produced output (b) lead to a differentiation between manufacturing and service-providing businesses as shown in figure 2.2. A further explanation of the figure would go beyond the scope of this work, please refer to Wöhe and Döring (2013) for more information on this topic.

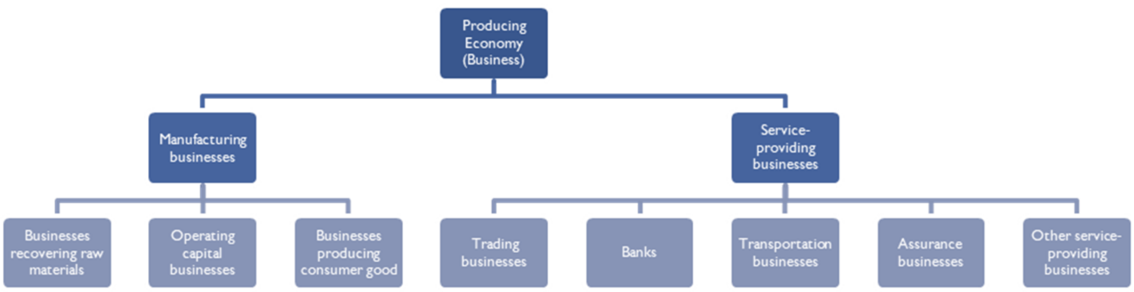

Figure 2.2: Structure by Type of produced Output (Wöhe and Döring 2013)

The differentiation of businesses according to industry branches (c) also follows the differentiation by output type, but is more extensive. Wöhe and Döring (2013) use a survey from the German Federal Statistics Office which shows the number of businesses and their number of employees per type of output and per branch. However, for a broader picture of existing industry branches, the Statistics Division of the United Nations Department of Economic and Social Affairs (UNSD) serves us with a more specific overview, represented in figure 2.3 (United Nations Statistics Division 2008). As in figure 2.2, please refer to the original source for more information.

Section	Divisions	Description
A	01–03	Agriculture, forestry and fishing
B	05–09	Mining and quarrying
C	10–33	Manufacturing
D	35	Electricity, gas, steam and air conditioning supply
E	36–39	Water supply; sewerage, waste management and remediation activities
F	41–43	Construction
G	45–47	Wholesale and retail trade; repair of motor vehicles and motorcycles
H	49–53	Transportation and storage
I	55–56	Accommodation and food service activities
J	58–63	Information and communication
K	64–66	Financial and insurance activities
L	68	Real estate activities
M	69–75	Professional, scientific and technical activities
N	77–82	Administrative and support service activities
O	84	Public administration and defence; compulsory social security
P	85	Education
Q	86–88	Human health and social work activities
R	90–93	Arts, entertainment and recreation
S	94–96	Other service activities
T	97–98	Activities of households as employers; undifferentiated goods- and services-producing activities of households for own use
U	99	Activities of extraterritorial organizations and bodies

Figure 2.3: The individual categories of International Standard Industrial Classification have been aggregated into these 21 sections (taken from: United Nations Statistics Division 2008, p. 43)

For the classification of businesses according to size (d), either the amount of turnover or the number of employees can be considered.

Economic efficiency

Economic efficiency is the most important principle of doing business from an economic theory based point of view. This principle describes the aim of entrepreneurs to keep the ratio of input per output as small as possible. Businesses that follow this principle focus on efficiency as their first priority. They favor the operational solution that produces the most output value with the least input value. This behavioral pattern turns them into a systematically organized economic unit.

Scientific location of business studies

This bachelor thesis looks at for- and nonprofit businesses from a perspective that deviates partially from the strictly economy-centered business studies. Therefore, the business studies funded on behavioral sciences are presented as an alternative interpretation of the business. Chronologically, the approach started to develop by about 1970, when the achievement of social goals was added to the profit maximization of businesses. Beside social and economic goals, ecological goals were given priority after 1980. Shortly after that, a strong ethical discourse on the moral justifiability of all kinds of operational activities of businesses went off (Wöhe and Döring 2013).

Business studies, which are funded by behavioral science, see the respective objective of businesses in maximizing the public welfare. The economically-centered business studies put emphasis on long-term profit maximization. The so-called shareholder approach argues that the equity providers of a business bear the entrepreneurial risk, the risk of loosing their investment, and thus are entitled to participate in profit-sharing and decision-making. The investments of other stakeholders are compensated through contracts. However, a reasonable consideration of stakeholders is not discussed in the context of this approach. According to the theory of the 'invisible hand' of economic market competition by Adam Smith, profit maximization requires an accommodating attitude towards the stakeholders, otherwise the contract partners of the business choose to turn away (2013).

Critics, however, consider the objective of long-term profit maximization morally reprehensible and not realistic. When public welfare is left to the competition of the market economy, market failures in the reasonable use of natural resources and the supply of social services commonly arise. Consequently, the legislator needs to take measures in form of legal regulations to balance these social and economic arrears. The behavioral sciences' idea of businesses advocates an internalization of those market failures through the stakeholder approach. It suggests taking greater consideration of the interests of all stakeholders in business goals and in operational solutions (Wöhe and Döring 2013). As table 2.1 shows, there are the following stakeholders with differing claims and contributions to the business.

Table 2.1: Claims of the Stakeholders towards the Business (Wöhe and Döring 2013)

Stakeholders	**Filling a claim for ...**	**Contribution to business**
Equity providers	Profit distribution for and capital growth of the invested capital	Equity capital
Dept capital providers	Amortization of and interest payment for the capital employed	Dept capital
Employees	Fair remuneration, motivating working conditions and security of employment	Operational work
Management	Salary, power, influence, prestige	Dispositive work
Consumers	Inexpensive and qualitative goods	Purchase of qualitative goods
Suppliers	Reliable payment, long-term supplier relationship	Supply of qualitative goods
General public	Tax payments, adherence to legal regulation, considerate dealing with the environment	Infrastructure, legal system, environmental commodities

The business goals in consideration of the interests of all stakeholders can be subdivided into three types of goals by three stakeholder groups as one can see in table 2.2.

Table 2.2: Economic, social and ecologic business goals (Wöhe and Döring 2013)

Economic goals in the interest of shareholders	**Social goals in the interest of employees**	**Ecologic goals in the interest of the general public**
• Long-term profit maximization • Shareholder value = Increase of equity value • Profitability = positive Return on Investment • Securing of business existence and growth	• Fair remuneration • Good working conditions • Operational social security benefits • Security of employment • Worker participation	• Considerate dealing with the environmental resources • Limitation of pollution emissions • Avoidance of waste • Recycling of waste

The failure in finding comprehensive definitions for concepts like public welfare, fairness and moral correctness as well as the conflicts of interest of the stakeholders make it difficult for entrepreneurs to assert this practice. In reality, the shareholder approach overweighs.

In the following, the term business always refers to both, for- and nonprofit businesses. If only one of the business types is discussed, it will be expressed explicitly using the abbreviations FPB (for-profit businesses) and NPB (nonprofit businesses).

2.1.2 Financial and Social Value Creation

As it will be discussed in detail in chapter 2.2, it is commonly assumed that the difference between FPBs and NPBs are their contrasting goals. On one hand, nonprofit businesses seek social profit maximization or, respectively, social, cultural and environmental goals. These goals altogether impact society, which is a form of social profit creation, to the benefit of linguistic simplification. On the other hand, FPBs pursue financial goals, namely the creation and maximization of financial profits (Heister 2010, chapter 2.3.2.2). The social and financial profit creation goals are often perceived to be mutually exclusive, however this chapter demonstrates that these goals cannot be compared, because they do not form a semantic pair of words (2010).

According to Heister (2010), the goals of social and financial value creation are not mutually exclusive because they are no opposites. While the opposite of social value creation is value creation of private nature, the opposite of financial is nonfinancial value creation.

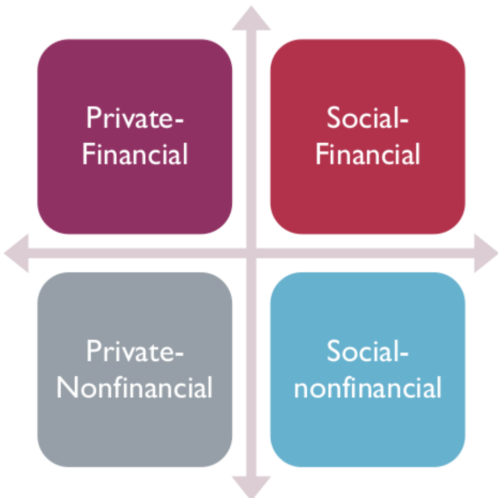

Figure 2.4: Classification of action outcomes according to the dimensions social-private and financial-nonfinancial (cf. Heister 2010, p. 33)

Therefore, the creation of social versus private and financial versus nonfinancial profit form two different dimensions that do not influence each other. From this logic, relations between the two dimensions can be derived. Aside from the classification of businesses based on business goals, into private-financial value creation corresponding to FPBs and social-nonfinancial value creation corresponding to NPBs (Wöhe and Döring 2013), there are two other optional business goals: private-nonfinancial and social-financial value creation. The four possible combinations are presented in figure 2.4.

The social-private dimension further divides individuals or businesses according to their involvement into the action that leads to the outcome, as represented in figure 2.5. Action outcomes can either be private or social. Private action outcomes represent creation of positive or negative value for oneself or the institution itself. Social action outcomes have an impact on others. The private and social action outcomes taken together generate the societal action outcome. Social action outcomes have an additional effect on either partner directly involved in the transaction, or on uninvolved parties affected indirectly by the outcomes of the transaction.

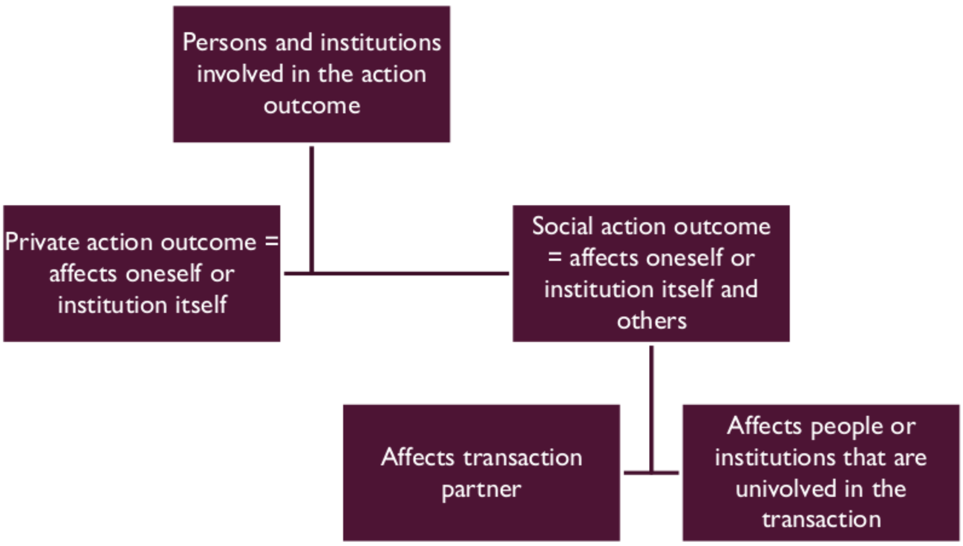

Figure 2.5: Conceptual distinction of private und social (cf. Heister 2010)

Coming back to the context of for- and nonprofit businesses, it is probable that both business forms generate social-financial and social-nonfinancial as well as private-financial and private-nonfinancial action outcomes. These outcomes either exclusively affect the transaction partners, or uninvolved individuals, or parties.

2.1.3 Social and Environmental Change Objectives

In relevant literature, the use of different phrases describing business measures that increase the positive economic, social, and environmental outcomes of their activities, in other words social value creation, is a common feature. These phrases imply a benevolent orientation or commitment of a business to society and the environment. As the object of investigation of this bachelor thesis are exactly those businesses that work towards the aforesaid social and environmental goals, a further clarification of those goals is necessary. However, their explicit meaning is rarely revealed in more detail. Therefore, this chapter briefly elaborates a set of economic, social and environmental goals, the Sustainable Development Goals (SDGs) of the United Nations, which are used as reference group within this piece of work.

To represent the numerous expressions that describe a business orientation towards economic as well as social and environmental goals, a random sample of literature was examined. Twelve groups of similar expressions for the described business attitudes were found and are presented in the following table 2.3.

