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## Speaking from Experience: How Do Entrepreneurs Evaluate the Merits of Practicing as a Non-Profit or For-Profit Form?

Robert E. M. Spencer  
*Brigham Young University - Provo*

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Speaking from Experience: How Do Entrepreneurs Evaluate the Merits  
of Practicing as a Non-Profit or For-Profit Form?

Robert E. M. Spencer

A thesis submitted to the faculty of  
Brigham Young University  
in partial fulfillment of the requirements for the degree of  
Master of Science

Carol Ward, Chair  
Curtis Child  
Eva Witesman

Department of Sociology  
Brigham Young University

June 2014

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## ABSTRACT

### Speaking from Experience: How Do Entrepreneurs Evaluate the Merits of Practicing as a Non-Profit or For-Profit Form?

Robert E. M. Spencer  
Department of Sociology, BYU  
Master of Science

In an era when nonprofit and for-profit characteristics are blurring, to what extent do sector boundaries matter? Some research suggest that sector boundaries no longer matter. By exploring the perceptual differences of entrepreneurs practicing in each sector, this paper proposes that, in fact, there are important perceptual and symbolic differences between nonprofit and for-profit organizations. This paper makes four contributions to the field of social enterprise studies: first, it lends empirical support for the idea that issues have not blurred in the minds of practitioners; second, it identifies four areas entrepreneurs are likely to concentrate on when asked to evaluate the merits of practicing as a non-profit or for-profit form (including control, resources, performance, and public perceptions); third, it provides a tool that can be used by academics and policymakers to identify which sector characteristics are perceived by entrepreneurs as salient; and fourth, it raises new research questions that would help to further clarify the usefulness, relevance and significance of the approach and findings presented.

Keywords: social enterprise, nonprofit, for-profit, sector blurring, supply-side theory

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## INTRODUCTION

In an era when nonprofit and for-profit characteristics are blurring (Billis 1993; Weisbrod 1997; Salamon 1998; Kaptein and Wempe 2002; Dees and Anderson 2003; Eikenberry and Kluver 2004; Child, Witesman, and Braudt N.d.), to what extent do sector boundaries matter? While it may be true that organizational characteristics are blurring, do practitioners perceive the characteristics of these two organizational forms as blurring? Drawing on the theoretical perspective of supply-side theory—that the perceptions of individual entrepreneurs are worthy of consideration (Young 1983)—this paper delves into the personal perspectives of entrepreneurs to ascertain how they evaluate the merits of practicing as nonprofit or for-profit organizations. I assert that paying attention to entrepreneur evaluations gives academics and policy makers’ insight into the characteristics of each sector that matter to the practitioner, thus revealing the salience of sector boundaries. Understanding the sector characteristics that are important to the practitioner provides a guide for policymakers from which decisions regarding how to interact with nonprofit and for-profit organizations can be made. By exploring the perceptual differences of entrepreneurs practicing in each sector, this paper proposes that, in fact, there are important perceptual and symbolic differences between nonprofit and for-profit organizations.

## LITERATURE REVIEW

Research in the field of the sociology of organizations has long been interested in the characteristics of certain organizational forms (Adler 2009). Particular organizational characteristics can facilitate the completion of projects, development of communities, and the provision of services. Hansmann describes the functional differences between the nonprofit and for-profit sectors by focusing primarily on their legal and structural distinctions (Hansmann 1980; Hansmann 1987; Hansmann 2000). Essentially Hansmann suggests the main difference



between these sectors is a legal distinction (Hansmann 1980; Hansmann 1987; Hansmann 2000). Based on Hansmann's analysis, we might expect these organizations and individuals employed by them to function and behave distinctly because their funding models have traditionally been different, they have different legal constraints such as the nondistribution constraint for nonprofits, inventory depreciation laws for both entities, and cost-plus reimbursement laws with for-profits, as well as the tax exempt status given to nonprofits in the United States (DiMaggio and Anheier 1990).

