

# **Elite Capture in the Social Enterprise Sector**

**Examining the Impact of Community Wealth on Social Enterprise Funding in  
Western Canada's Metropolitan Areas**

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**Abstract:**

Social Enterprises are unique organizations, differentiated from for-profit firms and traditional nonprofits by their pursuit of social objectives through participation in the market. Although these organizations have existed in some shape or form for many years, the reorganization of the welfare state has had an important impact on Social Enterprises. One effect has been the increasing penetration of elites in the many types of Third Sector organizations. This paper outlines the Social Enterprise sector in Canada and finds some support for the existence of Elite Resource Capture in four major cities in Western Canada. Using Census data and survey data of Social Enterprises in Vancouver, Victoria, Edmonton and Calgary, different measures of community wealth are seen to positively correlate with the ability of Social Enterprises to obtain non-earned income sources such as grants, loans and donations. Additional positive correlations are found between the different measures of community wealth and measures of organizational strength, such as the age of Social Enterprises and their number of full-time employees. Three policies are suggested to ensure a better distribution on non-earned income sources across the sector.

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# INTRODUCTION

Social Enterprises (SEs henceforth) are an emerging field of social inquiry. Although these organizations have existed in some shape or form for hundreds of years (Armstrong et al., 2009), a variety of new and interesting scholarship has recently begun to emerge (see Young, 2012). An important current in the literature of SE, which is frequently entangled with the study of Social Entrepreneurship, has been dedicated to the development of a theory or typology that explain why these unique organizations form and how they fit in the larger socio-economic framework of a region. There has been little substantive agreement in this regard, because SE development depends on “the existing legal frameworks, on the political economy of welfare provision and on the cultural and historical traditions of non-profit development” in different jurisdictions where SE operate (OECD LEED Programme, n.d.: 1). This has meant that the ‘Social Enterprise’ term has been used to refer to a variety of social-purpose organizations with differing objectives at different points in time and in different regions. The jurisdictional variations in legal frameworks, in the cultural and historical traditions of nonprofits and, most importantly, the political economy of welfare provision, suggest that power matters and that there is a struggle for policy attention (Teasdale 2011).

The purpose of this paper is to examine one aspect of the power dynamic in the SE sector – the relationship between economic elites and the distribution of non-earned revenue. To begin with, we will use secondary sources to define SEs, examine the origins of these organizations and the sector’s historical evolution in an attempt to understand the SE sector in Canada. In this first part, we will highlight the fact that the dismantling of

the welfare state has contributed substantially to the rise of SEs. The resulting change in how social services are delivered has increased the ability of elites to penetrate the sector.

Building on this first part, we will examine if wealth of different socio-economic groups is a factor in the ability of those groups to create and strengthen SEs. Specifically, we will test whether the SE sector in four of Canada's western urban-centres is subject to some level of 'elite capture;' that is, the ability of the economically powerful to obtain a disproportionate share of non-earned revenue at the expense of the less economically powerful for the purpose of creating and sustaining SEs. For this second part, we will utilize the BALTA (BC-Alberta Social Economy Research Alliance) dataset to examine the relationships between different measures of community wealth, both economic and social forms of capital, and the distribution of grant, loan and donative sources of revenue. We will also examine the relationships between these same measures of community wealth and the organizational characteristics of SEs operating in an area.

We will attempt to answer the following questions: Are richer communities better able to capture non-earned resources needed to create and sustain SEs, such as grants, loans and donations? Are SEs in richer communities able to rely more on the sale of goods and services for revenue generation, allowing a balanced distribution of limited grant and donative dollars to SE in poorer communities? Finally, do richer communities have stronger SEs, as measured by their age, number of full-time employees and volunteers?

To make better public policy in Canada with respect to SEs, it is important to understand how government resources intended for SE development are being distributed among communities of different socio-economic levels. To do this, we must first

understand this sector of the economy in Canada, its origins and its purposes. After doing so, we can examine whether funding sources for SE organizations are being equally distributed to communities of all socio-economic standings. Understanding if wealth of a community is also a factor in determining the size and strength of SEs in an area is an important first step to identifying barriers of entry to SE in different regions.

The paper is divided into three parts. Part 1 begins by defining SEs and presenting several examples of these organizations in Canada. Next, a short historical tracing of social purpose organizations is presented, highlighting the fact that changes in the wider economy have changed the nature of the SE sector. One important change has been the increasing penetration of elites. Part 2 begins with a discussion of the theory of Elite Resource Capture, its relevance to Third Sector organizations and the findings of previous studies on this topic. The paper then presents the BALTA dataset and the variables that will be used to address the research question. Finally, the statistical analysis is presented and some policy recommendations are provided in Part 3.

## **PART 1 – Social Enterprises in Canada**

### ***SOCIAL ENTREPRENEURSHIP IN ACTION: WHAT IS A SOCIAL ENTERPRISE?***

Social Entrepreneurship has been one area of research that has received significant attention in recent years; some 400 articles have been published on this topic since 2000 (Hill et al., 2010). When the term was popularized in the 1990s, it highlighted the process of social innovation undertaken by ‘social entrepreneurs’ (Kerlin, 2009). Individuals like Muhammad Yunus, winner of the Nobel Prize for creating Grameen Bank, perfectly exemplified successful ‘social entrepreneurs’ of the time. Grameen Bank provided banking facilities for rural and poor people, eliminated exploitation of the poor by money lenders and created opportunities for self employment for the many unemployed, all the while being owned by the people it served (Grameen Bank Website).

However, like other popular trends, the term Social Entrepreneurship began to be increasingly blurred in its usage. “It now refers to a wide spectrum of initiatives, ranging from voluntary activism to corporate social responsibility,” generally undertaken in the ‘third sector’<sup>1</sup> (Kerlin, 2009: xii).

### **The Third Sector**

Attempting to develop a definition by surveying the literature, Peredo and McLean (2006) suggest that Social Entrepreneurship is exercised when an individual or group:

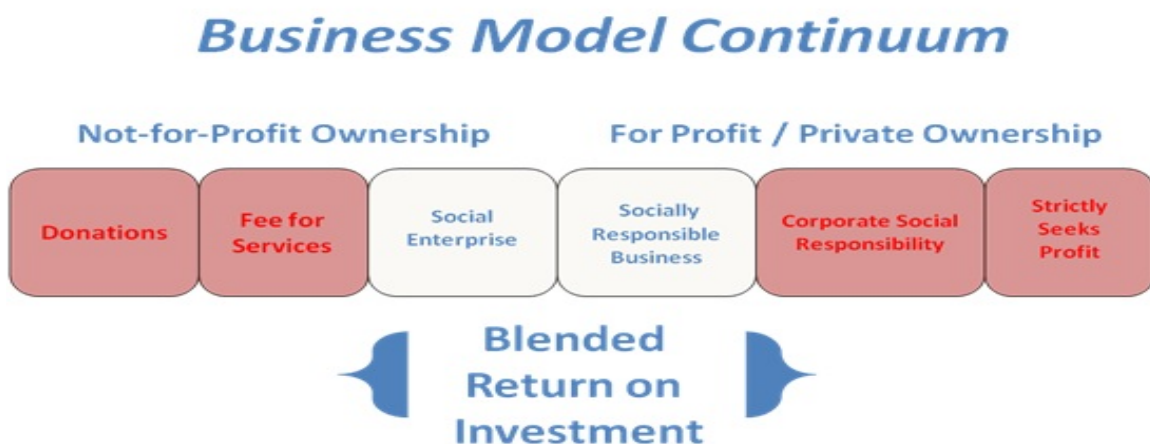
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<sup>1</sup> The Third Sector refers to the sphere of the economy which is not purely private or public, but generally straddles both sectors. Depending on the region, the third sector can encompass a variety of organizations with different legal structures and objectives, such as nonprofits, cooperatives, mutual associations, and social enterprises.

1) aim(s) at creating social value, either exclusively or at least in some prominent way; 2) show(s) a capacity to recognize and take advantage of opportunities to create that value (“envision”); 3) employ(s) innovation, ranging from outright invention to adapting someone else’s novelty, in creating and/or distributing social value; 4) is/are willing to accept an above-average degree of risk in creating and disseminating social value; and 5) is/are unusually resourceful in being relatively undaunted by scarce assets in pursuing their social venture.

Social Entrepreneurship, that is the innovative creation of social value, can be accomplished in a variety of ways. Social value can be created by a strictly profit seeking business at one end of a spectrum, through the creation of commodities that individuals value, and charitable organizations at the other end. SEs, the focus of this research paper, are one specific manifestation of Social Entrepreneurship and fall in the middle of a business model continuum as presented in Figure 1.