Table 2.3: Sample of Different Expressions for a socially and environmentally benevolent Orientation of Businesses in Research Literature

Expression	Quote	Author
Social, Environmental and Economic Value Creation	“deliver economic and social value”, “strategies for economic and social value creation”	Kaplan et al. 2018
	“mission to create and sustain social value” “corporate expansion through social value creation”	Hadad and Cantaragiu 2017
	“social and environmental dimensions of value creation”	Holt and Littlewood 2015
Social Environmental Mission/ Goal	“social mission”, “addressing a social and/or environmental goal, giving primacy to that mission”	Salamon and Sokolowski 2016
Social, Environmental and Economic Challenge	“identification of business opportunities to profit as well as addressing a social challenge”	Hadad and Cantaragiu 2017
	“social, environmental, and economic challenges are opening up ‘opportunity’ spaces for hybrids”	Holt and Littlewood 2015
Social, Environmental and Economic Benefits	“company committed to the economic and social benefits”	Kaplan et al. 2018
	“creates social value and benefits”	Holt and Littlewood 2015
	“sustainability in fact requires overall net benefit to society and the environment”	Pitts 2016

Doing Social Good and Making Profit	"[s]hape your business around social good"	Goldman 2016
	"companies (...) combined a pro-social purpose of doing good with their quest to make a profit"	Pitts 2016
Profit and Social Change	"range of tools he could apply for social change"	Goldman 2016
	"focus on profit and social change as the outcomes"	Hadad and Cantaragiu 2017
	"understanding of the dynamics of social change and their solutions"	Uncetaa et al. 2016
Social Purpose/ Orientation	"activities to serve social purposes", "socially oriented"	Salamon and Sokolowski 2016
	"companies most enduringly successful over the long-term have explicitly embraced pro-social, even humanitarian purposes"	Pitts 2016
Social and Environmental and Economic Impact	"entrepreneurs interested in social impact"	Goldman 2016
	"social, environmental, and economic impacts"	Holt and Littlewood 2015
Social and Environmental Performance and Consequences	"company's commitment to improving local environmental and social performance"	Kaplan et al. 2018
	"standards of social and environmental performance"	Goldman 2016
	"[replace] economically and socially inefficient supply chains"	Kaplan et al. 2018
	"many companies ignored the social and environmental consequences of their activities"	Kramer and Porter 2015
Social Needs and Demands	"satisfy social needs"	Hadad and Cantaragiu 2017
	"social problems are complex and difficult to resolve and they express unsatisfied social needs", "unsatisfied social demands"	Uncetaa et al. 2016
Social Problems or Issues	"social problems"	Salamon and Sokolowski 2016
	"solve social problems"	Hadad and Cantaragiu 2017
	"investment and business tools to social problems"	Goldman 2016
	"examination of new social problems", "social issue"	Uncetaa et al. 2016
	"companies are addressing big social problems"	Kramer and Porter 2015

The sample emphasizes the increasing tendency of businesses to set goals of a social, environmental and economic nature, rather than focusing just on one of those dimensions. In this bachelor thesis, similar or equal expressions listed in the first column of table 2.3 are used. They invariably refer to the SDGs as their underlying meaning. The assumption is made that all social, environmental and economic efforts made by businesses concur with the SDGs. This makes it possible to limit the scope of the investigation to only those for- and nonprofit businesses that take genuine actions leading to the achievement of the following goals presented in figure 2.6. This depiction of the SDGs through the logos and their brief descriptions is sufficient for the objective of this bachelor thesis.

Figure 2.6: The Sustainable Development Goals logos (2015)

1. “End poverty in all its forms everywhere”
2. “End hunger, achieve food security and improved nutrition and promote sustainable agriculture”
3. “Ensure healthy lives and promote well-being for all at all ages”
4. “Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all ”
5. “Achieve gender equality and empower all women and girls”
6. “Ensure availability and sustainable management of water and sanitation for all”
7. “Ensure access to affordable, reliable, sustainable and modern energy for all”
8. “Promote sustained, inclusive and sustainable economic growth , full and productive employment and decent work for all”
9. “Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation”
10. “Reduce inequality within and among countries”
11. “Make cities and human settlements, inclusive, safe, resilient and sustainable”
12. “Ensure sustainable consumption and consumption patterns”
13. “Take urgent action to combat climate change and its impacts”
14. “Conserve and sustainably use the oceans, seas and marine resources for sustainable development”
15. “Protect restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss”
16. “Promote peaceful and inclusive societies for sustainable development, provide access to justice for all, and build effective accountable and inclusive institutions at all levels”
17. “Strengthen the means of implementation and revitalize the global partnership for sustainable development”

2.1.4 Social Innovation

As social innovations fundamental goal is to achieve social change, it is necessarily considered when analyzing businesses and business concepts that work towards the SDGs. This chapter goes in more detail about social innovation and serves as additional perspective on the investigated convergence indicators of NPBs and FPBs.

The guide to social innovation from the European Commission (Huysentruyt and Bulakovskiy 2013) regards social innovation as the process of finding, developing and implementing innovative solutions for social demands. On the one hand, social innovations contain new responses to unmet or inadequately met social needs, on the other hand, it describes the innovation process towards this solution, which effectuates positive outcomes in two social dimensions: the individual and society as a whole.

Once identified a social need, the first stage of a social innovation is usually the generation of an idea. The process then leads to the development and testing of the idea in form of a prototype or a pilot project. If the results from its evaluation judge it as a successful and effective solution for the meeting of the identified social need, the projects implementation is sustained. Ultimately, the developed solution is scaled up, to increase the impact and effectuate a systemic change. This spiral model of social innovation is displayed in figure 2.7. Huysentruyt and Bulakovskiy (2013) go even further by saying that not only the goal of social innovation but also the means leading to it are social in nature.

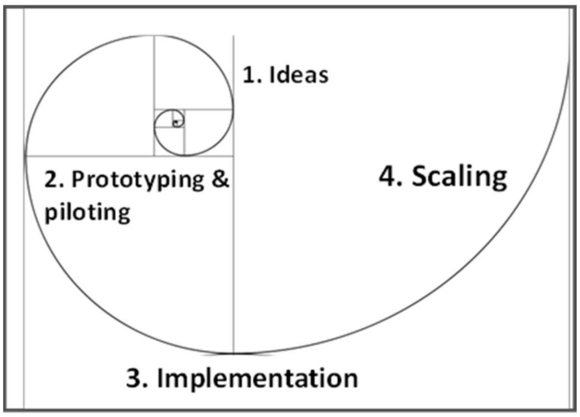

Figure 2.7: The spiral model of social innovation showing the four stages (taken from: Huysentruyt and Bulakovskiy 2013, p. 9 referring to Young Foundation, Social Innovation Exchange)

Different features of social innovations in general are knowledge sharing, multidisciplinary approaches for solution finding and creation, citizens and user participation, demand-focus and the tailoring of solutions to specific circumstances. These feature are in contrast to the previous or usual conducts, which are supply-driven and where knowledge is kept internally, problem solving is restricted to isolated departments or professions and led by experts, and products are preferably mass produced.

Referring to a report from the Bureau of European Policy Advisors, Huysentruyt and Bulakovskiy (2013) emphasize on the relevance of three versions of social innovation: The first is labelled social demand innovation and describes how the market serves previously unmet demands of deprived and sensitive groups of society. Second, there is the social challenge perspective, which aims to find solutions for the entire society by assimilating social, environmental and economic factors. The systemic change focus presents the third form. Its purpose is to transform usual societal structures by adjusting processes in organizations and altering their relationships to stakeholders.

2.1.5 UN Documents as source for Definitions and Concepts

In this bachelor thesis, various documents from international institutions are used to examine the differences in the allocation of economic institutional units to economic sectors. This chapter introduces the roles of and connections between the System of National Accounts (SNA) by the United Nations et al. (2009), the Handbook on Nonprofit Institutions (NPIs) in the System of National Accounts by the UNSD (2003), and the Third, or Social Economy Sector (TSE) Handbook by the UNSD (2018).

The System of National Accounts

The System of National Accounts (SNA) is an internationally agreed statistical framework providing a set of macroeconomic accounts, created for the use by all countries at all stages of economic development. For this objective, it conceptualized defined and classified the complexity of economic activities and agents of an economy, and formulated accounting rules that are comprehensible, consistent and flexible. The SNA is consequently useful for “policy making, analysis and research purposes” (United Nations et al. 2009, foreword). The SNA records and assigns all institutional units of an economy to five different institutional sectors: The households sector, the government sector, the nonfinancial corporations sector, the financial corporations sector and the nonprofit institutions serving households sector. The SNA has been developed and was published in cooperation of the United Nations, the European Communities, the International Monetary Fund, the Organisation for Economic Co-operation and Development, and the World

Bank. The latest version was published in 2008 (2008 SNA) and updated the original SNA released in 1993 (United Nations et al. 2009, United Nations Statistics Division 2018). For more detailed information on special economic topics, the SNA points out to satellite accounts and handbooks, which complete the general framework with further guidance for the users (United Nations Statistics Division 2018).

The United Nations Handbook on NPIs in the SNA

One of the topics that a Handbook has been compiled on are the so-called Nonprofit Institutions (NPIs), which are presented in more detail in the next chapter 2.2. The United Nations Handbook on Non-Profit Institutions (NPI Handbook) in the System of National Accounts from 2003 expands the information of the SNA from 1993 with additional "statistical standards and guidelines for the development of data on nonprofit institutions" (United Nations Statistics Division 2003, preface). The relevance of the NPI Handbook results from the growing importance that is proportionated to the total amount of those institutional units. Within the NPI Handbook, they are summarized in a separate NPI sector. The NPI Handbook was developed by the UNSD (2003) in collaboration with the Johns Hopkins University Center for Civil Society Studies. The work of the Johns Hopkins Comparative Nonprofit Sector Project contributed to the testing of the NPI Handbook, that found place in eleven countries of different levels of economic development (United Nations Statistics Division 2003).

The Third, or Social Economy Sector Handbook

The Third, or Social Economy Sector Handbook (TSE Handbook) is an update of the NPI Handbook. It gives recommendations for an enhanced and broadened measurement of the economic activity of not only NPIs, but also of NPI-related institutions and volunteer work. The updated Handbook effectively presents a new Satellite Account on Nonprofit and Related Institutions and Volunteer Work, also called, Third or Social Economy Sector Satellite Account (TSES-SA). It deviates from the approach recommended by the 2008 SNA, which only identifies NPIs separately but not the related institutions or volunteer work. The newly introduced concept of the Third, or Social Economy Sector (TSE) is a framework replacing the Nonprofit Institutions Sector suggested earlier in the NPI Handbook. Again, the Handbook was developed in close collaboration between the UNSD (2018) and the CCSS (United Nations Statistics Division 2018). The TSE Sector will be explained in the following chapter.

2.2 For-profit and Nonprofit Businesses

The subject of this chapter is to clarify the meaning of the labels “for-profit” and “nonprofit” that are applied to distinguish businesses into subgroups. A common misinterpretation of the meaning of the labels creates a distorted picture of the businesses it describes, which makes a clarification necessary. After the more general differentiation of for- and nonprofit businesses, the sectoral allocation and definitions of for- and nonprofit businesses according to the 2008 SNA (2009) and the Satellite Account on Nonprofit and Related Institutions and Volunteer Work (2018) are presented. The sectors contain various institutions of different organizational forms. Within this bachelor thesis, the sectors serve to clearly define and limit the scope and the meaning of institutions that are referred to when using the terms nonprofit and for-profit business. In chapter 2.1.2, the differentiation of for- and nonprofit businesses was made according to their distinguishing goals. Briefly summarized, Wöhe and Döring (2013) imply that businesses seeking profit maximization are exposed to market competition and need secure their existence by at least covering the operating costs and furthermore by taking precautions for loss-making years by accumulating profits. In contrast, NPBs pursue social, cultural and ecologic goals and are not exposed to market competition because they are financed by guarantors (Wöhe and Döring 2013).

According to Salamon (1993), and later Smith (2010), a change towards a more unstable income structure and consequently an intensification of the competition for income between NPBs occurred. Profit making as a new approach to create income for NPBs – such as the increase in charging fees for a service – became apparent. In his article “The Marketization of Welfare: Changing Nonprofit and For-Profit Roles in the American Welfare State”, Salamon (1993) referred to this development as commercialization. NPBs increasingly sought profits through market activities to compensate the losses suffered from the decreasing support by guarantors, and to become less dependent on them in the financing of their social, cultural or environmental mission. Consequently, they entered the economic competition market of FPBs. However, the focus on other goals than profit maximization and the financing of businesses through guarantors alone does not explain why the label nonprofit instead of social, cultural or environmental is attributed to this business type. The confusion over the descriptive word “nonprofit” is its prevailing connotation with the absence of profit in a business. Yet NPBs may indeed make income surpluses (United Nations et al. 2009): either from keeping their costs lower than their granted budget and respectively their collected membership fees (2013), or from profits made through market activities (2009).

Basically, the labels nonprofit and for-profit refers to the profit distribution behavior of businesses. From an economic point of view the profit distribution conduct has been identified as the main distinctive feature between for- and nonprofit businesses (United Nations et al. 2009, Salamon 2016, United Nations Statistics Division 2018). The non-profit label refers to the prohibition or restriction of the distribution of financial surplus to whomever creates, controls or finances the business. Non-profit businesses reinvest all or most of the financial gain they may make back into the business, and thus into the purpose it seeks. This stands in contrast to FPBs, which distribute profits to their owners, shareholders, or other controlling instances. The limitation of the distribution of profits in NPBs is taken up in more detail in the course of the following chapter.

2.2.1 Business' allocation to economic sectors

The 2008 SNA groups the individual participants of the market, referred to as institutional units — "economic entit[ies] that [are] capable, in [their] own right, of owning assets, incurring liabilities and engaging in economic activities and in transactions with other entities" (United Nations et al. 2009, para 4.2) – into five sectors (para 4.24):

1. The households sector
2. The government sector
3. The non-financial corporations sector
4. The financial corporations sector
5. The nonprofit institutions serving households (NPISH) sector

The allocation of the institutional units to the different sectors follows a specific order, which is visualized in the following figure 2.8. In the first step, the units that are not resident of the country are assigned to the rest of the world (ROW) sector. The remaining units are divided up into those units that are private households and those that are institutional households. Private households are allocated to the households sector, institutional households are further split into market and non-market producers. Market producers offer all or most of their products and services at economically significant prices: sales cover at least half of the production cost and consumers can freely decide whether to buy and how much to buy basing their decision on the prices (2009, para 22.29). Non-market producers that are not controlled by government are allocated to the NPISH sector, the others to the government sector. Market producers are either assigned to the financial corporations sector, or to the non-financial corporations sector. Each of these two sectors is segregated into public, foreign controlled and national corporations.