Researchers such as Witesman and Fernandez (2012) offer additional measurable aspects that differentiate for-profits from nonprofits such as levels of trust. In their empirical study comparing government contracts awarded to nonprofit and for-profit service providers, Witesman and Fernandez found there is greater trust for nonprofits among public officials even though performance between these two entities was generally the same. Examples of increased public official trust toward nonprofits in the study included giving nonprofits greater freedom to make decisions in particular situations, monitoring nonprofits less frequently, and giving contracts of longer duration to nonprofits. These examples are measurable differences between the nonprofit and for-profit forms.

While nonprofit and for-profit organizations have many distinct qualities—in their funding models, legal constraints, tax-exempt status, and levels of trust by public officials as discussed above—they also—perhaps increasingly—share many characteristics (Billis 1993; Dees and Anderson 2003; Child et al. N.d.). A significant amount of literature has focused on how the sectors are evolving to look more and more alike, and how in many important respects the sectors do not appear different from one another (Ryan 1999; Dees and Anderson 2003; Kaptein and Wempe 2002; Eikenberry and Kluver 2004). Eikenberry and Kluver support the

idea that sector characteristics are becoming more alike in their assertion that the nonprofit sector has gradually been adopting the methods of the for-profit sector to “guide policy and creation and marketing” (Eikenberry and Kluver 2004:132). The blending is also occurring in the for-profit sector as it has adopted aspects of the nonprofit sector, such as the values of empathy, sustainability, and corporate social responsibility (Kaptein and Wempe 2002).

Many examples exist that demonstrate the blurring of nonprofit and for-profit characteristics (Weisbrod 1997). Nonprofit museums sell prints and replicas, nonprofit religious organizations sponsor tours to holy sites, and nonprofit and for-profit hospitals compete for clients and revenues. For their part, for-profits increasingly have pro-social goals (World Economic Forum 2002; Matten and Crane 2005) and engage in charitable activities (Fallon 2013). The fact that so many nonprofit organizations resemble their for-profit counterparts raises questions about what is truly distinct about them. Are the only real distinctions between the nonprofit and for-profit sectors residual legal constraints as Hansmann suggests? Given the similarities between these organizational forms, how entrepreneurs evaluate the different sectors is not clear.

While a fair amount of literature describing the blending of sectors has been produced, many scholars continue to focus on sector distinctions and the important differences between the sectors. For example: Child et al. (N.d.) demonstrate the differences between nonprofit and for-profit entrepreneurs and their initial motivations behind sector choice; as discussed above, Witesman and Fernandez (2012) focused on the differences between the organizational forms and public official trust; Ruvio, Rosenblatt, and Hertz-Lazarowitz (2010) demonstrate the differences in the meaning of vision expressed by those who found and operate each type of entity; Billis (1993) concentrates on the distinctness of those who associate with the different

forms; and Young (1983) identifies differences in entrepreneurial types attracted to the different entities. If a large quantity of research has shown how the nonprofit and for-profit sector are converging why would these particular researchers continue focusing on the differences between the sectors? Because, as will be demonstrated in the findings of this paper, the perceptions and evaluations of those who are involved with the two different organizational types has significant implications in the possible outcomes of the two organizational forms.

In addition to the findings above that support the differences between the sectors, an additional aspect that contributes to identifying organizational distinctions is how entrepreneurs perceive and evaluate the merits of practicing as a non-profit or for-profit form. A discussion regarding these evaluations can be informed by considering the socially constructed and symbolic nature of the division between the sectors. This view suggests that the differences between sectors are a result of different beliefs and perceptions—not merely legal mandate. To analyze this type of division requires approaching the topic from an interpretive perspective or a point of view that perceptions of individual entrepreneurs are worthy of consideration and that sector origins are not solely the result of society's needs for particular goods and services.