**Figure 1 - Business Model Continuum (Source: tricofoundation.ca)**



As Figure 1 demonstrates, SEs are unique organizational forms for two reasons:

1) they are neither purely for-profit, privately owned businesses nor *traditional* nonprofit



organizations; and 2) they are looking to blend both a financial and social return on investment. According to Peattie and Morley (2008) the “primacy of social aims and the centrality of trading” (quoted from Teasdale, 2011: 101) are the two features which distinguish SEs from other organizations. Doherty and Thompson (2006: 362) suggest several other important features, which highlight the democratic nature of SEs, that separate SEs from other organizations. These include (verbatim):

- Assets and wealth are used to create community benefit.
- They pursue this with (at least in part) trade in a market place.
- Profits and surpluses are not distributed to shareholders, as is the case with a profit-seeking business.
- “Members” or employees have some role in decision making and/or governance.
- The enterprise is seen as accountable to both its members and a wider community.
- There is either a double- or triple-bottom line paradigm. The assumption is that the most effective social enterprises demonstrate healthy financial and social returns – rather than high returns in one and lower returns in the other.

## **Problems with Definitions**

Although we have now identified several important features of SEs (that they are driven by a social objective, they achieve some of this objective through engaging the market and that they have a democratic element), there is little clarity of meaning when

using the term SEs. Both in academia and by practitioners “the [social enterprise] label has been applied to a range of phenomena” (Teasdale, 2011: 101).

One particularly confusing element is the fact that, in most countries, there exists no legal designation for SEs. The term SE has been used to refer to business strategies adopted by nonprofits, to “voluntary organizations delivering public services,” to organizations with a system of democratic control that blend social and economic goals, to profit-driven businesses in the fields of public welfare and to “community enterprises addressing social problems” (Teasdale, 2011: 101).

Further to the point, Young (2012: 25-26) suggests that only a loose definition works for defining the wide range of organizational types and strategies of SE since any definition must encompass:

small, privately held businesses whose owners intentionally address social as well as financial objectives; social purpose businesses with formal mandates to pursue a balance of profitable and social-purpose activities; partnerships consisting of for-profit, nonprofit and governmental organizations brought together around a public purpose; cooperatives of workers, consumers or other parties, governed by members who share both socially defined organizational goals and private benefits; nonprofit organizations established to address a social mission that entails services provided in a marketplace; and commercial initiatives of host nonprofit organizations designed to achieve some combination of financial return and social goal achievement.

To be truly comprehensive, any definition of ‘social enterprise’ must be vague (Young, 2012: 25), because it must encompass a variety of organizations, with differing social missions, economic objectives and legal structures.

## ***THE CANADIAN SE LANDSCAPE***

### **Objectives of Social Enterprises in Canada**

One way to gain insight into the SE sector is to classify these organizations by their purpose. Although, as we have seen, there is no singular and precise definition of SE, the sections below will attempt to familiarize the reader with the main features of these organizations by providing examples from Canada.<sup>2</sup> The three examples provided in the next section demonstrate SE started with the purpose of meeting one of three objectives which are common in the Canadian SE landscape (The Centre for Community Enterprise, 2008: 3):

1. to create employment or training opportunities not readily available in the market place (also referred to as ‘work reinsertion’ SEs);
2. to provide commercial/social services not provided by the market or state to individuals and organizations; and
3. to advance economic self-reliance of nonprofit organizations.

This classification of SEs by objective is an effective way to understand the sector and it allows us to recognize that there are different challenges and pressures facing each type of SE. SEs that have a more explicit social mission (type 1 and 2 in the list above) face a different financial reality and constraints than the more commercially oriented SEs (type 3). Furthermore, the more socially-oriented SEs tend to be financially supported by

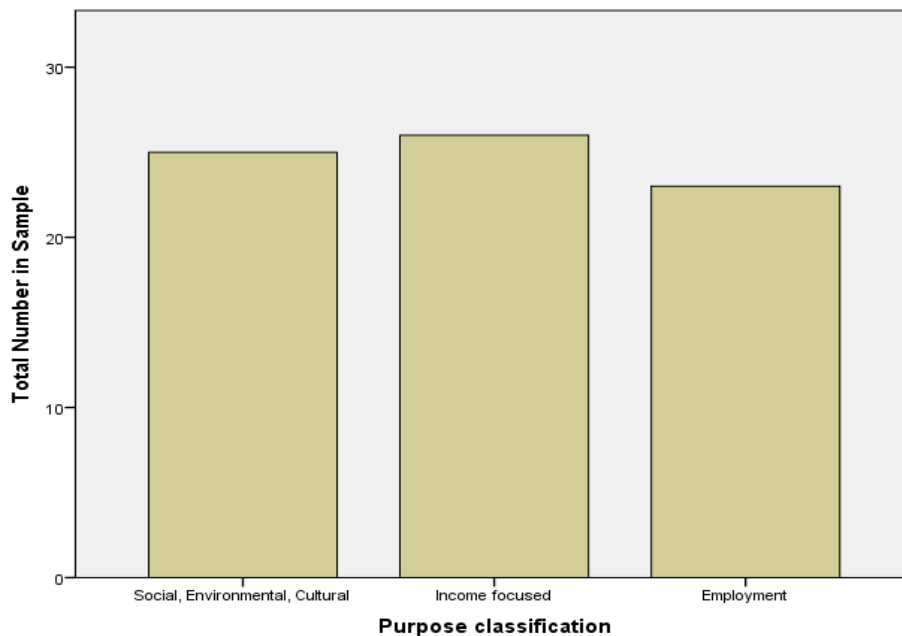
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<sup>2</sup> These cases were randomly selected through a Google search as a way to showcase the diversity of SE in the Canadian, urban, landscape.

governments, since their objectives are in line with those of the government’s social agenda.

The BALTA dataset (Hall and Elson 2010: 41), which we will make further use of in Part 2 of this paper, uses this same three-objective system of classification to understand the SE sector in the provinces of Alberta and British Columbia. Figure 2 shows the distribution of the 74 SEs in the sample located in Vancouver, Victoria, Edmonton and Calgary between these three groups. Appendix 1 classifies these organizations further, by showing their distribution in each of the four cities in the sample.

**Figure 2 - Distribution of SEs by Purpose in 4 Metropolitan Regions of B.C. and Alberta (Source: Jevtovic, 2013)**



### **Three Examples of Canadian Social Enterprises**

#### Example 1: Employment/Work Re-Insertion

The Ontario Council of Alternative Businesses (OCAB) is an organization based in Toronto that “advocates for employment opportunities for psychiatric

consumer/survivors and emphasizes the importance of work in the lives of people who have been marginalized by poverty and mental health issues” (Ontario Council of Alternative Businesses web-site). They operate five SEs, predominantly in the food-service sector. The largest of these is Out of This World Café in Toronto, employing a large staff and garnering annual revenues of \$220,000 (CCEDNET Case Study, 2006). The business is highly democratic, with employees participating in major decision making processes. “Two-thirds of the OCAB Board of Directors, the business manager, two lead hands and up to 40 part-time permanent employees of OTW are Consumer/Survivors, and most are in receipt of the Ontario Disability Support Program” (CCEDNET Case Study, 2006: 3).

Not only does this enterprise fulfill a social mission to offer the workers training and certification for future jobs which they otherwise might not have, it does so by offsetting some of its operating costs through selling baked goods and catering services in the market. Furthermore, the democratic elements are indicative of an organization highly accountable to the population it serves and fits the definition of SEs provided above.

#### Example 2: Social Services Based (Social, Environmental, Cultural)

The Lu’ma Native Housing Society was incorporated in 1980, with the objective to build, own and operate affordable housing for British Columbia’s aboriginal population (Lu’ma Native Housing Society website). “The Society currently owns and operates an affordable housing portfolio in excess of 300 units,” which is rented at a subsidized rate to low-income individuals and Aboriginal families (Lu’ma Native Housing Society website). This SE also has a number of complimentary initiatives, such

as a fundraising branch [First Funds Society] and a sister incorporated society [Lu'ma Native BCH Housing Society] that works in partnership with BC Housing [a provincial crown agency] to develop more affordable housing projects (Lu'ma Native Housing Society website).

The Lu'ma society fits the bill of a social-service based SE because it provides a social service that is not provided by the state or the market, all the while maintaining a business component that is directly linked with the social objective. Another important feature, mentioned in Young's (2012) all-encompassing list of possible SE types, is the partnership between the government and this SE. There appears to be a high level of collaboration with the provincial government to meet their shared social objective.