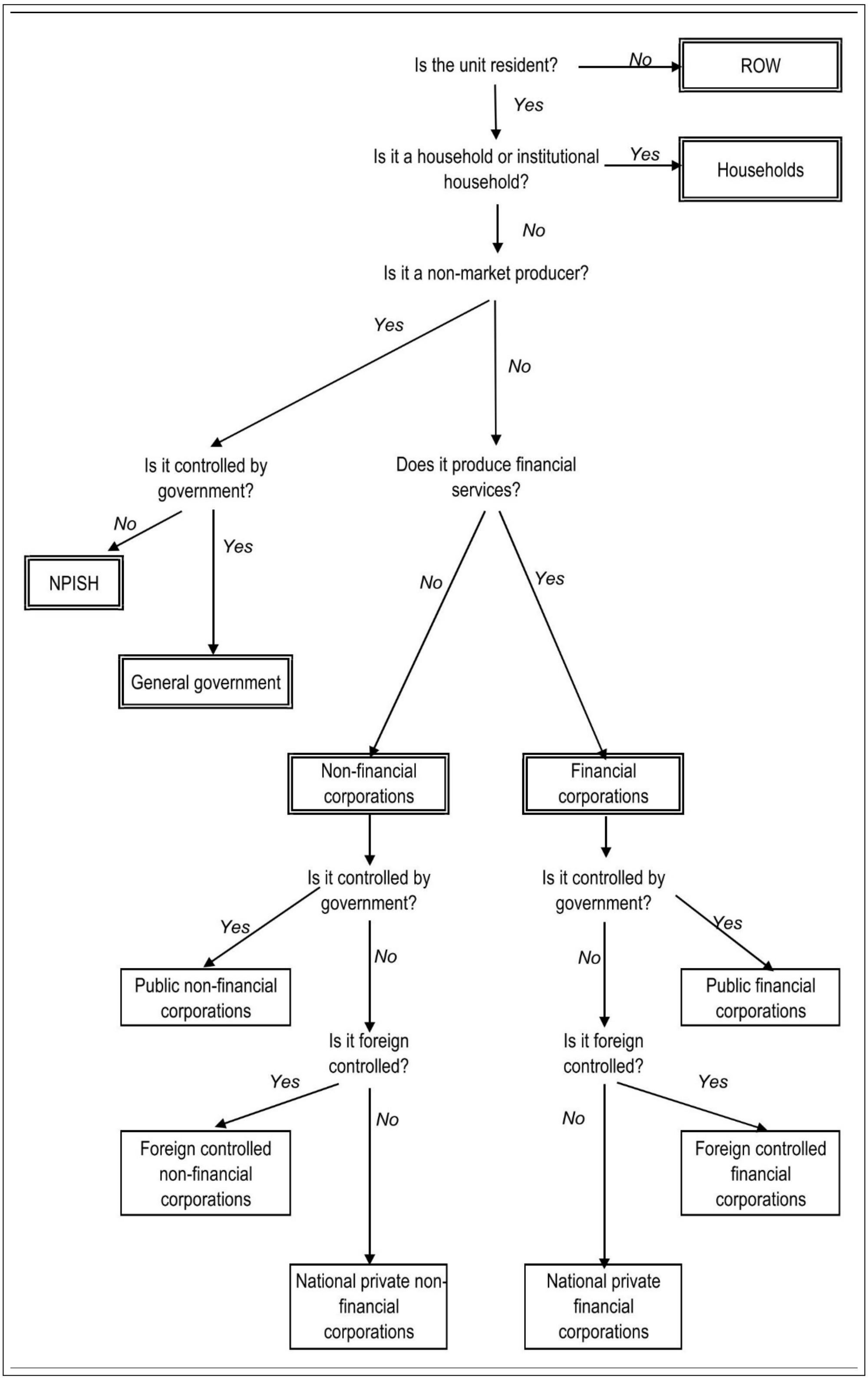

Figure 2.8: Illustrative allocation of units to institutional sectors (United Nations et al. 2009)

2.2.2 Corporations and Nonprofit Institutions

The institutional units in the SNA that are corporations and nonprofit institutions (NPIs) are of special interest for this bachelor thesis.

Corporations

Three features characterize corporations (United Nations et al. 2009):

1. They have the capability to generate profit or income for their owners.
2. They are separate legal entities from their owners, who obtain a limited liability status.
3. They serve the purpose to engage in market production.

The SNA's definition of corporations is equivalent with what is understood by FPBs in this bachelor thesis. It incorporates a broad range of legal forms, such as legally constituted corporations, cooperatives, limited liability partnerships and quasi-corporations (2009, para 4.38). In addition to these types of corporations, there are different forms of ownership and control, such as subsidiary corporations, associate corporations, conglomerates and holding companies. All forms and special cases are briefly explained in the following table 2.4.

Table 2.4: Types of corporations (United Nations et al. 2009)

Legally constituted corporations	Legally constituted corporations are owned collectively by several shareholders who choose the directors that are responsible for the general management (para 4.39).
Quasi-corporations	Quasi-corporations are individual, unincorporated enterprises that behave similar to corporations. They are able to "compile a complete set of accounts" and their owners act similarly to the shareholders of a corporation (para 4.42).
Cooperatives, limited liability partnerships and others	Cooperatives, limited liability partnerships and other corporations of this kind aim at marketing the mutual output of producers. These institutional units behave like corporations, however their profits are distributed according to the rules agreed upon, rather than distributed relative to proportion of equities. Cooperatives are "organizations formed freely by individuals to pursue the economic interests of their members" (para 23.21). Other features are the democratic control by the members — members being both owners and customers — and the rendition of services to their members at a cost. Limited liability partnerships are separate legal entities and their members have a limited liability status. They fulfill the role of both shareholders and managers (para 4.41).

Subsidiary Corporations and Associate Corporations	Subsidiary corporations are controlled by parent corporations, which either hold more than half of the subsidiary corporation's shares or have the ability to appoint or remove more than half of the subsidiary corporation's directors (Chapter 4.73). Subsidiary corporations themselves can own shares in other corporations. Notably, the parent corporation of a subsidiary also controls the affiliates of its subsidiary (para 4.73 and 4.74). If a corporation and its subsidiaries only own 10 to 50 percent of another corporation's voting rights, it is said to be an associate corporation (para 4.75) instead of subsidiary.
Conglomerates	Additionally, groups of corporations form conglomerates, where a parent corporation owns another corporation as a subsidy and the subsidy itself may own subsidies. However, each corporation is counted as a separate institutional unit (para 4.51).
Holding Companies	A Holding company can exist in two different forms, either as a head officeswith managerial responsibilities for its subsidiaries, or as institutional unit, whose primary activity is the ownership of a group of subsidiary corporations (para 4.53 and 4.54)
Financial Corporations	Institutional units that are assigned to the financial corporations sector mainly provide financial services, with insurance and pension funding services included (para 4.98). Non-financial corporations primarily produce market goods and non-financial services (para 4.94). They are classified into financial intermediaries, financial auxiliaries and other financial corporations. "Financial intermediaries are institutional units that incur liabilities on their own account for the purpose of acquiring financial assets by engaging in financial transactions on the market. They include insurance corporations and pension funds. Financial auxiliaries are institutional units principally engaged in serving financial markets, but do not take ownership of the financial assets and liabilities they handle. Other financial corporations are institutional units providing financial services, where most of their assets or liabilities are not available on open financial markets" (para 4.101).

Nonprofit Institutions

NPIs are legal or social entities that produce products and services. SNA notes that particularly in developing countries NPIs can exist through recognition of society, although they are not legally registered (United Nations et al. 2009, para 4.85 a). Its status does not permit that any profit or income made is shared with whomever creates, controls or finances the NPI (2009, para 4.83). The members of NPIs do not get any return on investment. NPIs may take the form of an association, foundation, a non-stock corporation, or others. However, the main criterion of NPIs is the prohibition of any distribution of profits or other income (2009, para 4.85 c+e). NPIs are commonly controlled by the members of an association (2009, para 4.85 b) who assign the board of directors (2009, para 4.85 d) through their equal rights of vote. They can be established by households, corporations or government and have varying purposes. Usually, these are recorded in a document, e.g. in the articles of association or a similar paper, when the NPI is being established (2009, para 4.85 a). The SNA lists some examples for the existing divergences at this level (2009, para 4.84):

> NPIs may be created to provide services for the benefit of the households or corporations who control or finance them; or they may be created for charitable, philanthropic or welfare reasons to provide goods or services to other persons in need; or they may be intended to provide health or education services for a fee, but not for profit; or they may be intended to promote the interests of pressure groups in business or politics; etc.

NPIs that engage in market production are allocated to the financial or nonfinancial corporation sectors according to their main activity. Either production of market goods and non-financial services, or in production of financial services (2009, para 4.98 c).

Nonprofit and For-profit Institutions Subsectors

Since the 2008 SNA there are additional subsectors within both corporations sectors, segregating them into public, national private and foreign controlled nonprofit and for-profit institutions (FPIs), as visualized in table 2.5. The classification of the following table is transferrable to the financial corporations sector (para 4.103). The reason for this separated record of NPIs originates in the growing interest of policy makers and researchers in NPIs. The difficulty before was that market producing NPIs which were allocated to one of the corporations sectors and, therefore, could not be identified separately from the other corporations. Hence, countries that applied the 1993 version of the SNA only compiled data on NPISHs, while all market-producing NPIs were not visible when producing the national macroeconomic statistics.

Table 2.5: Subsectors of the non-financial corporations sector (taken from: United Nations et al. 2009, p. 74)

Non-financial corporations	**NPIs**	**FPIs**
Public non-finacial corporations	Public non-financial NPIs	Public non-financial FPIs
National private non-financial corporations	National private non-financial NPIs	National private non-financial FPIs
Foreign controlled non-financial corporations	Foreign controlled non-financial NPIs	Foreign controlled non-financial FPIs
Total non-financial corporations	Total non-financial NPIs	Total non-financial FPIs

2.2.3 Development of Nonprofit Institutions

A trend, beginning in the middle of the 20th century and growing stronger towards the end of it, showed a consistently increasing number of nonprofit institutions worldwide. Salamon (1994) explains this trend by “a global associational revolution”, an increase of privately and voluntarily organized activities of structured citizen happening neither in the spheres of the market nor in the setting of the state. An examination of the growth of NPIs compared to the growth of the national gross domestic products (GDP) also showed disproportionately strong growth in NPIs (figure 2.9).

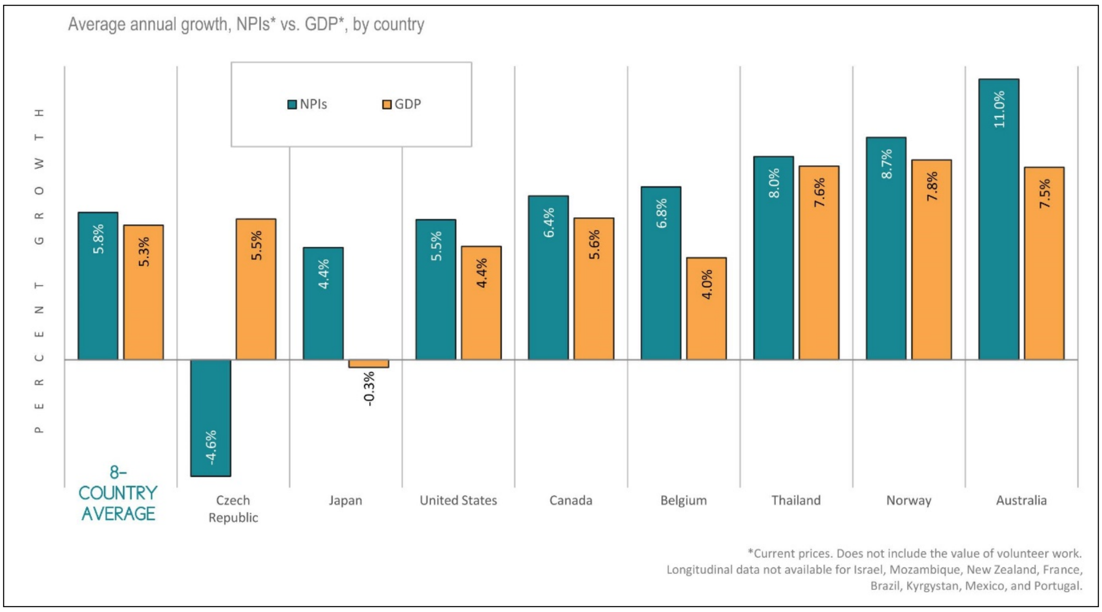

Figure 2.9: Average annual growth, NPIs vs. GDP, by country (taken from: Salamon et al. 2013, p. 11)

Longitudinal data of eight countries (figure 2.9) revealed that the average contribution of NPIs to GDP from the late 1990s to the mid-2000s was 0.5 percent higher than the growth of the economy altogether; without the Czech Republic, the only country within this investigation that turned out to experience a decline, the average contribution of NPIs to GDP was 7.3 percent in contrast to the total economy that only grew about 5.2 percent. Even though the data is limited to a sample of eight countries, which updated the data either annually or at different points in time, at least a growth trend within the NPI sector over two decades can be recognized (Salamon et al. 2013).