One of the first explanations of sector origin consistent with an interpretive approach, supply-side theory first proposed by Dennis Young (1983), offers a unique perspective as to why particular sectors of the economy exist. Young focused on the interests and skills of individual entrepreneurs rather than on society's needs for particular goods and services (Young 1983; Frumkin 2013). Thus, he attempted to understand nonprofit origins by formulating a typology of personalities that would be involved in nonprofit entrepreneurship. Other work has followed in this tradition identifying differences between the sectors and those who practice in them (Billis 1993; Ruvio et al. 2010; Witesman and Fernandez 2012; Child et al. N.d.).

While Young's work (and the work that it inspired) is important because it points to the importance of considering the perspectives of entrepreneurs, it rarely moves beyond considering the initial choices of entrepreneurs in determining whether to work in the for-profit, nonprofit, or government sectors. Little work has moved beyond those initial stages in order to understand how sector continues to be relevant (or loses relevance) as entrepreneurs move through their careers.

Badelt advocates for, "...a more detailed description of entrepreneurship theories" that "deal[s] with the motives of the entrepreneurs; or . . . emphasizes the analysis of preferences" (Badelt 1997:166). Badelt's interpretive approach to theory might be justified because while some may claim that sector boundaries no longer matter, the argument becomes less relevant if practitioners demonstrate they prefer a particular form over another because they perceive that form to be superior. Discovering the preferences of entrepreneurs through their evaluations of each other's forms can reveal whether or not sector boundaries matter or not to the entrepreneur. Therefore, despite its limitations, supply-side theory's focus on the motivations, preferences, values, personalities, and skill sets of individual entrepreneurs consistent with an interpretive approach, provides a foundation from which an empirical study of sector blurring can begin.

There is scant empirical research indicating what institutional form (for-profit or nonprofit) entrepreneurs would prefer, let alone research on an experienced entrepreneur's evaluation of the institutional form in which they do business. Although Posner and Schmidt (1996) compare managerial values of public and private sector executives, they do not focus on these executives' preferences of institutional form (Posner and Schmidt 1996). Other studies also neglect the organization founders' preferences. For example, a study by de Graaf and Van der Wal (2008) examines the differences in values between employees in the public and private

sector, but does not focus on the preferences of the founder of the organization. Additionally, in a study comparing the effectiveness of traditional for-profit and nonprofit day care centers to cooperative day care centers in their ability to get parents involved, the preferences of the founder and his or her choice of institutional form is limited to those involved with second type of day care centers, cooperative organizations (Leviten-Reid 2012). While Child et al. (N.d.) deal with the initial motivations of entrepreneurial choice their study is limited to incorporation decisions.

To address the gaps in the literature, this research explores the evaluations of entrepreneurs in this unique data set. The ultimate goal of this analysis is to offer organizational researchers insight into how entrepreneurs evaluate the different sectors, providing four outcomes for researchers and policymakers: first, empirical evidence is given that indicates the differences between sectors or the origin of the different sectors are a result of different beliefs and perceptions; second, areas entrepreneurs are likely to concentrate on when asked to evaluate the merits of practicing as a non-profit or for-profit form are identified; third, a guide for researchers and policymakers is suggested from which they can make decisions regarding how to interact with nonprofit and for-profit organizations; and fourth a springboard is provided from which new research questions can be generated regarding the idea that the differences between sectors result from different beliefs and perceptions.

## METHODS

The methods of this research include both qualitative and quantitative techniques. Qualitative methods involved the utilization of in-depth interview techniques, which allowed immersion into the thoughts and feelings of the interviewee. Coding techniques facilitated interpretation as well as aided in generating quantitative data from the interviews. Semi-

structured interviews provided opportunities to follow up and probe each interviewee's responses. In-depth interviews provided a rich source of descriptive information regarding the insights, motives and preferences of entrepreneurs, necessary for making a contribution to existing entrepreneurship theories. The weakness of this research design is that as a case study of entrepreneurs in a particular industry, the Fair Trade Federation, conclusions are limited to this group of entrepreneurs.