### Example 3: Nonprofit Self-Reliance (Income Focused)

St. John's Bakery, an artisan bakery located in Toronto, was created to produce the highest quality breads and sweets (St. John's website). Only certified organic products are used in the bakery and the breads are made using a traditional method. The bakery is owned and operated by St. John's The Compassionate Mission, "an Apostolate of the Carpatho-Russian Orthodox church of the Ecumenical Patriarchate of Constantinople, in co-operation with local Orthodox churches of Greater Toronto serving anyone in need since 1986" (St John's The Compassionate Mission website). The mission is a registered nonprofit organization which uses profits from the bakery to help finance costs of operating the mission. Because the profits of St. John's Bakery are used to achieve the social mission for a parent organization, it can be classified as a SE created to further the economic self-reliance of a nonprofit.

These sketches of different types of SEs, classified by their objectives, help us to understand the diversity of Canadian SEs and exemplifies the services they render. The diversity of organizations under the SE banner also raises questions regarding the origins of this sector in the country. Are SEs in Canada oriented towards fighting social exclusion and contributing to community economic development or is the sector better understood as a strategy to raise revenue for nonprofit organizations? Are SEs based in the social movement tradition or are they – as we will see later – a response to the changing dynamics imposed on the third sector with the reorientation of the welfare state?

### **Social Enterprises – Canadian Specifics**

Studying the rise of the Social Economy<sup>3</sup> in Canada starting in the 1970s, Laville, Lévesque and Mendell (2006) argue that the Canadian variant of SE is fundamentally rooted in the rise of civil society associations, mutual societies and co-operatives in nineteenth century Europe, and in their relationship to the state and the market.

The social economy [in Canada] includes both new personal services to fulfill needs that the welfare state meets poorly if at all (as a rule, predominantly non-market services) and new economic activities (often predominantly market-based) to help integrate excluded persons into the labour force or to revitalize rural areas or declining or even abandoned urban ones” (Laville, Lévesque and Mendell, 2006: 16).

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<sup>3</sup> The term Social Economy in Canada is used by some scholars as a way to frame social-purpose organizations of the third sector. SEs are one type of organization in the wider Social Economy.

It is difficult to talk about a uniform Canadian SE landscape, however, because regional differences are large. “A legacy of social democracy in some of the western provinces, a conservative orientation in the oil rich province of Alberta and shifting political sands in the rest of the country...” (Laville, Lévesque and Mendell, 2006: 252) all contribute to a diverse political, economic and social environment within Canada. A vibrant social movement tradition in Quebec has also had an important effect on the development of the Third Sector in Canada. To this end, Mendell (2010: 254) argues that in Canada, SEs are:

increasingly linked with community economic development, community-based business and local development strategies. In other words, social enterprises are integrated into a systemic approach to social exclusion, labour market transformation, territorial (place-based) socio-development strategies. This was clearly articulated in a Standing Committee Submission to the federal government in Canada (2006) that also included innovative methods of service delivery and increasing productivity and competitiveness to the list of contributions by social enterprises to Canadian society.

This view of Canadian SEs being part of a wider community-based strategy in fighting social exclusion, transforming labour markets and territorial socio-development is echoed by Duperré (2010) (cited in Thompson and Emmanuel, 2012). According to Duperré, many organizations in the third sector in Canada have their roots in social movements and are, at their core, committed to social change.



The diversity of organizations found under the banner of SEs in Canada is explained, in part, by the historical evolution of social purpose organizations such as nonprofits, charities, and cooperatives. One particularly formative period for SEs in Canada and all over the world, was the changing nature of the welfare state through the 70s, 80s and 90s. This period was highlighted by the changing relationships between civil society, the state and the market, which had a direct impact on many organizations in the Third Sector.

### ***ORIGINS AND EVOLUTION OF SOCIAL PURPOSE ORGANIZATIONS AND INCREASING PENETRATION OF ELITES***

The emergence of social purpose organizations, of which SE are one unique form, can be traced back to Europe at the onset of the industrial revolution (Therriault, 2012). Reacting to harsh living and working conditions that resulted from massive industrialization and urbanization, and lacking a welfare state to provide essential services, people began to organize to address the needs of the working-class (Therriault, 2012). These responses were most frequently organized by charitable groups led by churches and members of the middle and upper classes (Therriault, 2012). It is worth noting that in these early times, social purpose organizations were most frequently created and led by the elite and privileged elements of society. On some occasions, however, the workers themselves organized and created cooperatives to provide access to goods they could not afford individually (Therriault, 2012). These traditions and organizations evolved over time, as a response to changing needs and the surrounding environment. These changes also led to the increased penetration of elites in the sector.

## **Evolution of the Nonprofit Sector**

One theory of the rise of SEs as a unique type of social purpose organization, articulated most prominently by J. Gregory Dees, suggests that they emerged as part of an evolution in the nonprofit sector of the economy. Dees (1998) argues that SE became prominent in the public discourse when the nonprofit sector began to turn to the commercial world as a way to meet several important [primarily economic] needs. This move towards commercialization was supported by a new social acceptance of business practices, especially as it relates to increasing efficiency and innovation of nonprofit organizations, and it made profit oriented activities in social purpose organizations more acceptable (Dees, 1998: 56). This, coupled with wanting to avoid user-dependency of services in the organization's constituency, made nonprofit leaders begin to experiment with fees for services (Dees, 1998). In parallel, as an attempt to find more reliable and steady sources of funding than grants and donations, nonprofit managers began to see earned-income-strategies as a more secure funding model (Dees, 1998). As philanthropic dollars became more scarce and the competition for them more vigorous, including from government organizations that increasingly began to contract out public service provision in exchange for increasing accountability and efficiency, managers of nonprofit organizations had to adapt (Dees, 1998). Finally, encroachment of for-profit firms in the social sphere (for example, health care in the United States) made the nonprofits adopt the same behaviour in an attempt to be competitive (Dees, 1998).

## **Impact of a Diminishing Welfare State**

The changes in the nonprofit sector articulated by Dees were heavily influenced by the changing dynamics between the public and private spheres brought about with the

dismantling of the welfare state (Di Domenico et al., 2009). As western governments sought to find ways to deliver public services more efficiently and at lower total costs, they began to work closely with social-purpose organization in the Third Sector. This frequently resulted in social service provision being outsourced to a variety of actors, including private organizations (nonprofit hospitals, for example) and local, voluntary organizations.

This privatization of public service delivery began to change the boundaries of the welfare state, blurring the traditional public-private divide. This shift was particularly evident in the U.K. with the emergence of the ‘Third Way’ and the resulting partnership between voluntary/community organizations and the U.K. government in the provision of public services (Di Domenico et al., 2009). Even before the U.K.’s experiment with social service provision through partnerships with local organizations, the administration of Ronald Regan in the U.S. attempted to deliver more social programs through the private-sector as a way to temper the impacts of a reduced welfare state (Moore et al., 2002).

Although these voluntary organizations were expected to be more sensitive to local needs and thus better able to provide public services to communities, a focus on ‘entrepreneurship’ was forced upon them by the funding agencies (governments and foundations) (Di Domenico et al., 2009: 983). Although governments were willing to partner with organizations to deliver social programs, they required a certain amount of accountability for how these organizations were spending tax-payer dollars. SEs began to emerge to meet these supply needs and were supported publicly as organizations capable of ensuring efficiency in the provision of social services to local constituencies.

As Dees (1998) postulated, the focus on efficiency in social purpose organizations, particularly those that were in the business of providing social services, had the potential to undermine the social missions these organizations were initially created to address. The pressures for increased efficiency and accountability pressed for by the funding partners (governments) ensured that the commercial aspect trumped the social missions, leading to less than effective delivery of services in some cases.

### **Raising Influence of Elites**

The impact of the reorganization of the welfare state on the third sector was important for another reason - it created opportunities for elite elements of society to penetrate the sector (Moore et al., 2002).

Because third sector organizations, particularly nonprofits engaged in social service delivery, began to rely so heavily on public sector-partnerships (read: funding) for their survival, they lost their independence (Moore et al., 2002). Instead of being organizations with independent mandates and decision making abilities, they became dependent on government funding and willing to undertake any project that would ensure this funding.

Their independence was further eroded through increased incursion of for-profit firms in what are traditional areas of third sector involvement (healthcare in the U.S., for example). At times, this has meant increased cooperation and partnerships with for-profit firms as a way to be competitive or to raise money. In exchange, nonprofits provided benefits to their corporate partners such as influential positions on the board of directors (Moore et al., 2002).

The many partnerships between governments and nonprofits in the provision of social services also contributed to the professionalization and bureaucratization of the third sector, which led to further opportunities for elites (Moore et al., 2002). Whereas the average third sector organization was once a small enterprise committed to serving its community, the nonprofit sector has begun to move towards larger and hierarchical structures (Moore et al., 2002). “The result is that control over most large nonprofit organizations resides increasingly in the hands of a few, specifically high-level managers and boards of directors” (Moore et al., 2002: 730).