Handbook on NPIs in the System of National Accounts

Beside the sectoral definitions of the SNA, the concept of a new private sector uniting all different kinds of nonprofit institutions arose (United Nations et al. 2009). For instance, this issue was taken up by the Handbook on Non-Profit Institutions in the System of National Accounts (NPI Handbook), a production of the of the UNSD (2003) in collaboration with the Johns Hopkins Center for Civil Society Studies. The NPI handbook contained a description of a satellite account for NPIs – serving as an alternative option to the handling of NPIs presented in the SNA, but still aligned with this general framework. Within an examination, the different handling of NPIs in the 2008 SNA, compared to the broader concept in the NPI Handbook was depicted. For instance, figure 2.10 shows a comparison of the contribution of NPIs to the GDP of several countries, calculated by adding labor costs to profits and taxes paid.

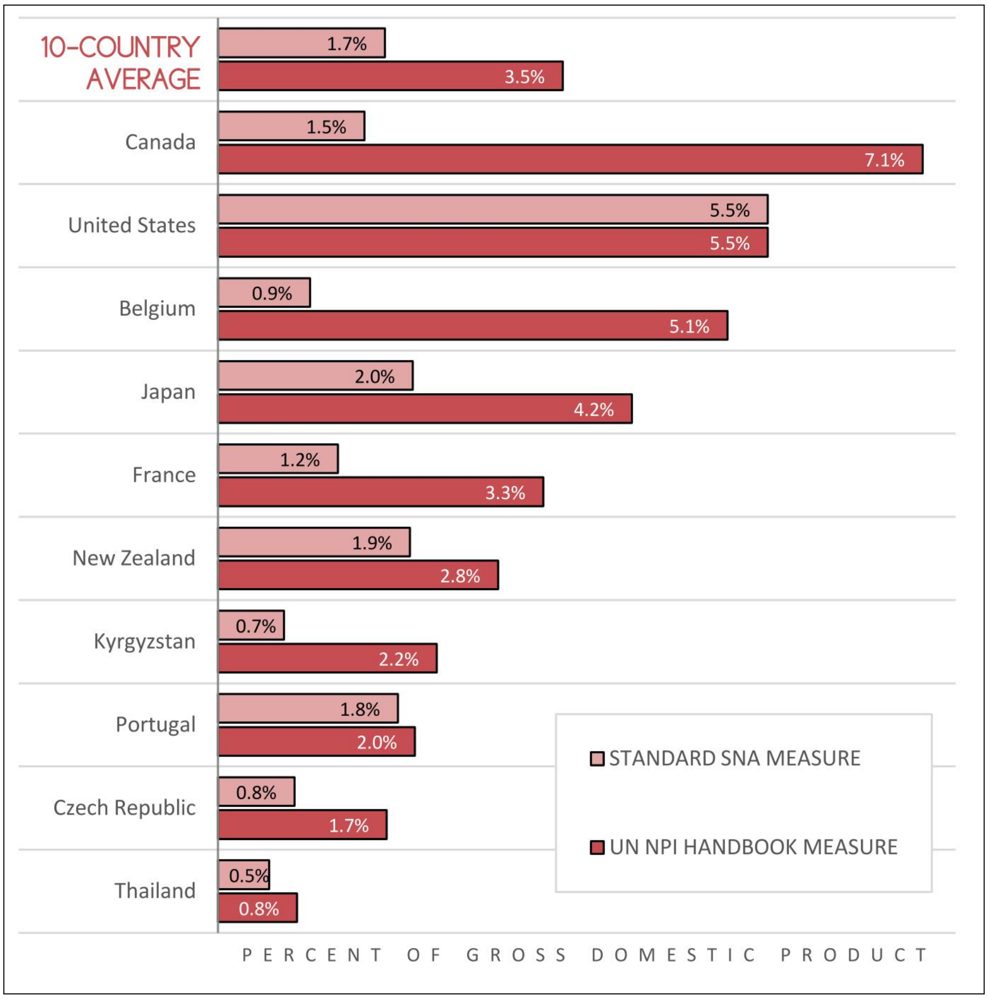

Figure 2.10: NPI contribution to GDP, including volunteers, NPI Satellite Account vs. standard SNA measures, by country (Salamon et al. 2013)

The results showed that the economic influence of NPIs on the economy was much larger when the NPI Handbook was used as a reference for measurement, rather than the 2008 SNA. The average GDP of the ten countries that were examined, showed that the NPI contribution varied from 1.7 percent, measured by the 2008 SNA to 3.5 percent according to the NPI Handbook. This result stresses the impact of NPIs on GDP, which is twice as large when applying the NPI Handbook as when measuring through the 2008 SNA (Salamon et al. 2013). Consequently, these findings indicate a much greater importance of this sector within the economy than was assumed so far.

The Third, or Social Sector Satellite Account (TSE-SA)

The NPI Handbook and the included NPI satellite account from 2003 have been updated. A final draft prior to official editing of the redesigned and extended TSE-SA was made available in 2018. It includes a new concept for a nonprofit sector labelled the third, or social economy (TSE) sector, which extends the usual set of nonprofit institutions, which are regarded as in-scope of the nonprofit sector, with NPI related institutions and volunteer work. Figure 2.11 shows the conceptual framework for the TSE sector. Within this bachelor thesis, all institutional units that are part of the TSE sector will be referred to as NPBs.

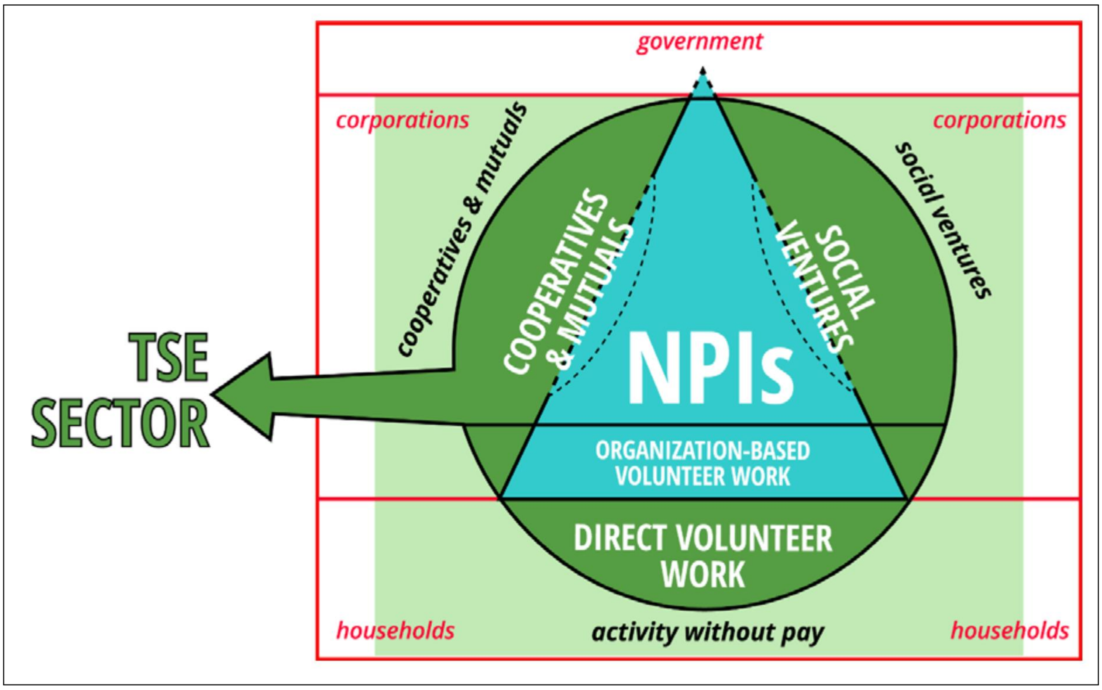

Figure 2.11: Conceptual framework for the TSE sector in the System of National Accounts (taken from: United Nations Statistics Division 2018, p. 15)

In-scope of the TSE sector is organization-based volunteer work as well as NPIs which do not distribute any profits, and cooperatives, mutuals and social ventures, which either do not distribute profits at all or do so in a significantly limited way. The tip of the triangular in the center of the figure, representing the NPIs, rises into the government sector. These government controlled NPIs are out of scope of the TSE sector, as they are public and thus are part of the government sector. The core of the TSE sector consisting of NPIs is clearly enclosed in the figure and differentiates from corporations, households and the government.

2.2.4 Key Institutional Units of the TSE Sector

The basic key entities of the TSE sector are NPIs as they are defined in the 2008 SNA presented before. Figure 2.12 shows which NPIs are included into the TSE sector.

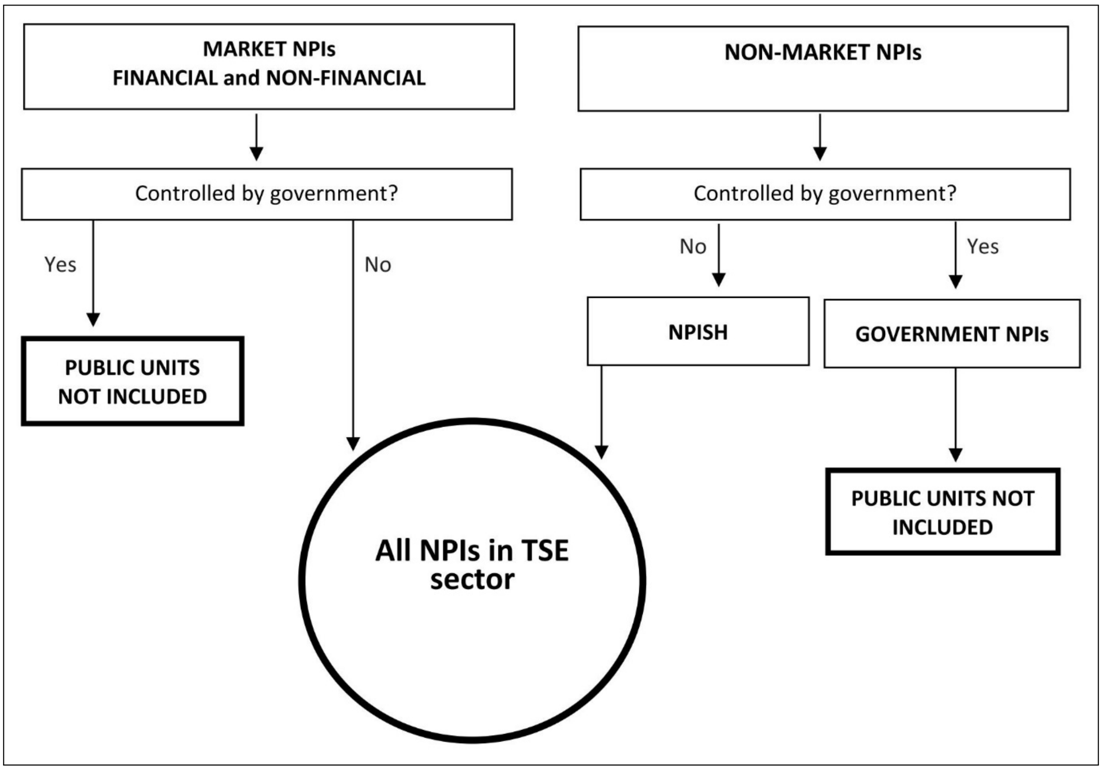

Figure 2.12: Identification of NPIs in-scope of the TSE Sector Satellite Account in relation to their treatment in the central system (taken from: United Nations Statistics Division 2018, p. 26)

Related Institutions

According to the UNDS (2018, p. 3), related institutions as part of the TSE sector

> have also recently attracted considerable interest among policy makers, private philanthropic institutions, individual citizens, and social-purpose investors striving to direct their resources to the support of social or public purposes.

They take three organizational forms, namely cooperatives, mutual societies (mutual) and social enterprises. What sets them apart from NPIs as defined in the SNA is the possible but limited profit distribution. As long as the profit distribution is "significantly limited" (2018, p. 4), the institutional units are counted in-scope of the TSE sector. A significantly limited profit distribution makes the related institutions incompatible for common profit-seeking investments. Additionally it emphasizes their social or public purpose status, which is similar to NPIs. As long as the distribution limit is significant and their main orientation remains on serving social or public purposes, related institutions legitimately qualify for being included in the third or social economy sector satellite account (2018)

Limited Profit Distribution

The TSE-SA (2018, para 3.11) further explains the concept of the significant distribution limitation. It is one of five features to be included in the TSE sector: The limit can be set in different ways, either by law, or by the governance of the institution itself or by custom, in countries where there are no fixed laws on this subject, but the social code clearly prohibits the distribution of profits. In the case that profits are being distributed, the common rule is to retain at least 50 percent of the total profits to reinvest it in the social or public purpose of the institution (2018). The TSE-SA here refers to various sources like a European Union Council Conclusion from 2015, a Luxembourg law from 2017 and a French law from 2014.

Cooperatives and Mutuals

Salamon and Sokolowski (2016) claim that cooperatives and mutuals form the main part of the social economy in the European South, but also exist in other regions. Therefore, they are included into this definition of the TSE sector. For the definition of cooperatives, the TSE-SA takes over the definition of 2008 SNA as presented in table 2.4. Mutuals are mostly similar to cooperatives, however through regular contributions to a joint fund they manifest risk sharing of the members as an additional feature (United Nations et al. 2009). With reference to 2008 SNA (2009, para 4.41) the Satellite Account states that mutual societies and cooperatives are indeed allowed to share profits linked to the member activity, though not in connection or proportion to the amount of money invested or paid in form of fees (United Nations Statistics Division 2018).