### *Data*

The data were collected by a research team that conducted interviews in 2011 and 2012. The interviews are fairly unique because they focus on the preferences and evaluations of the entrepreneur. The interviewees were randomly selected from the online directory of nearly 300 Fair Trade Federation members. The fair trade industry is ideal because for-profits and nonprofits in this industry have similar characteristics. Distinguishing between the two can be difficult for a researcher because both forms function in the same markets and have a similar commitment to ethical trade practices. Fair trade founders work directly with the producers of the products they sell rather than through an intermediary, and they pay a living wage or even a premium for the products they buy. The similar characteristics of for-profits and nonprofits in this industry allow researchers to focus on entrepreneur motivations and preferences without having to control for unique organizational differences.

To generate a random sample from the online directory of Fair Trade Federation members, the research team used the following procedure. Three fourths of the organizations in the online Fair Trade Federation directory were for-profit and one-fourth were nonprofit. The research team grouped the organizations on the list by sector and then randomly chose 35 nonprofits and 35 for-profits. The main criterion for the organizations selected was that they

were members of the Fair Trade Federation located in the United States and they did not operate as a franchise. Six organizations were later dropped because they did not meet the study criteria. Out of these six, some were dropped because they were not located in the United States and others were dropped because they were part of franchises. In total the sample includes 45 interviews, 22 nonprofit entrepreneurs and 23 for-profit entrepreneurs.

Special emphasis was placed on interviewing the founder of the organization and in all but three cases the team was successful with this endeavor. The three exceptions involved interviews of individuals who had either been co-workers with the founder or a successor to the founder. Potential interviewees were contacted initially by email and then by phone. All interviews were semi-structured phone interviews. To protect confidentiality a pseudonym has been used for each interviewee and in some cases the gender has also been changed. In the analysis of the data the acronyms (NPO) with nonprofit organizations and (FPO) with for-profit organizations have been added to the end of each name so the reader is clear about the organizational type in which the entrepreneur practices. While the response rate was 70%, representatives of two organizations declined the invitation for an interview.

To encourage the most detailed, in-depth responses, the research team used a semi-structured, open-ended interview guide (Weiss 1994; Hesse-Biber and Leavy 2011). The team followed up on relevant issues as they were presented by the interviewee and encouraged each entrepreneur to describe narratively how the organization was started. Interview guide questions that most commonly led to the entrepreneur evaluations in this paper involved questions pertaining to the perceived benefits and challenges of being a nonprofit or for-profit organization. Following the interview guide allowed the researcher to gather the data

systematically and subsequently specific responses to particular questions or prompts were coded in addition to incidental comments from elsewhere in the interviews.

The interviews lasted, on average, 51 minutes and the sample includes an equal number of men and women: 73% of the nonprofit entrepreneurs were women compared to 32% of the for-profit entrepreneurs. On average the organizations represented had been functioning for approximately 12 years, with nonprofits averaging 15 years and for-profits averaging 10 years.

### *Coding*

To analyze the data, two researchers (including the author of this study) independently read and coded the interviews following coding procedures developed by Emerson, Fretz, and Shaw (2011). The codes were applied to each interview text using Dedoose online software. Themes were identified based on a coding guide developed by Child et al. (N.d.). The same two analysts then checked each other's coding, discussed coding decisions, revised the coding guide, and ultimately arrived at a consensus as to which code would best apply to a particular excerpt. Throughout the process of applying the codes schematic representations were created to help visualize how the codes could be grouped and organized across all of the interviews (Miles and Huberman 1994).