The changes in the politico-economic environment throughout history, especially the reorganization of the welfare state started in the 1970’s, have had a large impact on the Third Sector. One effect of these changes has led to increasing penetration of elites and, at times, a reorientation in the objectives of these organizations. With respect to Canada, little empirical work has been done to assess if and how elites are impacting the SE sector.

## **PART 2 – Elite Capture in the SE Sector in Canada**

### ***COMMUNITY WEALTH AND SE FUNDING***

#### **Elite Resource Capture Theory**

To understand the relationship between economic wealth of a community and the SE sector in Canada, this paper will make use of the theory of Elite Resource Capture. This theory suggests that elites, either in groups or as individuals, ‘capture’ a disproportionate share of resources intended for the wider society by way of their superior political and/or economic position (Dutta, 2009). Although this theory is based in the international development literature, explaining the inefficiencies in international development assistance that result from corruption and collusion of local elites in developing countries, it is also relevant “within a decentralized system of governance where funds and resources are transferred from higher levels of government to lower levels of government for development purposes” (Dutta, 2009: 3). As funds are transferred to lower levels, opportunities are created for elites to capture these resources by way of their economic or political standing in society, ultimately leading to inefficient and ineffective delivery of public services to people (Dutta, 2009: 3).

It is this particular occurrence that makes the theory relevant for an analysis of elite capture in the SE sector. Because SEs are local organizations delivering a social service to a community, frequently through a financial partnership with government, charitable organizations and/or individual donors, there are opportunities for elite capture of these funding resources as they fall to lower levels of government and private-funding institutions. Furthermore, the changes in the wider third sector discussed in Part 1 (the

rapid expansion of the third sector, its professionalization and the increasing blurriness between the market, government and third sectors) have all contributed to the ability of elites to participate more actively in these organizations (Moore et al., 2002).

## **Funding Resources to Capture**

Although SEs provide a variety of services and goods to communities, many also require support (Thompson and Emmanuel, 2012: 38). This support is most frequently needed at the start-up phase, although it is not uncommon for a SE that cannot generate enough revenue from sales to require assistance at other times in their lifecycle. Support can range from business knowledge-transfer to financial help in the form of grants, loans and donations. In Canada, there are a limited number of instruments that are available in most provinces to provide support to SE.

Enabling public policy, access to funding and building organizational capacity are the three most commonly cited instruments that need to be improved to better support the growth of SEs in Canada (Thompson and Emmanuel, 2012). Organizational governance and capacity is an area crucial to the success of a SE, because “the internal structure and functions of an organization are pivotal in overcoming the external obstacles and harnessing the external opportunities” (Thompson and Emmanuel, 2012: 79). Public policy to enable the growth of SE throughout Canada suffers primarily because of decision makers’ a lack of knowledge about the benefits of the third sector (Thompson and Emmanuel, 2012). Financing is perhaps the largest obstacle in an age of austerity, since “financing of organizations and their activities has traditionally been through government and foundation grants, charitable fundraising and donations, and, occasionally, loans” (Thompson and Emmanuel, 2012: 97). Although new sources of

financing have emerged (see for example Socially Responsible Investing), this area is one where many SEs find themselves in need.

Organizations and governments are starting to find ways to meet the financial needs of SEs mentioned above. One prominent example from British Columbia, the Enterprising Non-Profits Program (ENP), “provides matching grants to non-profit organizations in British Columbia who are interested in starting or expanding a business” (Tremblay, 2010: 26). The ENP, which unifies several private funding sources into one pool, allows nonprofits the opportunity to undertake planning activities related to the creation of a business venture (Tremblay, 2010: 27). ENP offers both financing and organizational capacity for emerging social entrepreneurs while they create a business plan and strategy. The funding for ENP comes primarily from trusts (Columbia Basin Trust, Northern Development Initiative Trust), foundations (Vancouver Foundation) and private companies (Vancity Credit Union, Capital One Canada) (ENP website).

In the field of public policy, the provinces of Manitoba and Nova Scotia are the only ones that have passed legislation to “incentivize” individuals to invest in the sector, as a way to raise private capital for SEs. Both provinces have created tax-credit programs to help inject private financing into Community Economic Development organizations, such as SEs, in each province (Chernoff, 2008). Nevertheless, even with these newer sources of financing, SEs remain highly dependent on grants from governments to contribute to financing the sector.

The question of who is benefiting from these types of financing services offered to SEs is yet to be examined. Are they being evenly distributed or are some groups more easily able to access them? We will attempt to discover the existence of elite capture in



the SE sector by examining if the distribution of non-earned income (funding obtained through donations, grants and loans) is evenly distributed across communities of different socio-economic standings.

## **Impact of Economic Wealth on the Nonprofit Sector**

Several studies have been conducted which examine the relationship between economic elites and the wider nonprofit sector in the United States. Benson and Saxton (2005) have found that there is a positive relationship between per capita income and the number of nonprofit organizations in a region. This would suggest that positioning in the economic pecking-order is a factor in the ability to raise the necessary capital to create and sustain nonprofit organizations. Furthermore, Marquis et al. (2013), found a positive relationship between corporate density and the growth of “elite-oriented cultural and educational” nonprofits and social welfare nonprofits, the growth of the former being more influenced by corporate density.

Examining the distributive impact of nonprofits, studies have found that it is minimal. “...Nonprofits prove to serve mainly the socio-economic groups that support them financially, with negligible or nil redistributive effects” (Borzaga et al., 2011: 286). “Corbin (1999) found that poverty levels are positively related to the number of nonprofit social service providers, whereas Zakour and Gillespie (1998) and Marsh (1995) found that distressed urban neighborhoods have fewer nonprofit organizations than more affluent communities” (Gronbjerg and Paarlberg, 2001: 688). Although far from achieving a consensus, there is much in the literature that seems to point towards a positive relationship between the numbers of nonprofit organizations and community wealth.

Few studies have focused on the relationship between community wealth and the distribution of non-earned resources, such as grants and donations, needed to start, sustain and grow SEs based in these communities. Whereas the total *number* of nonprofits in communities of differing levels of wealth is important insight, it seems equally important to evaluate the distribution of financial resources needed to create SEs between communities of different socio-economic standing. Just as insightful would be to compare SEs in these different communities based on the strength of their organizations. These findings would contribute further to an understanding of the impact economically elite elements in society have on the third-sector.

### **It's Economic, Not Political**

While the Elite Resource Capture theory views both economic and political power possessed by elites as contributing to their ability to capture resources, only an examination of economic power will be pursued in this paper. This is because there is little to suggest that in the Canadian SE sector, political power matters. There is no unified policy at the federal level regarding SEs, and only some provincial governments have put in place policies to support the growth of sector through private financing initiatives. The fact that the SE sector has made little progress in its ability to capture the attention of policy makers and politicians seems to support the assertion that political power matters little. Furthermore, attempting to measure political power presents methodological challenges that are beyond the scope of this work.

Nevertheless, making use of this theory, we will test to see if economic elites in Canada, loosely defined as individuals who are financially and socially wealthier than the Canadian average, are capturing a larger share of resources intended for the creation of

SEs in Western Canada's four major urban centres. We will also test to see if community wealth is a factor in the organizational strength of SEs in these regions, which should add another layer of analysis regarding the relationship between community wealth and SEs.

### ***METHOD: THE BALTA DATASET***

To examine the question(s) posed, this research will examine relationships (Pearson R correlation) between variables obtained from Statistics Canada and the BALTA dataset.

The BALTA dataset was created from a survey of SEs in Alberta and British Columbia, Canada, conducted in 2009, with the goal of “developing clear indicators of their nature, scope and socio-economic contribution” (Elson and Hall, 2010). This was one of the first attempts in Canada to undertake a mapping exercise of SEs. Due to the challenge of identifying SEs and for the purposes of the BALTA study, the definition of a SE was purposefully narrowed. A SE was taken to be “a business venture, owned or operated by a non-profit organization that sells goods or provides services in the market for the purpose of creating a blended return on investment; financial, social, environmental, and cultural” (Elson and Hall, 2010: 10).