Social Enterprises

A special interest from politics and society in social enterprises can be observed. Some countries have created new legal forms for this kind of institution, which they label for example "'benefit corporations', 'limited profit corporations', 'non-stock corporations', 'community benefit corporations'" (2018, para 3.17). TSE sectors name the following as in-scope for social (2018):

- Engagement in market production
- A significant limit on the distribution of surplus related to a social purpose, differentiating social enterprises from for-profit companies
- Usually ownership and control lie with entrepreneurs, while members do not play an important role neither in democratic control, nor in the provision of services at cost
- The pursuit of a social mission that actually prevents them from making the profit they seek
- In contrast to NPIs, cooperatives and mutual societies, the permission to distribute limited profits is adjusted to the capital amount invested by investors, entrepreneurs or themselves

Volunteer work

Volunteer work is also included in the TSE sector definition. The in-scope requirements for volunteer work are that it must principally aim at benefitting others who are not part of one's household or family. It must also be continuous, unpaid, and non-compulsory. Volunteer work is divided into organization-based and direct volunteer work. Direct volunteer work is unpaid work for others who are not members of the household or family (2018). As institutional units are the core subject of this bachelor thesis, voluntary activity included in the TSE sector is only mentioned briefly at this point.

Five in-scope components for institutional units

There exist five necessary features to identify whether institutional units are in-scope of the TSE Sector. Firstly, the institutional unit needs to be an organization, which means that structure and permanence must be secured to some degree. Secondly, it needs to be self-governing, meaning that it needs to take responsibility for risks and rewards of its actions. Thirdly, all individual activities in it are non-compulsory. The individuals engaged in it need to have a significant degree of free choice. Fourthly, the institutional unit is private; it is not government-controlled. Lastly, it has a significant limit on surplus distribution going to its directors, employees, investors, or stakeholders (United Nations Statistics Division 2018).

Industry branches

Although nonprofit businesses or TSE sector institutions can appear in any industry branch, they are particularly found in some industries (2018, para 5.6), which are listed in the following table 2.6.

Table 2.6: Industries with likely presence of TSE sector institutions, by International Standard Industrial Classification Rev. 4 Categories (taken from: United Nations Statistics Division 2018, p. 66)

SECTION	TITLE
Section A	Agriculture, forestry and fishing
Section F	Construction
Section G	Wholesale and retail trade
Section J	Information and communication
Section K	Financial and insurance activities
Section L	Real estate activities
Section M	Professional, scientific, and technical activities
Section P	Education
Section Q	Human health and social work activities
Section R	Arts, entertainment, and recreation
Section S	Other service activities

3 Indicators of Convergence

This chapter builds on the basic principles and the objects under investigation that have been laid out in the last chapter. The aim is to explore the hypothesis. First of all, the objective is presented and justified and the methodical proceeding of the analysis is described. Furthermore, the form for the display of the results is determined. The indicators under investigation are presented, analyzed and finally the results are discussed.

3.1 Objective

This chapter outlines the objective of the analysis by specifying the research question, the hypothesis and the kind of answers that are expected.

In a literature research on the topic of effective business models for nonprofits, a variety of business concepts for social and economic value creation were found. On one hand, there were concepts showing that for-profit businesses increasingly set emphasis on social goals. On the other hand, they showed how nonprofit businesses intensify their market-orientation. From this observation, the hypothesis on converging for- and nonprofit businesses arose.

The aim of this analysis is not to prove that there is an ongoing convergence. It is to find indicators that point to a convergence of for- and nonprofit businesses on the basis of the business concepts found in the literature review. To find out whether nonprofit and for-profit businesses are possibly converging one must ask: Are there indicators pointing towards a convergence of for-profit and nonprofit businesses and–if so–which ones?

3.2 Method

In the following, the methodical proceeding for the analysis of the hypothesis is described. The analysis is separated in two parts, the first one refers to the business concepts and the second one on the money market. Furthermore, the form for the display of the results is determined.

First of all, the units of analysis for a qualitative content analysis (Mayring 2000) are derived from the theory. Therefore, business form typical features of nonprofit and for-profit businesses are listed within a table. The units of analysis as a basis for the examination of the business concepts will.

Secondly, the articles from the literature research on business concepts, which possibly indicate a convergence, are structured and summarized. Each concept is presented separately, with case examples for illustration. The examples are taken from the academic literature and complemented with information from articles, online magazines and company websites.

Thirdly, the results of this examination are presented in three tables. One table enlists the NPB features in the concepts, another one the FPB features, and the third table shows the neutral features the concepts contain. Neutral elements belong neither to nonprofit nor to the for-profit category, however, they can still be of fundamental importance in the concepts. Therefore they are drawn directly from the concepts during the analysis and are classified separately.

In the second part of the analysis, typical features of the nonprofit and the for-profit money market are derived from the theory. Thereafter, the developments in the money market of NPBs and FPBs are presented. Ultimately the changes in the for-profit and nonprofit money markets are emphasized by setting them in contrast to the typical features, derived at the beginning.

After the presentation of the results, the concepts and the changes in the money markets will be analyzed. The NPB and FPB features, as well as the neutral features will be evaluated based on the social-private and financial-nonfinancial dimensions. Those concepts that can be assigned to the social-financial category, because they include elements of both NPBs and FPBs are interpreted as indicator for convergence. The concepts that majorly have private-financial and social-nonfinancial aspects do not qualify as indicators for convergence as they do. The neutral features, which appear in NPBs and FPBs alike, for instance innovation, are similarities in the development them and thus are also counted as indication for convergence.

Reconsidering the research question, the conclusion gives response to the research question. In the discussion, the meaning of the outcomes are outlined and the limitations are identified.

Units of Analysis

In the following, the units of analysis for the business concepts (table 3.1) and the money markets (table 3.2) are listed and references to the theoretical chapters in which they are explained are made.

Table 3.1: Units of Analysis of for Business Concepts

Nonprofit Business Features		**Mixture of NPB and FPB Features**		**For-profit Business Features**
Social, cultural or environmental goals				Financial goals
Financing by guarantors				Self-financing through market-activities
No repayment of capital granted				Repayment of equity and loan capital
Profits are reinvested				Profits are distributed
Legal nonprofit form				Legal for-profit form

In chapter 2.1, the business type differentiation according to goals showed that NPBs seek social, cultural or environmental goals and FPBs seek financial goals. Further it was explained that NPBs are financially backed by guarantors, while FPBs need to finance-themselves. This difference also brings with it that NPBs do not have to pay back the capital that is granted to them, they do not have to be profitable. In contrast, FPBs pay dividends and interest for the capital they get from the capital market. NPBs are not forbidden to make profits, or accumulate financial surplus (2.2). However, its profits should majorly be reinvested into the business in order to further its purpose and secure long-term sustainability (2.2.4). FPBs in turn, additionally to staying sustainable, aim at maximizing the rate of profit they distribute to their owners (2.1). NPBs and FPBs further have differentiating legal forms which determine their purpose, control and legal obligations (2.2.2 and 2.2.4).

Table 3.2: Units of analysis for the Money Markets

NPB Money Market Features		**Mixture of NPB and FPB Money Market Features**		**FPB Money Market Features**
Grants to businesses with primarily social goals				Investments into businesses that yield high returns on investment
Grants are given to many different programs				Businesses invested in are carefully chosen
No expectation of financial returns from grantees				Expectation and right to receive proportion of profits
Funding over short period of time 2-3 years				Long-term investments, Consulting and support

While guarantors chose their grantees after their social goals, investors and venture capitalists chose the businesses that seem financially most promising to them. They try to support as many programs as possible with their budget. In the FPB money market the focus lies less on quantity and more on the economic potential they recognize in the chosen business. Further guarantors do not have expectations of financial returns, they simply reallocate donations supplied to them. Very much in contrast, investors expect and have the right to receive a proportion of the profits, which is their main motive to invest in the first place. Ultimately funding from guarantors usually is shorter than the investments made in FPBs. Investors may be highly involved through consulting and other support in order to push the success of their business (2.1).

3.3 Objects of Investigation

This chapter includes the presentation of different business concepts that were developed over the past two to three decades. They include varying approaches and different perspectives on the role of creating social and environmental values within businesses, additionally to economic ones. The business concepts range from social entrepreneurship, corporate social entrepreneurship and social intrapreneurship to business activities at the bottom of the pyramid and the creation of shared value. Furthermore, new business forms that explicitly combine a social or environmental mission with the business principle of economic efficiency, including hybrid businesses, social businesses, the bottom of the pyramid approach and the creating shared value concept are outlined. After that, the focus shifts towards capital markets of NPBs and FPBs.

3.3.1 Social Entrepreneurship

Within this chapter two business concepts, which promote a constructive approach on how to integrate social and environmental value creation are presented. Variations of the umbrella concept social entrepreneurship, which are applicable to corporations, are outlined.

Social Entrepreneurship (SE)

Mair and Martí understand the underlying meaning of the concept as follows: “We view social entrepreneurship broadly, as a process involving the innovative use and combination of resources to pursue opportunities to catalyze social change and/or address social needs.” (Mair and Martí 2006, p. 37). The difference between SE and traditional entrepreneurship in the business sector lies in the weighting of economic and social value creation. According to the two authors, SE focuses on social wealth creation with economic wealth creation ensuring the sustainability of the enterprise, while the main priority in entrepreneurship is financial gain. To explore SE, Mair and Martí (2006) look at the meaning of the term, social. In the context of entrepreneurship, social refers to the use of creative combinations of resources to remedy social evils and enhance the social system. Among others, the authors name the Aravind Eye Hospital, as example of successful social enterprise.

The Aravid Eye Hospital in India, is a NPB that was founded by Dr. Venkataswamy. India's population is massively affected from blindness, as it counts for one quarter of the worlds blind (Karmali 2010). Through an innovative business model, focusing on high volume and quality, as well as affordability, cataract surgery and eye care services can be offered at lower prices than usual and equally to those that cannot pay for the services for free or heavily subsidized (Kumar et al. 2015).

At the same time, the NPB is financially self-sustaining, and almost independent from donations. For instance in 2009 the business made 7.9 million dollars net profit on 20 million dollars revenue (2010). Already in the fiscal year before that, the NPB made earnings before interest, taxed and amortization of over 40 percent (Ravilla 2009). From eleven beds at the time of the foundation of the NPB, the social enterprise developed to a hospital system of 57 units consisting of primary care centers, outpatient centers, secondary care centers, and tertiary care centers with a total of 4000 beds in 2013 (2015).

SE within businesses

The process of SE can happen in different ways, either by offering goods and services or by establishing a new organization. Furthermore, it can take place in a new or an already established institution (2006). SE within businesses appears in two forms, social intrapreneurship and corporate social entrepreneurship (Hadad and Cantaragiu 2017). The concepts of CSE and SI are equally interesting to for- and nonprofit businesses and find implementation in both business types.

To find out whether the CSE and SI are qualify as academic disciplines, Hadad and Cantaragiu (2017) have chosen an investigation method that is based on social constructivism. In their article they present the manifold understandings of the concept. However, they have summarized their findings by specifying CSE and SI as objects of study. The table 3.3 underneath is an excerpt of their findings, containing concentrated information on CSE and SI.

Whereas the focus of CSE is still vague, varying between business models, CSR strategies and brand expansion, SI describes employees that follow the SE principles. Both concepts aim at finding solutions for societal problems that create financial value. As principles of CSE shared value creation is enlisted in the table, which is explained as concept on its own in the following course of the analysis. Moreover, CSE seeks market expansion, competitive advantages in finding, innovating and offering solutions for social ills. SI mainly follows the principle of consciousness, creating value for society by promoting a sustainable use of natural resources and supporting others (Hadad and Cantaragiu 2017).

Table 3.3: Corporate social entrepreneurship and social intrapreneurship as scientific disciplines (taken from: Hadad and Cantaragiu 2017, p. 267)

Characteristics of scientific disciplines (adapted from Liles et al. (1995)	**Corporate social entrepreneurship**	**Social Intrapreneurship**
Field of focus	Fragmented (business model, CSR strategy, brand expansion)	Employees acting in accordance with the principles of social entrepreneurship
Paradigm/ World view	'doing well by doing good' – The best adaptive behaviour of businesses and of individuals is to transform socially responsible principles and ideas into commercial value.	
Practice and principles	(...) Principles: • shared value creation • market expansion by focusing on social issues • innovative identification and exploitation of social opportunities	(...) Principles: • societal value creation • preserving nature and serving others • higher social conscience and a transcendent self

The basis of these concepts, lies in the current view of corporate entrepreneurship "that [it] has in its DNA the genes that carry the social agenda, and these genes need only to become dominant" (2017, p. 253). SI is a bottom-up initiative as it can happen on all levels of a business's hierarchy and be initiated by individual employees within a company. In contrast, CSE is a top-down operation that comes from top and middle managers. The value orientation of SI is nonmaterialistic and individual, while CSE is directed by the responsible values of the business (2017).

CSE could be viewed as the top-down pendant to SI. The two appearances of social entrepreneurship, CSE and SI, can complement each other within corporations – one taking a structuralistic and the other an agentic approach in order to place the focus of the business on both, profit and social change (2017).

3.3.2 The Bottom of the Pyramid Approach

The business concept outlined in this chapter deals with a market for the very poor – business activities at bottom of the pyramid (BoP).

Prahalad (2012) identifies an opportunity for businesses in creating new markets by developing and offering innovative product and service solutions for those people that live with the amount of two or less dollars per day. The author refers to these, approximately four billion people, as the BoP. Prahalad and Hart (2002) advocate the theory that these people can be turned into microconsumers and microproducers, and thus form entirely new markets. In order to tap into this underserved market, he proposes to replace the four P's of marketing, product, price, place and promotion, by focusing on the "four A's", awareness, access, affordability, and availability (figure 3.1).