The interviews were coded for all comments that met the following criteria. The comments were: (a) *evaluative in nature*—the entrepreneurs made judgments about nonprofit and for-profit organizations; (b) *present oriented*—founders' "present" thoughts, not what they thought at one time (this mainly occurred by looking for present tense statements); (c) *based on perceptions*—founders' intuitive insights and understanding based on their experience; (d) *descriptive of benefits or drawbacks*—statements that differentiated between nonprofits and for-profits. Statements were not coded if the entrepreneur did not differentiate between the two



forms. The codes were then arranged according to where the statement fit into Child et al.'s (N.d.) "Four Dimensions of Institutional Choice:" Instrumental, Expressive, Relational, or Historical.

### *Creating Variables for Analysis*

Codes from the interviews were also used to create variables for analysis. To generate variables for numerical data, once the data were coded, the codes were exported to Stata in which they were transformed into dichotomous variables. These variables indicate the presence or absence of an evaluative statement; the present thoughts of the founder on a particular aspect, such as the effectiveness of the particular form or government benefits afforded to nonprofits or for-profits; the founders' positive or negative perceptions of for-profits and nonprofits; and the benefits and drawbacks of non-profit and for-profit organizational forms. Once the codes had been transformed into dichotomous variables, tables were constructed to present frequencies and compare percentages, and to create graphs for analyzing the data.

An important clarification regarding the numerical data is that the study does not solely rely on content analysis to produce the numbers but is also informed by an interpretivist approach. Similar to the focus of supply-side theory as discussed above, the value of an interpretivist approach is that it encourages the researcher to focus on and to understand the "motives, meanings, reasons, choices, and other subjective experiences" of the interviewee (Hudson and Ozanne 1988:511).

## RESULTS

The Results section proceeds in two steps. First, I show four areas on which entrepreneurs focus their evaluations. Second, I compare entrepreneur evaluations of the different organizational forms for each of the areas above.

First, out of all of the possible ways entrepreneurs could have evaluated each other's forms a significant finding was that entrepreneurs principally focused their evaluations on four areas: control, resources, performance, and public perceptions. I define these concepts in Table 1.

(Insert Table 1)

Entrepreneur evaluations of specific issues were analyzed by type of entrepreneur and form of organization. Nonprofit entrepreneurs and for-profit entrepreneurs evaluated nonprofit and for-profit organizations on the four issues listed above.

An important clarification regarding evaluative statements is that a comparison between the two forms is inherent in the statement. This means when a nonprofit entrepreneur states, "for-profits are more flexible" they are also implying by comparison that nonprofits are not as flexible. Both of these statements suggest that for-profits are more flexible. Table 2 and Table 3 provide examples. With this clarification in mind—that negative and positive statements are functionally similar—the coding and the graphs generated from the coding represent both positive appraisals of the form being evaluated or negative appraisals of the opposite form on that particular issue.

(Insert Tables 2 and 3)

Second, a comparison of entrepreneur evaluations of the different organizational forms for each of the areas above—control, resources, performance, and public perceptions—revealed the finding that boundaries between organizational sectors are a result of the perceptions of entrepreneurs. Graphs below display the type of entrepreneur and the organizational form they evaluate on the x-axis and the percentage of entrepreneurs who made evaluative judgments that favored nonprofit and for-profit forms on a specific issue on the y-axis. Findings suggest the following regarding each of the four issues analyzed:

## *Control*

Control in this paper means the entrepreneur has the ability to influence or dictate the goals and operations of the organization. Some of the specific concepts entrepreneurs evaluated in their interviews pertaining to the issue of control included concepts such as working with a board, organizational flexibility, and government regulations.