The researchers confirmed the existence of 295 SE, of which 231 were in B.C. and only 64 in Alberta, and surveyed 140 of these - 105 in B.C. and 35 in Alberta (Elson and Hall, 2010: 11). For the purposes of this research project, this sample was further reduced to include only the 74 SE that are located in and operate in<sup>4</sup> the four major

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<sup>4</sup> Because the data from the Elson and Hall was given to us blind, determining the exact location of where each SE operates required massaging the data. To do so, we removed all the SE that reported their office as residing outside the 4 census metropolitan areas. A test was conducted on the remaining sample to ensure that the location of main office correlated to a self-declared variable relating to where each SE operates (at the neighbourhood, city and regional level OR at the provincial, Canada or international level).

metropolitan areas in the two provinces; Victoria, Vancouver, Edmonton and Calgary. Table 1 lists the total number of SE in each city as well as the percentage each city represents of the total sample. Metro Vancouver had slightly more than half of all the SE in the sample (40 in total). Calgary, the second biggest city in the sample, had only 20% (15 in total) of all SE. Appendix 1 further groups the SE in each city by their purpose (social mission, income-generating or employment focused).

**Table 1 - Distribution of SE within 4 Metropolitan Areas (Source: Jevtovic, 2013)**

Location of Main Office		
Location	Frequency	Percent
Calgary	15	20.3
Edmonton	11	14.9
Metro Vancouver	40	54.1
Metro Victoria	8	10.8
<b>Total</b>	<b>74</b>	<b>100.0</b>

As the graphs in Appendix 1 suggest, there seems to be a relationship between the types of SEs (when examined by their objectives) and the needs of the cities they operate in. Edmonton, for example, a city that is known for its crime-rate and high aboriginal population, appears to have the most SEs serving social, environmental and/or cultural needs. Calgary on the other hand, a city known for its high wealth levels, has more SE committed to generating income for nonprofits. Vancouver, a large city with a diverse population and diverse social challenges, appears to have an equal distribution of different types of SE.

## **VARIABLES**

Elites will be conceptualized as purely economic elements in society, operating in groups to attract non-earned resources (grants, loans and donations) for SEs in their

communities. This means that the wealthier the city, *ceteris paribus*, the more elites reside there. Along with median income levels, a variety of other proxy variables will be used to capture wealth and, through them, the existence of economic elites.

### **Measures of Community Wealth and Presence of Elites:**

There are a variety of ways to measure wealth, and for the purposes of this project, community wealth will be conceptualized as comprising both economic capital and social capital. All of the data for these variables were obtained from Statistics Canada's publicly available census information (2006 was the latest census year that was available). In the cases where 2009 data was available, it has been used as a way to match the year the BALTA dataset was created.

Variables related to the cost of housing were obtained from Canadian Housing and Mortgage Corporation, which conducts studies in partnership with Statistics Canada on the state of the housing market in Canada (these studies are called Housing in Canada Online – HiCo). Table 2 lists each of the variables of community wealth, along with descriptive statistics for each census metropolitan area in our sample.

**Table 2 – Descriptive Statistics of Variables Measuring Community Wealth (Source: Jevtovic, 2013)**

<i>Variable Name</i>	<i>Descriptive Statistics</i>	
Median Total Income by all Census Families (2009)	<b>Canadian Average</b>	<b>\$68,410</b>
	Edmonton	\$86,250
	Calgary	\$88,410
	Vancouver	\$67,550
	Victoria	\$77,840
Unemployment Rate (2006)	<b>Canadian Average</b>	<b>6.6%</b>
	Edmonton	4.6%
	Calgary	4.0%
	Vancouver	5.6%
	Victoria	4.3%
Average Shelter-Cost-to-Income Ratio (2006 - HiCO)	<b>Canadian (Metro Areas) Average</b>	<b>22.9</b>
	Edmonton	21.2
	Calgary	21.6
	Vancouver	24.8
	Victoria	23.3
Percentage of the Population with University Certificate, Diploma or Degree at Bachelor's Level or Above (2006)	<b>Canadian Average</b>	<b>Not Available</b>
	Edmonton	22.9%
	Calgary	30.6%
	Vancouver	30.7%
	Victoria	29.0%

**Community Wealth:** An important way to capture the level of elites in an area is to examine the wealth of individuals or groups in a region. This paper will do so by looking at the **Median Total Income by All Census Families in 2009** in the four metropolitan regions of our sample. Higher income allows individuals the opportunity to reach a higher standard of living, including increased access to important services such as health-care and education (OECD Better Life Index). We assume here that economic elites choose to live in areas where other individuals of higher-income reside, primarily because services that are of value to these individuals and groups will be more abundant.

Furthermore, families are an effective unit of analysis for elites because it has been established that families are important institutions for the transfer of cultural traits and the cementing of elite social ties (Khan, 2011). The variable Median Total Income by

all Census Families includes all family types, such as couple families, with or without children, and lone-parent families (see Statistics Canada, CANSIM, table 111-0009).

**Education: The Percentage of the Population with University Certificate, Diploma or Degree at Bachelor's Level or Above** is an effective proxy variable to capture the level of economic elites in a region because schooling is one of the best predictors for wages and the best source for upward mobility (Khan, 2011). University education not only provides individuals the ability for career advancement and increased wages, but also “converts birthrights into credentials” (Khan, 2011). Although less a factor in Canada than in other jurisdictions, the costs of pursuing post-secondary education can be a barrier to entry for individuals of lower incomes, thereby perpetuating class inequality.

Furthermore, it can be argued that university education raises social awareness and can contribute to increasing participation in social purpose organizations, such as SEs, through donations or volunteering. Contradictory relationships between levels of educational attainment and the number and strength of third sector organizations have been found, making this variable all the more interesting to examine in our sample. According to Gronbjerg and Paarlberg (2001: 690):

Whereas neither Lincoln nor Ben-Ner and Van Hoomissen (1992) found that the number of [nonprofit] organizations is significantly related to the status of community residents as measured by level of education, others have confirmed a relationship between some socioeconomic characteristics (education, age) and involvement in nonprofits (Galper, 1999; Guterbock & Fries, 1997).

**Unemployment:** The health of the local economy is also a factor in the presence of elites in a region and their impact on the creation and strength of existing SE. We will assume that regions with higher **Unemployment** will tend to have smaller number of economic elites. Although in some cases economic elites can be present in regions of higher unemployment, perhaps profiting from structural changes in the local economy, it is more probable that they would tend to reside in regions with a healthy economy.

Employment has already been linked to the emergence of the nonprofit sector in a study which established a negative relationship. “Unemployment ... has a negative effect on expected foundings [nonprofit start-ups], where a 10,000-person increase in unemployment leads to an expected 73.6 percent decrease [in nonprofit start-ups]” (Benson and Saxton, 2005: 31). This suggests that regions of higher unemployment will tend to have a smaller number of SEs, possibly due to a lack of elites able to fund them. This is a particularly interesting finding in the realm of SEs, since one objective of these organizations in Canada is to integrate marginalized people into the workforce.

**Cost of Living/Housing Cost:** The cost of housing variable, represented as the **Average Shelter-Cost-to-Income Ratio** has been included as another measure of economic wealth for two reasons. First, the cost of housing generally makes up the largest share of expenditures in a household and any rent-to-income ration will tend to be higher in poorer regions. Second, in regions where the economy is particularly robust we should expect to see the presence of economic elites and a relatively higher cost of housing (as a result of increased demand or speculation). However, in wealthier communities, this ratio should be much smaller, as rent costs eat-up a smaller portion of an individual’s before



tax income. This assertion seems to be supported by the fact that, in our sample, the shelter-cost-to-income ratio is highest in Vancouver, a region with notoriously high housing costs and the lowest median total income.

## **Measures of SE Organizational Characteristics and the Distribution of Revenue Sources**

To examine what impact elites are exercising on the SE sector, indicators of **organizational strength** and the **distribution of funding sources** will be examined. Several variables obtained from the BALTA dataset will be used for this purpose.

Although SEs differ substantially from traditional firms, which are created for the sole purpose of generating income for its shareholders, both types of firms are similar in the sense that both have exposure to and participate in the market. As such, both are oriented to achieving similar goals (generating income) and both are impacted by factors that aid or hinder this objective.

In the business literature, two primary factors are identified as contributing to firm performance. “One is based primarily upon an economic tradition, emphasizing the importance of external market factors in determining firm success. The other line of research builds on the behavioral and sociological paradigm and sees organizational factors and their fit with the environment as the major determinants of success” (Hasen and Wernerfelt, 1989: 399). To this end, we will examine the age of SEs, the number of full-time employees and the percentage of total staff that are volunteers, as a way to determine organizational strength.

We will also examine sources of funding for the SEs in the sample. As we saw earlier, some SEs require financial assistance at the start-up phase or throughout their life

cycle to survive. To measure the extent of financial assistance received we will employ variables that measure total revenue from grants, loans and donations, the percentage of total revenue from grants, loans and donations and the percentage of total revenue from sales. When combined with the variables measuring economic wealth in a region, we will be able to see what impact economic elites have on the SE sector as it relates to sources of funding.