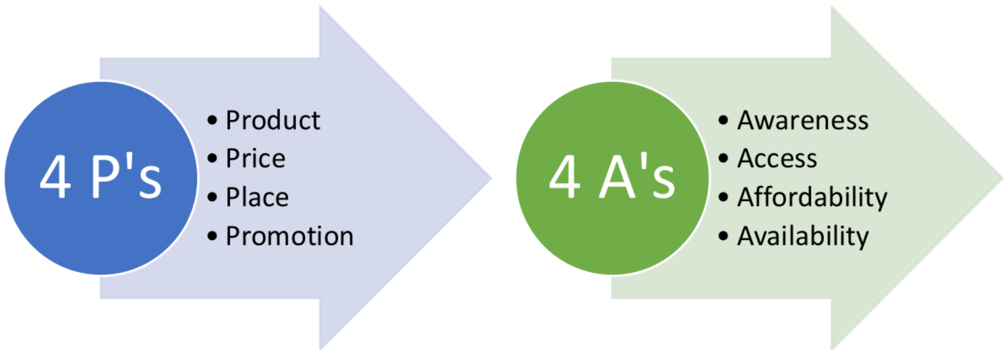

Figure 3.1: From the 4 P's of Marketing to the 4 A's for the BoP

For companies that want to enter the BoP market, the implementation of the four A's requires the development of innovative business solutions for the special circumstances and the needs of customers at the BoP. The four A's serve as a guide in this mission. Awareness and access are necessary as the BoP markets often are neither connected to the usual marketing channels of today's digitalized world, nor to the distribution channels, which originates in their often remote locations. Additionally, products and services need to be affordable for the customers who earn an income of just two dollars per day. This obviously requires out of the box thinking in the composition of the supply chain and the value equation. Moreover, trust needs to be built by reliably supplying the customers with the products and services they desire – constant availability leads to customer loyalty in the BoP (2012). Referring to his book 'The Fortune at the Bottom of the Pyramid' (2006), Prahalad comments: "In the BOP, successful innovation is about working within constraints. I call this approach: 'working within an innovation sandbox'" (2012, p. 7).

From his experience and many case examples from different sectors, Prahalad draws four generalizable lessons in order to enter and compete in the BOP market (figure 3.2).

Figure 3.2: Prahalad's lessons to enter and compete in the BoP market (Prahalad 2012)

In contrast to serving developed markets which is associated with an priority set on the gross margin, serving BOP markets profitably requires "large volume, low capital intensity, low margin per unit, and high return on capital employed" (Prahalad 2012, p. 11). As BOP markets often need to be created first, the solutions offered to them need to provide new functionality or, in some cases a substitution for the previously used functionality. The requirements of profitability (not being gross margin) and new functionality indicate the great importance of business processes and workflows in the business systems in BOP markets. Additionally, they emphasize that a shift from product to business model innovation, in which the ecosystem should play a crucial role, is necessary (2012).

One example of a business at the BoP is BPs spin-off First Energy, which commercially distributes the biomass stove 'Oorja'. It was developed together with Prahalad and sold in India over 400.000 times between 2006 and 2010. The stove reduces the in-house air pollution from traditional ovens, which is a massive health problem for those using it, causing around 4 million death per year from cancer and respiratory illnesses. The development of the stove based on behavioral cooking patterns that had been identified in the context of a field research. This way the product was tailored to the customer's needs. After its initial success, the business had to change the target group from households to commercial users, like restaurants as it had not been able to create a viable supply for the fuels that the Oorja oven used. However, “the company’s commercial orientation and skill arguably enabled it to get farther along on large-scale biomass pelletization and distribution than anyone ever had before” (Thurber, Mark C. et al. 2014, p.148). One difficulty of First Energy may have been the short time period of financial support that it was given by BP. For instance, the Kenya Ceramic Jiko stove which was commercially successful, needed almost twenty years of funding to become profitable (2014)

Some of the innovations developed for and adapted to the circumstances of the BOP market can be transferred to the developed markets, where they then change the industry structure by providing the market which products and services at lower prices and with other new benefits, that differ from what has been offered so far. The constraints of BOP markets transform them to innovation laboratories for both, underserved and developed market. Prahalad (2012, p. 12) states:

> It is estimated that over 60% of the world population in 2020 will describe themselves as middle class, and 60% of these 2.6 billion will live in emerging markets. What we are witnessing in BOP is just the early indicator of a systematic structural change.

3.3.3 Creating Shared Value

According to the concept presented in this chapter profit-oriented businesses are particularly suitable for the alleviation of social needs and environmental issues. It presents the creating shared value concept by Porter and Kramer (2011).

The concept of creating shared value (CSV) has its roots in the 2006 article by Porter and Kramer on competitive advantage and corporate social responsibility (CSR). From their perspective, businesses will be required to include social and environmental value creation to their core strategies in order to ensure sustainable growth and competitiveness in the future. Already in 2006, they criticize the low productivity of CSR efforts (Porter and Kramer) and also in the 2011 article “The Big Idea: Creating Shared Value” they lay emphasis on the differences between the CSV concept and CSR. While CSR projects are disconnected from the company’s business strategy and only aim at ameliorating the image of the firm through measures that do not contribute directly to profit generation, CSV is an integral part of the competitiveness and profit maximization of a company and is strongly connected to its mission (figure 3.3).

Figure 3.3: How Shared Value Differs from Corporate Social Responsibility (taken from: Porter and Kramer 2011, p. 69)

The CSV concept represents an advanced form of CSR, in which the business is stronger connected to the society (Porter and Kramer 2006). There are three options for businesses to create shared value: "by reconceiving products and markets, redefining productivity in the value chain, and building supportive industry clusters at the company's locations" (Porter and Kramer 2011, p. 61).

Reconceiving products and markets is about identifying societal needs in advanced economies as well as in bottom of the pyramid markets, where the demand for products and services adapted to the societal needs is more urgent. The company's products and services need to be reviewed, in order to analyze which societal needs they already satisfy and which negative effects they might have. The analysis enables the firms "to discover new opportunities for differentiation and repositioning in traditional markets, and to recognize the potential of new markets they previously overlooked" (2011, p. 61). In order to serve bottom of the pyramid markets, new innovative product designs and distribution methods might be necessary, which are eventually transferrable to developed markets (2011).

Unilever in India has created a distribution system to better reach rural markets for its products. By training up to 45.000 entrepreneurs for direct-to-home distribution, they have reached 100.00 villages by 2011. This is not only a financial gain to the company – it represents 5 percent of its total revenues in India – but represents also a social gain: the income of the entrepreneurs' households is doubled and the access to hygiene products leads to less communicable deseases (Porter and Kramer 2011).

Redefining productivity in the value chain includes various facets like alterations in the use of energy and resources, in the relationship to suppliers and with the local communities or making enhancements in the productivity of employees and distribution. Porter and Kramer (2011) suggest the following options:

- Alterations in the use of energy and resources can be achieved through further developed technologies, recycling and other approaches.
- Supporting suppliers in a way that they are able to increase productivity and the quality of their products also increases the value of a firm's product, which might be more important than lower prices. This implies that companies need to provide suppliers with resources like technology, capital and other inputs.
- Staying local with production and supply chain activities reduces the cost of carbon emissions, energy and scattered production.
- Employee productivity can be increased by ensuring fair wages and safe work environments and by promoting activities like education, training and wellness for the staff. These measures counteract health issues and the associated costs, which are higher than the costs for the activities of prevention.
- Distribution and logistics can be altered by redesigning the systems to be more energy and cost efficient and by creating new approaches like "direct-to-home distribution system[s]" (2011, p. 62).

Another way to create shared value is the cooperation and development of clusters with the private and public institutions in the location of the business. With mutual efforts the state of infrastructure, education and competition laws on-site can be enhanced. This which does not only serve the company but also the local society. A better state of the local living conditions of the citizens effects the company positively, too: It gains access to an educated workforce and wealthier customers.

Porter and Kramer (2011, p. 64) argue that in order to enable local cluster development,

> (...) companies need to identify gaps and deficiencies in areas such as logistics, suppliers, distribution channels, training, market organization, and educational institutions. Then the task is to focus on the weaknesses that represent the greatest constraints to the company's own productivity and growth, and distinguish those areas that the company is best equipped to influence directly from those in which collaboration is more cost-effective. Here is where the shared value opportunities will be greatest.

The Fortune's first Change the World list is a project of the Shared Value Initiative and the social impact consulting firm, FSG, in which Mark Kramer is a co-founder. The project has aimed at acknowledging the efforts made by companies that have integrated the tackling of the worlds social and ecological problems as part of their core strategy. In order to select 51 out of 200 submissions, the project team elaborated the following criteria (Kramer and Porter 2015):

- Business innovation
- Scale impact on social or environmental problematic
- Relevance CSV for profitability and competitiveness
- Importance of CSV for the complete business

The measuring of shared value is not yet developed to its fullest. However, these four criteria summarize the important components of the creating shared value concept. Kramer and Porter (2015) emphasize that a company can create shared value but still be involved in injurious activities at the same time, which shows that shared value activities of a firm do not allow to judge whether the firm is good or bad.

Porter and Kramer (2011) withdraw the relevance of the differentiation between for-profit and nonprofit businesses – the CSV concept, which supports the increased emergence of hybrid businesses and thus "blurs the line" (2011, p. 67) between the two business types.

3.3.4 Hybrid Businesses

At the end of the last chapter the formation of hybrid businesses was already mentioned by Porter and Kramer (2011). Salamon and Sokolowski (2016) refer to it as "formidable problems of 'hybridization'". At this point hybrid businesses are expanded on, because what characterizes them is their clearly, embedded commitment to economic, social and, or environmental value creation. This feature anchors for- and nonprofit business aspects from the outset.

Hybridization of businesses can be described as mixing of NPB and FPB characteristics. Consequently, hybrid businesses often cannot clearly be classified to be either non-profit or for-profit – they include elements of both. Referring to Evers (2005), Maier et al. (2014, p. 69) describe hybridity in organizations as follows: “[The] concept of hybrid organizations (e.g., Evers, 2005), [..] emphasizes the merging of logics from different fields”. Generally seen, not only the nonprofit (NP) and the for-profit (FP) logic, which are of interest for this piece of work, could unite. Hybridization can take place in other combinations, too.

Today, legal organizational forms for hybrid, for- and nonprofit businesses, exist for instance in the United States (US). Benefit corporations, flexible purpose corporations and low-profit limited liability corporations, represent such legal business forms (Kimball 2014). Furthermore affiliated foundations and the for-profit subsidies of nonprofit businesses are hybrid organizational forms that can be found in the United States. But also elsewhere in the world hybridization takes place (Smith 2010).

Because there is no widely accepted definition for businesses combining both, for- and nonprofit business values (2010), Holt and Littlewood (2015) have identified five key characteristics, listed in figure 3.4, of which at least two usually appear in the descriptions of hybrid organizations. The figure is self-explaining and is not further described.

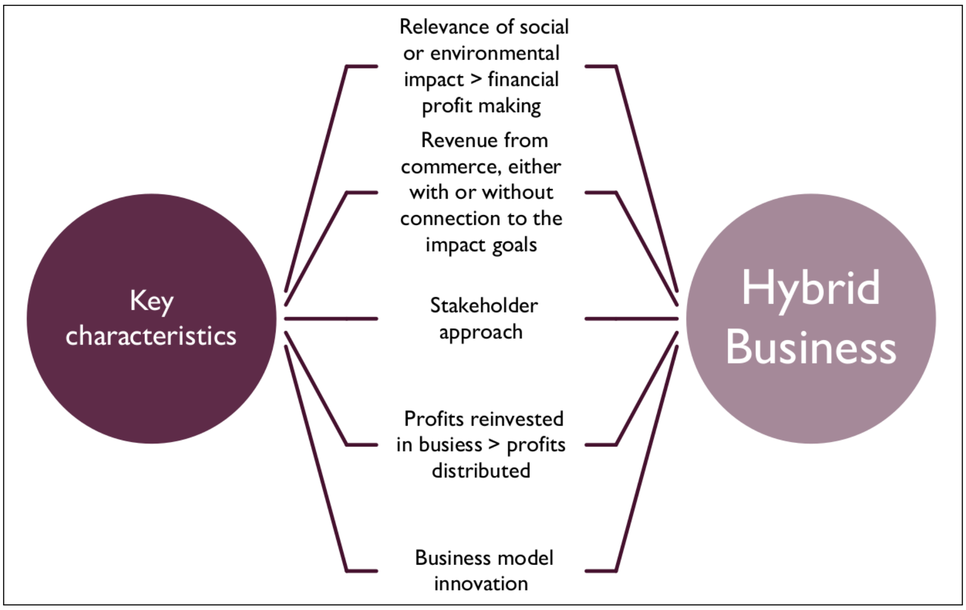

Figure 3.4: Collection of Key Characteristics apparent in Hybrid Businesses (Holt and Littlewood 2015)

Holt and Littlewood (2015) also created a framework to analyze in more detail the impact hybrid businesses make. Despite the great variances that can exist depending on the context they are situated in it is applicable to all hybrid businesses. In the context of this work, the framework serves to visualize the different contributions hybrid businesses make.

For instance, Waste Concern is a business, having a hybrid legal form labelled 'social business enterprise' (Waste Concern 2018). It operates in Bangladesh, and was initially supported by funding from the Lions Club and the United Nations. Today the business is profitable. The business produces and sells organic fertilizer from waste it finds in neighborhood slums (Porter and Kramer 2011) by using the anaerobic digestion technology (2018). The fertilizer leads to higher crop yields and a reduction of CO_2 emissions. Besides the financial success of the transformation of waste into resources, the business also impact the environment positively by promoting waste recycling in Bangladesh. Moreover the social business enterprise conducts research to further the knowledge on waste management in different areas like "clinical and hazardous waste management, waste water treatment, as well as organic farming", and it creates jobs (2018).