(Insert Figure 1)

Out of a total of 45 entrepreneurs (nonprofit and for-profit) the number and percent of those who made evaluative judgments that favored nonprofit forms on the issue of control was 19 or 42%. As shown in the graph above, 12 or 55% percent of nonprofit entrepreneurs evaluate favorably both nonprofit and for-profit forms on the issue of control. This means nonprofit entrepreneurs tend to perceive both forms as equally likely to provide entrepreneurs with the ability to influence and dictate the goals and operations of their respective organizations. Kristi Sullivan (NPO) exemplifies this dual way of thinking when she acknowledges the advantage of her nonprofit organization's tax-exempt status, but perceives that for-profits have an advantage when filing. She states, "Filing for the non-profit is much more difficult and much more costly than it would be if I was just a regular business. And the regulations are becoming more and more complex as we go along." For Kristi, the ease and lower cost of filing with for-profits makes the for-profit form easier to control. James Maryon (NPO) concurs with the idea that for-profits have advantages: "I think there's advantages to being a business. But because of the way we started we just wanted to be non-profit." He later reveals why his organization wants to be a nonprofit when he adds, "And there's a big advantage to not having to pay tax." Jack Hamilton (NPO) explains why the nonprofit tax-exempt status offers nonprofits an advantage with respect to control,

. . . If your operations do show a positive bottom line at the end of the day, it is kind of nice that you don't have to write a check to pay the corporate income taxes to the government. And that does allow you to accumulate a fund balance in your organization. The fact that you're not paying corporate income taxes and so on contributes to that and, you know, I didn't dream of that in the beginning, but certainly 10 years into the operation as we grew and became more successful, we had a few years where the bottom line didn't look so bad.

While Jack did not realize initially that a nonprofit tax-exempt status would allow him to have more control over the goals and operations of his organization, after 10 years of practice, he came to realize that a tax-exempt status allows his organization to “accumulate a fund balance” providing the nonprofit with surplus resources and thus more control over what the organization can do. For many nonprofit entrepreneurs in the sample government regulation of tax benefits is the specific control issue that received the highest percentage of evaluations for the nonprofit form.

For-profit entrepreneurs, on the other hand, evaluate for-profit organizations as the more effective form on the issue of control. Out of a total of 45 entrepreneurs (nonprofit and for-profit) the number and percent of those who made evaluative judgments that favored for-profit forms on the issue of control was 31 or 69%. Nineteen (19) or 83% percent of for-profit entrepreneurs evaluate for-profits positively on the issue of control compared to 7 or 30% of for-profit entrepreneurs who evaluate nonprofits positively. The specific issues on control that received the highest percentage of for-profit evaluations involved the flexibility of the for-profit form and the lack of government regulations imposed on this form. Regarding flexibility Nikki Patel (FPO) comments, “When you're faced with some situation that needs immediate action, you don't have to go to a committee to get approval. Cause sometimes you just have to deal with a problem

immediately on the spot and so then having your own private enterprise gives you more freedom of action.” Theo McBride (FPO) also perceives for-profits as “agile,”

I mean I can change direction any time. We don’t have to go through a committee; we don’t have to talk about it. And when I say change decisions on the dime, you know, sometimes the landscape changes underneath you and you don’t realized it changed. . . . I think it’s really important to keep yourself agile, your entire organization.

Flexibility and quickness is a common positive perception of the for-profit form by for-profit entrepreneurs. Heather Gonzalez (FPO) states, regarding for-profits, “You can just move quicker. So, if there’s an opportunity and you want to invest in it, you can just do it.” She continues,

. . . a business and especially a business that’s 10 years old and fairly well-respected, I can just go to my bank and be like, “Holy cow, look at this amazing space that’s available. I’ve been dying to do THIS.” And just get a loan and do it. And if I cover my expenses and make a profit then I can decide what I want to do with that profit, whether I want to keep it and go to Jamaica or whether I want to re-invest it in the business or the concept or whatever.

On the topic of reduced government regulations, Heather Gonzalez rejected the non-profit form when she incorporated because she perceives for-profits as less burdened by government regulations. She comments, “. . . It’s harder to incorporate. I mean, you have to have good bylaws and you have to have a board and you have to prove your educational mission every year to do your taxes and it’s just harder. There’s just more hoops to jump through from a bureaucracy standpoint.” Brett Copsey (FPO) reiterates this idea when he says, “It’s easy to become a business. We do it every day . . . The paper work and the time that it takes to make that happen is so much quicker than going the non-profit route and applying for an application and maybe hearing about three or four months down the road whether you’re accepted or not.”