Table 3 lists the variables that will be used to examine the organizational strength of SE in the sample and the descriptive statistics of each. Table 4 lists the variables that will be used to examine the distribution of sources of revenue, including non-earned revenue such as grants, donations and loans, and the descriptive statistics of each.

**Table 3 - Descriptive Statistics of Variables of SE Organizational Strength (Source: Jevtovic, 2013)**

<i>Variable Name</i>	<i>Descriptive Statistics</i>	
Full-time Paid Employees (30 or more hrs/week) (2009)	N	74
	Mean	14.6
	Median	4
	Mode	0
SE Age (2009)	N	69
	Mean	16.99
	Median	13
	Mode	15
Volunteers: Percent of Total Staff (2009)	N	72
	Mean	40.61%
	Median	28.57%
	Mode	0%

**Table 4 - Descriptive Statistics of Variables Measuring Sources of Revenue (Source: Jevtovic, 2013)**

<i>Variable Name</i>	<i>Descriptive Statistics</i>	
Total Revenue from Grants, Loans, and Donations (2009)	N	74
	Mean	\$280,620.05
	Median	\$53,797.00
	Mode	\$0
Percentage of revenue from Grants, Loans and/or Donations (2009)	N	74
	Mean	32.60%
	Median	21.64%
	Mode	0%
Percentage of total revenue from sales (2009)	N	74
	Mean	62.22%
	Median	70.40%
	Mode	1%

**Number of Full-Time Employees:** An important indicator of organizational strength is the **Number of Full-Time Employees** (defined as individuals working for 30 or more hours per week and receiving pay). The more paid individuals a firm is able to employ, ceteris paribus, the larger its expenses are and the larger its revenue generating power must be to offset these costs. Therefore, firms with a large number of full-time employees should have a steady and large stream of reliable income to support this staff. Yet for a SE, revenue could come from sales or from grants, loans and donations, the latter sources being a lot less reliable than revenue obtained from sales, as income from grants and donations is difficult to guarantee year after year.

We have some confidence to claim that the number of full-time employees is a good measure of organizational strength, as it relates to the organization's size and revenue generating ability. We found a strong, positive and statistically significant correlation (Pearson correlation coefficient of 0.962, significant at the 0.01 level) between total revenue from all sources (this includes grants, donations, loans and sales) and the number of full-time employees in our sample.

**Age:** **Age** is another effective measure of organizational strength. We can assume that the older the firm and the longer it has survived, the more experience its owners and operators have, making the firm better able to encounter future challenges. The business policy literature on this particular topic is far from definitive, however. Although there is some support for a positive relationship between age and firm performance, there is a contradictory stream of research which suggests that older firms become bureaucratic, stagnant and less able to adapt to changes in their environment (Majumdar, 1997).

Nevertheless, we found a strong and positive relationship between SE age and total revenue from all sources in our sample (Pearson correlation coefficient of 0.688, significant at the 0.01 level). Furthermore, we found a positive relationship (Pearson correlation coefficient of 0.685, significant at the 0.01 level) between SE age and the number of full-time employees. Our sample seems to support the notion that older SEs have more paid employees and generate more revenue, thereby making age an effective measure of organizational strength.

**Volunteering:** **Volunteering** is a particularly relevant measure of organizational strength for SEs because volunteers provide these organizations with below-market value labour. The higher the percentage of volunteers in a SE, *ceteris paribus*, the lower the need to generate revenue becomes. This gives SEs with large numbers of volunteers an advantage over their competitors (either other SEs or for-profits), as they are able to divert revenue from labour costs into other sectors of the organization. In our sample, we observed a Pearson correlation coefficient of -0.241, significant at the 0.05 level, between the

percentage of staff as volunteers and total revenue from all sources. This seems to suggest that SEs that have volunteers comprising a larger share of their staff, have less total revenue coming from all sources such as sales and grants/loans/donations.

Yet, volunteering is not an activity that all strata of society can engage in equal proportion. Studies have confirmed that income, as a form of human capital, is positively related to the ability to volunteer (Parboteeah et al., 2004). If we do find support for the existence of elite resource capture in the SE sector in our sample, volunteering should be positively related to the measurements of community wealth.

**Total Non-Earned Revenue:** To measure the ability of economic elites to capture financial resources, we will examine **the Total Amount of Revenue from Grants, Loans and Donations** self-reported by each SE in our sample.

Obtaining financing from grants, loans and donations requires different abilities and resources to that of generating revenue from sales. These sources of revenue are more susceptible to elite capture. Loans, for example, require some form of equity to insure the lender against risk. Those which are better off financially have an advantage when it comes to securing this type of non-earned revenue. Securing donative dollars also depends on resources, especially as it relates to locating and convincing donors. Ironically, elites might not require much investment into fundraising activities, relying instead on informal networks (professional and personal relationships) to secure donative dollars. Applying for grants also requires resources, as the application process can be quite time-consuming and require a particular skill-set. Many large nonprofits have individuals and/or teams dedicated to this aspect of the organization, putting smaller

nonprofits and SEs at a disadvantage. Furthermore, many grant giving institutions require some form of parallel investment on the part of the applicant. Economic elites and their organizations are at an advantage in obtaining each of these funding sources, as they have more resources to invest into these activities.

**Percentage of Non-Earned Revenue and Percentage of Earned Revenue:** To compliment the variable measuring the total amount of revenue from grants, loans and donations, and to account for differences in size between SEs in our sample, we will also look into the **Percentage of Total Revenue from Grants, Loans and Donations** and the **Percentage of Total Revenue from Sales**. These two variables will ensure that the other main source of revenue (sales of goods and services) are taken into consideration when examining revenue.

Whereas we have postulated that securing non-earned revenue requires resources, which elites possess and are able to capture more of, we are also tempted to assume the a similar relationship exists between earned revenue and elites. In areas where more elites are present, *ceteris paribus*, more disposable income should be available to go into purchasing the products of SEs. Yet this might not always be the case, especially because some SEs are created with the purpose to deliver goods or services to a community that the market or the state does not provide. We can assume, therefore, that there is a negative relationship between community wealth and earned revenue in SEs. Furthermore, in contrast to non-earned revenue, successfully selling goods and services is less dependent on your resource base or your socio-economic standing if your product is of some quality or is highly desirable.

## TESTING WITH BALTA DATASET: RESULTS

**Table 5 - Correlations: SE Sources of Funding and Economic Elites (Source: Jevtovic, 2013)**

Variables		Median Total Income by all Census Families (2009)	Unemployment Rate (2006 Census)	Average Shelter- Cost-to- Income Ratio (2006 - HiCO)	Percentage of the population with at least a University Certificate, Diploma or Degree at Bachelor's Level (2006 Census)
Total Revenue from Grants, Loans, and Donations in 2009	Pearson Correlation	.350**	-.321**	-.340**	-.136
	Sig. (2- tailed)	.002	.005	.003	.247
	N	74	74	74	74
Percentage of Total Revenue from Grants/Donations	Pearson Correlation	.309**	-.229	-.326**	-.228
	Sig. (2- tailed)	.007	.050	.005	.051
	N	74	74	74	74
Percentage of Total Revenue from Sales	Pearson Correlation	-.307**	.223	.317**	.178
	Sig. (2- tailed)	.008	.056	.006	.128
	N	74	74	74	74

\*\*Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

**Table 6 - Correlations: SE Organizational Characteristics and Economic Elites (Source: Jevtovic, 2013)**

Variables		Median Total Income by all Census Families (2009)	Unemployment Rate (2006 Census)	Average Shelter- Cost-to- Income Ratio (2006 - HiCO)	Percentage of the population with at least a University Certificate, Diploma or Degree at Bachelor's Level (2006 Census)
Full-Time Paid Employees (30 or more hrs/week) in 2009	Pearson Correlation	.237*	-.203	-.238*	-.130
	Sig. (2- tailed)	.042	.083	.041	.270
	N	74	74	74	74
SE Age	Pearson Correlation	.270*	-.313**	-.223	.099
	Sig. (2- tailed)	.025	.009	.066	.418
	N	69	69	69	69
Volunteers: Percent of Total Staff in 2009	Pearson Correlation	.115	-.128	-.108	-.044
	Sig. (2- tailed)	.334	.282	.367	.716
	N	72	72	72	72

\*\*Correlation is significant at the 0.01 level (2-tailed).

\* Correlation is significant at the 0.05 level (2-tailed).

## Interpreting Results

Using Pearson R correlation, several statistically significant relationships have been obtained. These results point to the possibility that some level of elite capture is present in the SE sector in Canada's 4 western metropolitan areas and that this has an impact on the strength of these organizations.