As hybrid businesses put the stakeholder approach over the shareholder approach, they do not primarily serve the investors (figure 3.5). Hence, in order to find out what contributions hybrid businesses make, it is best to consult the stakeholders. The contributions are made in up to three different areas: environmental, social, economic. Also hybrid businesses can create financial surplus. In the framework these profits are divided up in two possible uses – reinvestment into the business and distribution of profits; the proportion depends on the predominating logic, either that of a for-profit or that of a nonprofit business (2015).

Kimball (2014) sees a need for organizational structures that align "form, purpose, and function", with new possibilities to register as a hybrid business instead of choosing to be either a for-profit or a non-profit business. Kimball (2014, p. 959) formulates the advantages of such an alignment in the following quote:

> By organizing in a structure that acknowledges the importance of each leg in that triumvirate, entities are able to operate more effectively, seek funding from more similarly motivated investors, and ultimately achieve greater ends in regards to both profit and mission-based accomplishments.

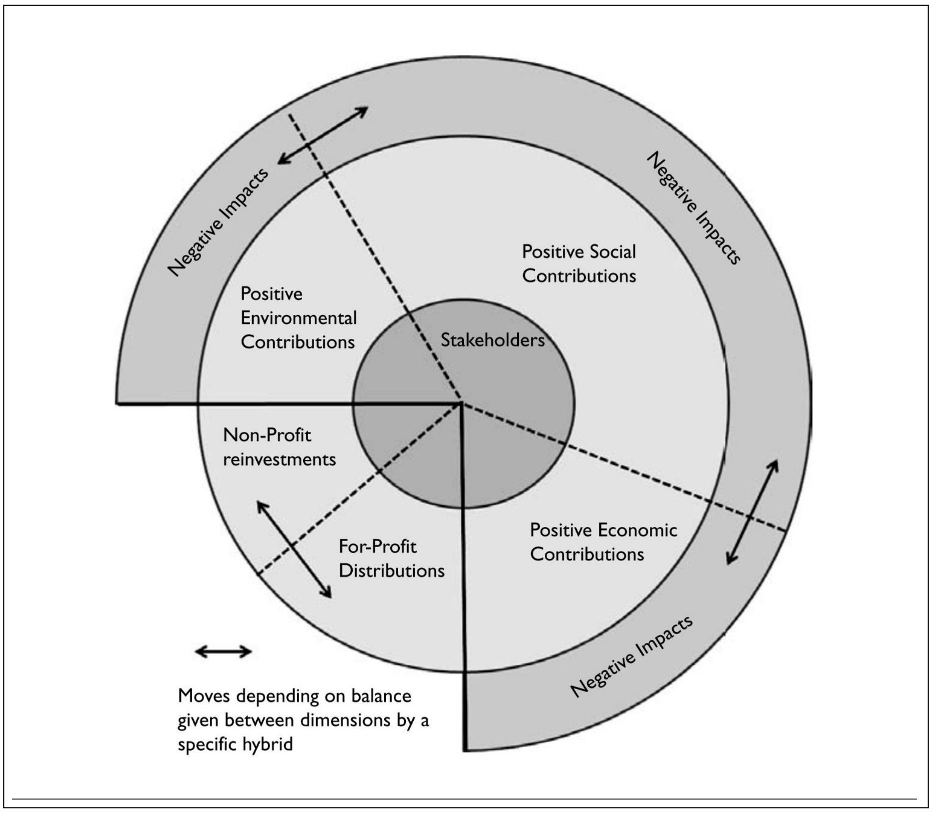

Figure 3.5: The Hy-Map Analysis Framework (Holt and Littlewood 2015)

Within hybrid businesses, the differentiation into nonprofit and for-profit is offset. They take from both sides what they need to accomplish their mission and create new ways of doing business and doing social and environmental good.

3.3.5 Social Businesses

Yunus, novel peace prize winner from 2006, and his colleagues Moingeon and Lehmann-Ortega view for-profit and nonprofit businesses as two contrasting extremes. Social businesses, like hybrid businesses are located inbetween these two poles and therefore are relevant for this bachelor thesis. Within this chapter the social business model concept by Yunus et al. (2010) is outlined. Social businesses bring together specific features of NPBs and FPBs. In terms of oganizational structure, social businesses operate like classical for-profit businesses “with products, services, customers, markets, expenses and revenues” (2010, p. 311). In figure 3.6, the positioning of social businesses according to the dimensions of social and financial profit maximisation and the repayment of invested capital is displayed.

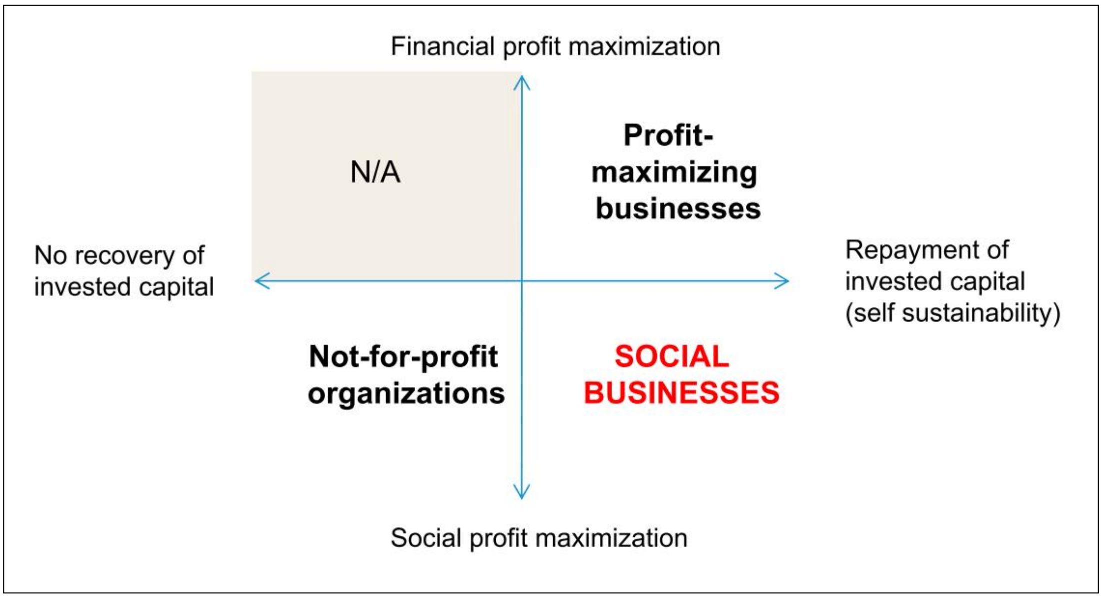

Figure 3.6: Social business vs. Profit maximizing business and not-for-profit organisations (taken from: Yunus et al. 2010, p. 310)

As it is visualized in the matrix, social businesses adopt the social profit maximization component the nonprofit side: Their primary purpose is to serve society and reduce poverty – they do not seek profit maximization. Capital investments are reimbursed by social businesses, which is a feature of FPBs, however if financial profits are made, they are not distributed to shareholders, but rather reinvested into the business, to bring forward the cause which the social business pursues. Generally, the financial goal of social businesses is to fully recover all costs, to ensure sustainability in the long run.

The Grameen Bank with its financial services, serves as case example for such a social business: In Bangladesh, the Grameen Bank, founded by the economist professor Mohammad Yunus, grants micro-credits to the poor, especially women. The credit is the starting capital for the loan recipients to build their own money-making business, with which they get the chance to alleviate their suffering from poverty (Yunus et al. 2010). Currently, the bank supports 7.5 million people, of which 65 percent experience an amelioration of their living conditions. (Grameen Bank 2018) Repayment rates in 2010 were at 98.4 percent (2010) and in case that the reimbursement is not effected, the bank renounces to sue the debtor (2018). Since its foundation the bank has been continuously profitable, except of three years within the period of the 1980s and the 1990s (2010). The bank is owned to 76 percent by the Grameen Bank borrowers and to 24 percent by government. It does not need or take and support in form of donations since 1995, as it is self-sustained (2018).

Yunus et al. (2010) also present five lessons that can be learned by businesses that want to expand their corporate social responsibility or entrepreneurs, who consider creating a social business. These five lessons serve as base for the social business model framework. Three lessons have been drawn from business model innovation literature. The other two lessons come from the experience of creating and co-creation social businesses, the micro-credit-pioneer, Grameen bank made. In the following the five lessons of Yunus et al. (2018) are presented:

The first lesson, challenging conventional thinking, is about finding strategies that lead to an alteration of the competitive environment, like, for example, the offering of micro-credits by the Grameen bank, which represented a major deviation from the typical thinking in the banking industry. Challenging conventional thinking can occur by questioning the assumptions that have lead companies to success before.

The second lesson, finding complementary partners, is about sharing and bringing together capabilities and resources in the context of a cooperation. As the partners usually come from different industry sectors, they do not compete with each other, hence they don't take risks in cooperating. The variety of resources and capabilities brought together opens up new opportunities to create a suitable value proposition for the customers.

The third and last lesson from the business innovation literature, undertaking continuous experimentation, replaces the usual way of knowledge acquisition and learning, through studies, surveys and analysis, which literature on business innovation findes inefficient. Experimentation as described by Yunus et al. should be applied especially in situations where the planned strategy does not work out and a new path must be chosen.

The fourth lesson, learned though the Grameen experience, consists of recruiting social profit-oriented shareholders. This lesson results from the controversial discussion on the effect of expenditures for CSR projects. Shareholders might doubt that such investments result in a positive cash flow or they even fear a negative impact for themselves as profits are lessened by the expenditures made. The quest lies in finding a way to get support for the mission from all stakeholders, shareholders included, in order to avoid skepticism.

The fifth lesson, specifying social profit objectives clearly and early, aims at avoiding conflicts between partners. The shift from financial to social profit generation can be challenging, as profit for all stakeholders must be created.

Interested businesses or entrepreneurs can use the social business model framework shown in figure 3.7 as support, which is proposed by Yunus et al. (2010).

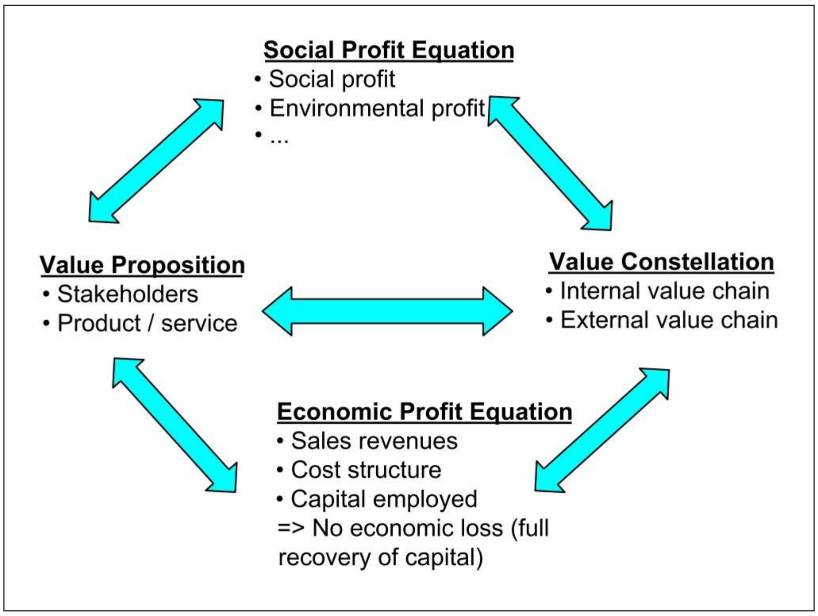

Figure 3.7: The four components of a social business model (taken from: Yunus et al. 2010, p. 319)

Usually business models consist of just the three lower components of the figure. For one, the value proposition is the product or service offered by the firm, to a predefined group of consumers. The value constellation describes the process of product or service creation including suppliers and partners. Ultimately, the economic profit equation presents the way, in which the value created is captured financially by the business. Yunus et al. (2010) have added to this structure another component, the social profit equation. Two changes in the classical business model have to be made in order to create a social business model framework. Firstly, all the stakeholders need to be identified for the value proposition and constellation; the emphasis here lies not only on consumers but on all stakeholders. Secondly, the social outcome which the company wants to achieve needs to be chosen in order to be translated into a social profit equation (2010).

3.3.6 The Capital Market

Within his TED Talk, the fundraiser Dan Pallotta (2013) brings up the missing access to the common capital markets as a disadvantage nonprofit businesses have compared to for-profit businesses. However this state of affairs seems to be recognized in the money markets, too. This chapter sheds light on the ongoing changes in the capital markets of both, FP and NP businesses – presenting a tendency towards more effective capital placements in mission oriented businesses.

While the NP capital market usually provide funds for shorter periods of two or three years, in order to support a variety of programs, FPBs mostly receive long-term investments, which allow them to build up their operating business within their earlier stages of development. Consequently NPBs have the disadvantage of shorter periods of time for the successful development of their operations, while NPBs are exposed to a very fierce competition for venture capital, in which the capital investors estimate the company's chances of success. The competitive capital market system of FPBs contributes to the Schumpeterian creative destruction – a fast cycle of emergence and ruin of of large scale companies, which leads to a continual renewal of business structures. Kaplan and Grossman (2010) point out that in contrast to FPBs, NPBs rather exist over longer periods of time, but with little growth. Furthermore, the authors (2010) agree in many points on the problematic situation Pallotta (2013) mentions:

> While small may be beautiful, size matters when it comes to having a substantive impact on society's pervasive and complex problems. By leveraging economies of scale and management talent, large nonprofits can deliver improved services at lower cost. They can offer their staff better compensation and career opportunities. They have greater capacity to conduct experiments, assess innovations, and share best practices across multiple locations. In an effective system, innovative nonprofits with the best management and social change agendas would grow in scale and scope while less effective and efficient ones would diminish and eventually disappear. (Kaplan and Grossman 2010, p. 112)

In the for-profit capital market entrepreneurs and venture capitalists have been operating well together for a long time: Entrepreneurs have a business idea but not the necessary capital to implement it and venture capitalists have capital but not the necessary business idea. The possibility to get loan capital from banks is usually rather small, as the success of the operation cannot be guaranteed, increasing the risk of amortization over the risk level that banks accept (Heister 2010, p. 2).

In order to decide which business ideas are worth of consideration for the investment of venture capital, a system of different financial intermediaries exists, which carefully scrutinized financial reports of companies and assesses the risks and the chances of success of the business idea. Problematic in NPBs is that their financial reports do not give information on the scope of social values they created and do not show linkages between costs, organizational processes or effectiveness and social impact. This makes it much harder for capital providers to assess the differences between the chances of success of different nonprofit businesses (2010).

Recent Changes in the Capital Markets

Recently a number of changes have taken place in both capital markets: Similar to the FP capital market, a number of assessment structures have developed, which help NPB capital providers make more effective capital placements. Assessment practices by NPB capital providers, including risk management, performance measurement, consulting, greater financial investments, longer commitments from capital providers can be observed (Kaplan and Grossman 2010). Additionally, the usual NPB capital providers, for instance foundations, have shown another behavior which resembles that of venture capitalists: they undertake investments in FPBs that offer "planet-altering product[s]" (Wieczner 2015), but that are also promising in terms of return on investment. Venture capitalists and Investment companies in return show interest in the business ideas of social entrepreneurs. They support them with consultancy and apply result focused metrics in order to assess the potential of the business ideas and consequently make investments (Kaplan et al. 2018).

Shift of in Business Leaders' and Venture Capitalists' Attitudes

In the past, former CEOs waited for retirement to engage themselves for a social cause by creating foundations (Goldman 2016). Today in contrast, young venture capitalists support and create nonprofits already during their active work lives. They invest in social start-ups and give free advice to social entrepreneurs (Abelson 2014). They use their business knowledge to assess the performance of nonprofit businesses and to estimate their rate of return (2010). Consequently, it can be observed that business leaders and private equity firms have experienced a shift in their attitudes (2018), they "invest for impact in both non- and for-profits, measure results (but not at the expense of taking risk), and shape [their] existing business around social good" (2016, p. 3). Kaplan and Grossman (2010, p. 118) believe that a multiplication of this kind of behavior would lead to the channeling of available capital to the most effective mission oriented businesses, and thus the creation of social impact would increase:

> The ultimate prize is a social capital market that delivers real impact for the dollars donors contribute. The discipline of such a marketplace would motivate nonprofit leaders to adopt clear models for creating social impact, provide a solid framework for measuring and reporting performance, and help nonprofits develop the leadership and management capabilities they need to achieve their missions. Capital and talent would flow away from the inefficient and migrate toward the most effective, enabling the best to grow in scale and impact to create a stronger and more dynamic social sector.

3.4 Results

In the following overview, the business concepts (table 3.4) and the money markets (table 3.6) have been classified according to the nonprofit and for-profit features that were derived from the theory and set up before. Furthermore, common features of the business concepts are presented (table 3.5).

Table 3.4: Classification of Business Concepts according to nonprofit and for-profit Business Features

Nonprofit Business Features		**Mixture of NPB and FPB Features**		**For-profit Business Features**
Social, cultural or environmental goals	SE, SI, Social Businesses, Hybrid Businesses	BOP, CSV	CSE	Financial goals
Financing by guarantors			SI, CSE, Social Businesses, Hybrid Businesses, BOP, CSV	Self-financing through market-activities
No repayment of capital granted			Social Businesses	Repayment of equity and loan capital
Profits are reinvested	Social Businesses, Hybrid Businesses		BOP	Profits are distributed
Legal nonprofit form		SE, SI, CSE, Hybrid Businesses, Social Businesses, CSV	BOP	Legal for-profit form

Table 3.5: Common features of Business Concepts that are not features of NPBs or FPBs

Common neutral features	**BoP**	**CSV**	**Hyb. Busi.**	**Soc. Busi.**
Product, Service or Business Model Innovation	X	X	X	X
Cooperation /Ecosystem/Cluster creation/	X	X		X
Scale	X	X		

Table 3.6: Classification of NPB and FPB Money Markets according to nonprofit and for-profit Money Market Features

NPB Money Market Features		**Mixture of NPB and FPB Money Market Features**		**FPB Money Market Features**
Grants to businesses with primarily social goals		NPB and FPB money market seek social business solutions with high returns		Investments into businesses that yield high returns on investment
Grants are given to many different programs			NPB and FPB money market	Businesses invested in are carefully chosen
No expectation of financial returns from grantees	NPB money market		FPB money market	Expectation and right to receive proportion of profits
Funding over short period of time 2-3 years			NPB and FPB money market	Long-term investments, Consulting and support

3.5 Discussion

Not all units of investigation were identified in the business concepts presented in the analysis. Therefore it was only partly possible to clearly assign the business concepts to the units of investigation. In the following, each business concept is evaluated according to its features and positioned in the classification of action outcomes according to the dimensions social-private and financial-nonfinancial (figure 2.4).

Social Entrepreneurship and Corporate Social Entrepreneurship could only be assigned to less than half of the features and thus cannot be evaluated clearly, consequently it is excluded from the investigation.

Social Intrapreneurship shows three features out of five. It sets primacy on social, environmental and cultural goals, seeks self-financing through market-activities and can be implemented in both NPBs and FPBs. Consequently it is positioned as social-financial business concept and qualifies as indicator of convergence.

Social Businesses can be classified to all five features. The concept sets primacy on social, environmental and cultural goals, seeks self-financing through market-activities, votes for repayment of invested capital, puts emphasis on reinvestment of profits made into the business and can be implemented in legal forms of both, NPBs and FPBs. The business concepts equally shows FPB and NPB features. Therefore it is positioned as social-financial business concept and qualifies as indicator of convergence.

Hybrid Businesses can be assigned to four features. It sets primacy on social, environmental and cultural goals, seeks self-financing through market-activities, puts emphasis on reinvestment of profits made into the business and can be implemented in both, NPBs and FPBs, or as hybrid legal form. The business concept equally show, FPB and NPB features. Therefore it is positioned as social-financial business concept and qualifies as indicator of convergence.

The Bottom of the Pyramid approach can be classified to four features. Its goal is indivisibly social and financial, as it works towards the profitable satisfaction of the most urgent needs at the BoP. It clearly seeks self-financing through market-activities and puts emphasis on profit distribution. The BoP approach finds implementation in legal for-profit business forms. Although the FPB features prevail in the concept, its strong connection of profitability to social goals positions positions it as social-financial business concept. Therefore it qualifies as indicator of convergence.

The Creating Shared Value concept can be classified to three of the five features. It brings together social, environmental and financial goals in the core strategy of businesses, seeks self-financing through market-activities and can exist in nonprofit, for-profit and hybrid legal forms. From these features a positioning of the concept in the social-financial dimension is derived. Therefore it qualifies it as indicator of convergence.

The common neutral features of the convergence indicators are:

- product, service or business model innovation to create solutions for unmet social needs, found in four of four business concepts
- cooperation, ecosystem or cluster creation for resource sharing and systematic social change, found in three of four business concepts
- scale, referring to the upscaling of a socially effective and economically efficient solution for a social need, found in two of four business concepts

Evaluating these three features with the theoretical background, provided in the second chapter, brings up a connection to social innovation. Product, service or business model innovation, relates to the process of finding, developing and implementing innovative solutions for social demands of social innovation. Cooperation, ecosystem or cluster creation relates to knowledge sharing, multidisciplinary approaches for solution finding and creation, citizens and user participation, demand-focus and the tailoring of solutions to specific circumstances, in social innovation. Scale relates to the upscaling of successful and effective solutions for the meeting of social needs, in order to increase the impact and effectuate a systemic social change. Social innovation is therefore evaluated as characteristic of the convergence indicators.

The evaluation of the money market shows that NPB and FPB money markets are congruent in most money market features. Both seek social business solutions that yield high returns, both carefully chose their objects of investment by using performance assessment and both invest over longer periods of time. However, the NPB money market does not necessarily expect financial returns from its grantees, while it is a prerequisite for investment in the FPB money market. As the FPB and the NPB money markets share the same features in three of four cases, from which one connects the financial and social dimensions, the presented changes in the money market qualify as an indicator of convergence.

To summarize, businesses that make use of the presented business concepts, of which one was excluded because of its missing validity, show nonprofit, for-profit and social innovation features. Additionally the NPB and the FPB money markets show a development of the NPB money market towards FPB money market features, and the other way round. The evaluation of the results thus has identified these business concepts to have social-financial action outcomes, qualifying them as indicators of convergence (figure 3.8).

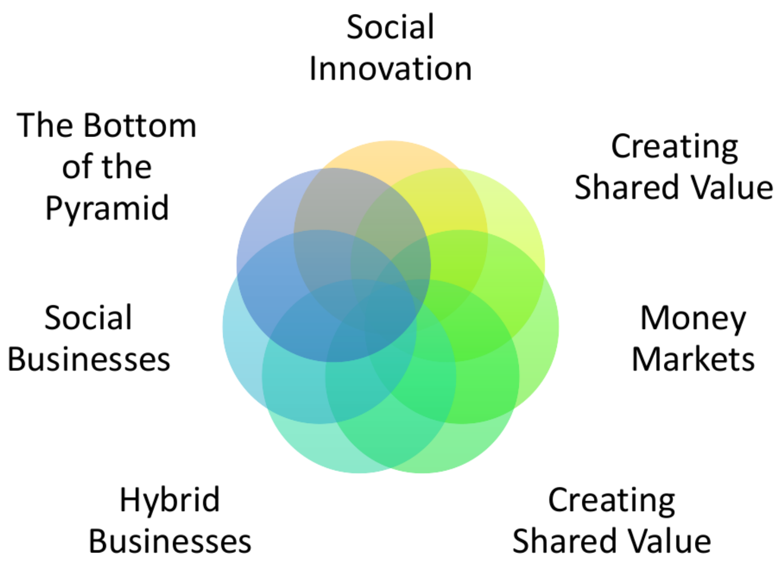

Figure 3.8: NPB and FPB Convergence Indicators

Despite all the discoveries gained from the analysis, some limitations must be mentioned. As the definition of NPBs is still evolving, and NPBs and FPBs also show similarities in many aspects, it is in fact difficult to identify clear and consistent distiguishing features, that can be used as units of investigation. Furthermore, the business concepts and money markets in practice are often adapted to the businesses preferences. A theoretical examination of business concepts that include social and financial aspects, might therefore not be sufficient to identify indicators of convergence. Consequently, the results of this analysis point out a likelihood of convergence between NPBs and FPBs, which operate according to the business concepts, that have been identified als convergence indicators within this bachelor thesis.

4 Conclusion

To conclude, the main arguments and conclusions from the theory and the analysis of the bachelor thesis are presented, as well as the limitations of the performed investigation are declared.

In its theoretical part this bachelor thesis has thrown light on the various facets of non-profit and for-profit businesses. Firstly, NPBs and FPBs were differentiated according to social and financial goals. Next this classification was further examined. A semantic analysis of the terms social and financial, showed that they actually belonged to different dimensions, the social-private and the financial-nonfinancial. This showed that besides the social-nonfinancial and the financial-private differentiation of NPBs and FPBs another type of business could exit - the social-financial business. After that, the profit distribution constraint, beside the social mission of NPBs, was emphasized as the most stringent difference between the business types. Specifying the NPBs and FPBs that were under investigation, the Social Development Goals were introduced. Only those businesses and business concepts that somehow worked towards the achievement of these goals would be included. Respective to that, the concept of social innovation with its particular focus on social change was outlined.

In the second part of the theory, an in-depth differentiation of NPBs and FPBs was made by presenting internationally compatible sectoral delimitations of institutional units. The classical allocation of NPBs and FPBs to the sectors was examined, and set in contrast, with alternative classification options that voted for a broader approach for a seperate NPB sector. It was further outlined, how the concept of a seperated NPB sector had been in an ongoing process of definition and demilitation over the past three decades. In this period of time, the importance that was assigned to NPBs by policy, research and civil society grew, and newly compiled data unveiled its economic significance. Consequently, it was chosen to use the classification of the third, or social economy sector, instead of the classical framework, in order to define what kind of institutional units could be referred to as NPBs. The corporation sectors represented the the FPBs.

From the therory, the units of investigation for the business concepts and the money market were derived. Therefore, the main distiguishing features of NPBs and FPBs were identified and tables, which would allow the examination of the business concepts and the money markets according to these features were composed. The results of the analysis showed that all the business concepts, except social and corporate-social entrepreneurship, as well as the money markets included social as well as financial aspects. Consequently they were acknowledged as convergence indicators.

According to both, the limitations formulated in the dicussion of the results and the observation of various opportunities and interesting further aspects that could not be ivestigated in scope of this bachelor thesis, further reasearch by means of in-depth case studies would be needed to confirm and amplify the theory.

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