Median total family income, a purely economic measure of wealth and the presence of economic elites, is positively correlated to all the variables measuring revenue distribution and organizational strength, except Percent of Total Revenue from Sales and Percentage of Total Staff as Volunteers. The data suggest that the higher the median income of families in a community, the more full-time employees local SE will have, the older local SE will be, and that more revenue will be obtained from grants, loans and donations. This last point is further cemented by the fact that there is a positive, statistically significant relationship at the 0.01 level, between median family income and percent of total revenue from grants, donations and loans. This measure suggests that not only are SE in wealthier communities receiving more grants, loans and donations, this income is also a larger share of their total revenue mix.

Further to this point, we notice a negative, statistically significant relationship at the 0.01 level, between median family income and percent of total revenue from sales. Again, this would seem to suggest that SE in communities where median family income is high, are more reliant on grants, loans and donations than on sales. However, this result could have been obtained because SE operating in poorer areas are attempting to avoid user-dependence in their constituency and are charging for their services.



A final interesting observation, relates to the fact that there is no statistically significant relationship between the variable measuring volunteering and median family income. This might suggest that family wealth is not a highly determining factor in the decision for individuals to volunteer in SE.

Another measure of community wealth and the presence of economic elites - the unemployment rate - points to similar conclusions as those suggested by the variable of median family income. Statistically significant relationships were obtained between the level of unemployment and total revenue from grants, loans and donations, and the level of unemployment and SE age. The data suggest that in regions where the level of unemployment is high, SEs appear to be younger and less able to secure funding from grants, loans and donations.

Two other variables, although not statistically significant, are worth mentioning because they are close to our cutoff limit of 0.05 level of confidence. Percentage of Total Revenue from Sales has a weak and positive relationship to the level of unemployment, while Percentage of Total Revenue from Grants, Donations and Loans has a weak and negative relationship to the level of unemployment. Again, these results could be due to the fact that SE in communities where unemployment is higher, are looking to avoid user dependence and are charging for their services. The variable Unemployment, again, appears to suggest that different levels of community wealth lead to different SEs: in the 4 Canadian cities with the highest level of unemployment in our sample, SE seem to be younger and less able to secure resources in the form of grants, loans and donations.

With the variable which captures one important aspect of the cost of living, the average Shelter-Cost-to-Income Ratio, we also observe statistically significant relationships which further corroborate the existence of elite resource capture. In the communities where the cost of shelter makes up a larger proportion of before-tax income, we observe SE that have less full-time employees (significant at the 0.05 level). Even more statistically significant (at the 0.01 level), we can see that where the Shelter-Cost-to-Income Ratio is high, SE receive less Total Revenue from Grants, Loans, and Donations. This is further supported by the statistically significant (also at the 0.01 level) relationships between Percentage of Total Revenue from Sales (.317 correlation coefficient) and Percentage of Total Revenue from Grants/Donation (-.326 correlation coefficient). The results further suggest that in wealthier communities, SE receive a larger share of total income from grants, donations and loans, while in poorer communities, this relationship is inverse.

The final variable, which was a proxy measure, intended to capture the level of social capital, Percentage of the Population with at Least a University Certificate, Diploma or Degree at Bachelor's Level, led to no statistically significant relationships. This is a somewhat strange result, since we had assumed that in communities where there was a high level of social capital we would observe higher participation in social activities (such as higher donations to SE and/or more volunteering). When we reexamined the data, however, we found a strong and negative relationship between level of education and median family income (correlation coefficient of -0.510, significant at

the 0.01 level) in our sample. This counter intuitive finding is difficult to explain and requires further study.

## **Findings Summarized and Next Steps**

After examining the BALTA dataset, we found significant support for the elite resource capture theory in the SE sector in the western provinces of Canada. The data point to the fact that richer cities are better able to capture non-earned sources of funding and that they tend to have stronger SE organizations, a conclusion supported by the wider nonprofit literature on this topic.

To further strengthen this conclusion, an examination at the neighbourhood-level would be needed. This smaller unit of analysis would have the potential to corroborate or dispute the existence of elite resource capture, as it would be able to compare across neighbourhoods of different socioeconomic standing and not, as this research has done, across cities. Using newer data from Statistics Canada to measure community wealth would also be needed to strengthen this conclusion. This is especially true considering the fact that the Great Recession of 2008 has had social impacts which are not reflected in the Census data of 2006.

Notwithstanding these limitations, this paper has demonstrated that there might be a need for more government involvement to ensure that access to funding resources are better distributed amongst organizations operating in communities of all socioeconomic standing.

## **PART 3 – Towards a Better Distribution of Non-Earned Income in the SE Sector**

### ***POLICY RECOMMENDATIONS***

The evolution of the third sector resulting from changes in the welfare state discussed in Part 1 and the findings in Part 2, which suggest that some level of elite capture is occurring in the SE sector in Canada's western provinces, imply some public policies are needed to ensure a better distribution of financing for SEs. Lowering barriers for financing, developing better measures of the social impact of third-sector organizations and creating a legal definition for SEs are three pragmatic policies that would support the growth of the sector in communities of all socioeconomic levels in Canada.

### **Lowering Barriers for Financing**

Although funding of SEs is province-specific, throughout Canada primary financial support is delivered by public funds disbursed through non-profits such as foundations or special government organs, or private funds disbursed through donations and foundations. Barriers for financing SEs can come in a variety of forms in each of these funding bodies [for a complete discussion of many types of barriers of entry facing nonprofits, see Tuckman (2000)]. They might include bureaucratic barriers such as complex paper-work, time-consuming application processes and legal and organizational requirements for the applicant's organization to be considered for funding. On the one hand, bureaucratic procedures do have the benefits of ensuring that only the most committed organizations receive financing since these organizations are willing to

undergo the application process regardless of how complex and time-consuming it might be. On the other hand, however, too many bureaucratic barriers may ensure that only organizations with sufficient resources (man-power and time) are able to apply for financing. Smaller social entrepreneurs and/or SEs are at a disadvantage, since they might not have the necessary resources to invest into these ventures to start or grow their organizations.

Take for example the requirements to receive a grant from Enterprising Non-Profits (this B.C. based organization was discussed at the beginning of Part 2). To be eligible for a grant from ENP, an organization must, along with being located in B.C., “attend a Building Your Social Enterprise workshop, have the organizational capacity (budget & staff) to meet the grant objectives, and commit matching funds in cash or in-kind” (Enterprising Non-Profits website). Or take for example a similar organization in Quebec, the CDEC (Corporation de Développement économique Communautaire). These independent, non-profit organizations are funded by all levels of government (federal, provincial and municipal) and offer up to \$5000 for the development of organizations intended to further economic development in a neighbourhood, including the development of SEs through the *Fonds de Développement des Entreprises d’Économie Sociale* (CDEC website). Much like at ENP, a financial requirement (20% of the project-cost is required as a down payment by the applicant to obtain the grant) limits the ability of some socioeconomic communities and social entrepreneurs to access these resources (CDEC/FDEES website).

These observations are not intended as criticisms towards ENP, CDECs or any similar organization. Instead, these requirements are indicative of the pressures facing

grant giving organizations to ensure that social entrepreneurs are committed to developing a SE by investing in it themselves. Nevertheless, a better balance needs to be put in place between ensuring that access to financing is available to all socioeconomic groups and that those entrepreneurs that choose to start SEs are committed to them.

## **Developing Measures of Social Impact**

A contributor to the lack of political support for the third sector in Canada has been the difficulty in measuring and quantifying the social impact of these organizations. Imagine, for example, having to quantifying increased human capital in a neighbourhood resulting from an individual's participation in a democratic organization addressing violence in her community. Developing an accurate cost-benefit analysis of a social purpose organization such as a SE presents challenges, but is of utmost necessity in order to demonstrate the value of the sector to policy makers.

Several methods of measuring social impact are used today with varying levels of popularity. These include Social Accounting and Auditing, Logic Models and Social Return on Investment [for a description of each see Zappala and Lyons (2009)]. Although each has its own challenges relating to accuracy, the main challenges for the sector are twofold. First, few organizations are using any of these methods to measure their social impact. Secondly, the different methods make comparisons on social impact across organizations difficult.

The method of calculating the Social Return on Investment (SROI) holds the most promise and utility for policy makers, because it can provide a monetary figure of the social outputs of a SE. This system examines the savings to the public purse obtained from the programs of social purpose organizations. Although SROI does not yield a

completely accurate number, due to the challenges of, for example, having to deduct the value of any social impact that would have been achieved without the presence of a SE, it remains an effective tool for measuring social impact. Continuing to develop these measures for social impact, while ensuring that a common system of measurement is adopted across the sector in Canada, would contribute to a merit based system of funding SEs. Under such a system, organizations that demonstrated the most social impact would get a larger proportion of funding.

### **Creating a Legal SE Category**

Part 1 discussed the difficulties in defining SE organizations, partly because SE can come in a variety of legal forms (nonprofits, cooperatives, associations, for-profits, charities). Clarifying the nature of SEs, especially regarding their legal status, would allow these organizations to access more capital from private sources.

In Canada, SEs are most commonly designated as nonprofit organizations, which limits their ability to access sources of financing and to redistribute profits. As a way to address some of these challenges in the SE sector, a variety of countries have begun to experiment with creating new legal entities for business ventures. In the U.S., for example, some states have created the Low-Profit Limited Liability Company (L3C). According to Lane (2011: 1), this new class of business venture allows SEs to “...draw urgently needed private investment into the social sector, it also can elevate the foundation’s role to that of a social venture capitalist that has a stake in both the viability of the venture and the social impact it delivers.” In essence, the L3C designation allows SEs that have a sound business model and that are generating revenue, to attract private investment and further grow the SE. In the United Kingdom, a similar legal structure

aimed at meeting the challenges faced by SEs is called the Community Interest Company (CIC).

These legislative changes in the U.S. and U.K. are lessons that provinces in Canada can examine as potential avenues to grow the SE sector. As we mentioned previously, the governments of Manitoba and Nova Scotia have taken some legislative steps to increase private funding for community organizations contributing to economic development, yet these do not go far enough to engage the entrepreneurial spirit of social entrepreneurs. Creating a new legal framework for SEs would allow these organizations to make use of profits and increased private investment for social value creation.

## ***CONCLUSION***

This paper examined the impact of economic elites on the SE sector in Canada. First, it attempted to understand the SEs sector in Canada, by demonstrating the challenges of defining these organizations and highlighting the impact of the reorientation of the welfare state on the Third Sector. As a result of these changes, the most important being the hybridization of the public and private sectors for the provision of public services, this paper suggested that an element of elite capture might be present. The second part made use of the BALTA dataset to examine the validity of this assertion and found some evidence to suggest that economic elites in wealthier cities had more funding from resources such as grants, loans and donations and had stronger organizations, as measured by age and number of full-time employees. These findings are relevant because they suggest several public policy initiatives can be undertaken to ensure that communities of different economic standing have access to the funding necessary to start SEs. The final part of this paper suggested three policies that could be



undertaken to level the playing field. These included lowering barriers for the application of grants and loans, developing a system to measure and quantify social impact and developing a legal classification for SE firms in Canada.

The SE sector holds much potential for locally-led development in Canada. For it to succeed in addressing pressing social needs in our communities, it requires support from all levels of government, especially as it relates to equitable and merit-based access to funding. The government has the ability to support this democratic sector and to ensure that the work of smaller SEs has equal impact to that of larger, more established SEs. This is one important way to grow the sector and to distribute the fruits of SEs equitably amongst all communities in Canada.

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# APPENDIX 1 – Distribution of SE by Purpose by Census Metropolitan Area (BALTA DATASET)

Figure 3 - Distribution of SEs by Purpose in Calgary (Source: Jevtovic, 2013)

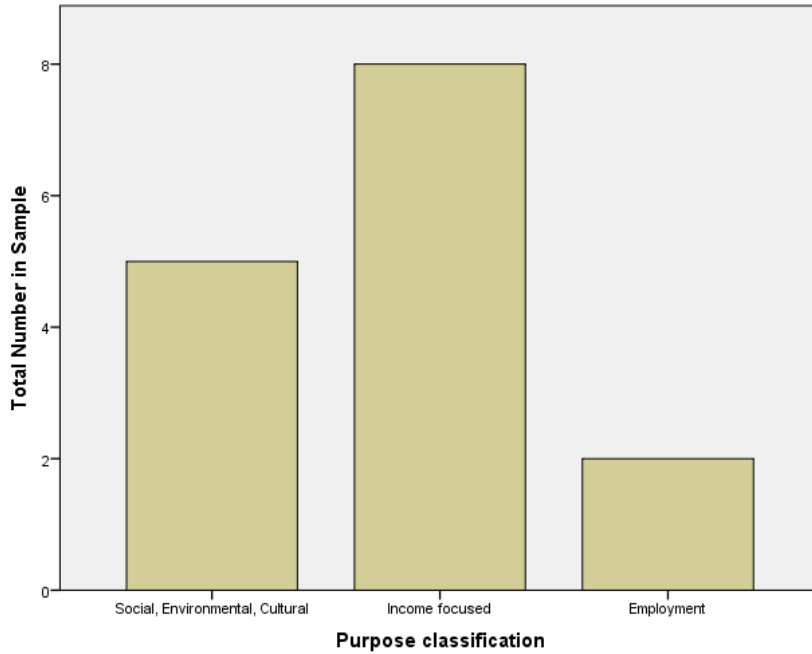
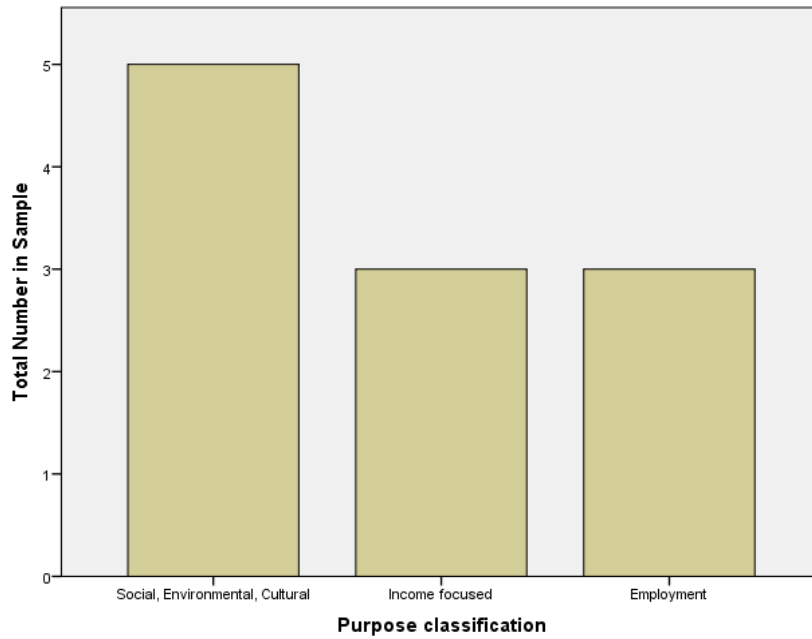
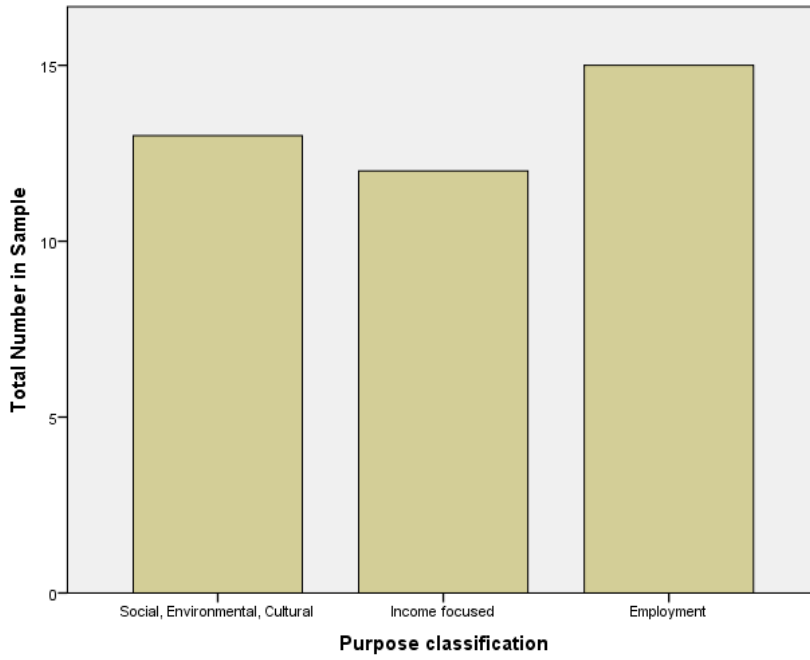


Figure 4 - Distribution of SEs by Purpose in Edmonton (Source: Jevtovic, 2013)



**Figure 5 – Distribution of SEs by Purpose in Vancouver (Source: Jevtovic, 2013)**



**Figure 6 - Distribution of SEs by Purpose in Victoria (Source: Jevtovic, 2013)**