Some nonprofit entrepreneurs agree with for-profit entrepreneurs that for-profits are more effective than non-profits on the issue of control and others are not so quick to dismiss the strengths of the non-profit form on this issue. Phoebe Dupont (NPO) points out, “You can make decisions faster probably than when you have to have a board do it.” Juan Torrens (NPO) agrees, “For me as the director, yes, every now and then I feel like, oh, I wish I could just make this decision on my own without having to consult people.” But Juan also recognizes that a board can help an entrepreneur maintain control of their mission, he states, “. . . you do have a board that also is responsible for making sure that that mission is being fulfilled, and I think . . . As a for-profit grows as a business . . . a lot of times as they grow they lose that.” Kevin Odam (NPO), discussing the operations of nonprofits, perceives nonprofits as being easier to manage, he comments, “It’s just way easier. I mean, literally the only thing we can’t do is take equity investments.”

Regardless of the agreements or disagreements on this issue, the large percent of for-profit entrepreneurs who provide a positive evaluation of for-profit organizations on the issue of control signifies a mental boundary where for-profit and non-profit entrepreneurs’ perceptions are not in agreement.

### *Resources*

Resources in this paper refer to assets the entrepreneur can draw upon in order for the organization to function. Some of the concepts that entrepreneurs evaluated in their interviews pertaining to the issue of resources included concepts such as employee commitment, philanthropic support, paid help versus volunteer help, the generation of personal income, and the availability of government grants.

(Insert Figure 2)

Out of a total of 45 entrepreneurs (nonprofit and for-profit) the number and percent of those who made evaluative judgments that favored nonprofit forms on the issue of resources was 31 or 69% compared to 11 or 24% who favored for-profit forms. Fifteen (15) or 68% percent of nonprofit entrepreneurs evaluate nonprofits positively on the issue of resources compared to 7 or 32% of nonprofit entrepreneurs who evaluate for-profits positively. Sixteen (16) or 70% percent of for-profit entrepreneurs evaluate nonprofits positively on the issue of resources compared to 4 or 17% of for-profit entrepreneurs who evaluate for-profits positively. A similar percentage of nonprofit and for-profit entrepreneurs evaluate the nonprofit form positively. This means a substantial percentage of both types of entrepreneurs agree that nonprofit organizations have the most access to resources. Caitlin Tilson (NPO), speaking of donations, states, “This church that gave us money, you know, they’re not going to give it to a business. So, I think there’s a lot more things available as far as grants and money, you know, if you’re a non-profit.” Janelle Paul (FPO) concurs, “There’s obviously real advantages to being a non-profit, like the ability to get grants for different projects that you’re working on whereas, you know, we’ve been raising funds to help build a school in Africa and that’s something that we have to do entirely on our own.”

There is also general consensus in this industry by both types of entrepreneurs that for-profits do not have as much access to resources. Nikki Patel (FPO) comments on the resource advantages of nonprofits in the following way,

If we were a non-profit, I think that money would be more available. We wouldn’t be so stressed. Are we going to be able to make the payroll? How are we gonna pay for this fabric? Are we gonna be able to pay ourselves, you know? I think it’s a question of security if you have a non-profit because it’s more risky on your own.

Evaluating the for-profit form, Afton Wye (NPO) perceives that for-profits potentially struggle with similar issues, “Maybe you’d have different kinds of headaches, like you can’t make payroll

this week. Or, you know . . . I've got to pay the electric bill and we don't have the money for it right now.”

Interestingly, the percentage of nonprofit entrepreneurs who evaluate for-profit organizations positively on the issue of resources is higher than the for-profit percentage evaluating their own form, indicating a few nonprofit entrepreneurs do not agree that for-profits have less access to resources. This is especially true when speaking of volunteers versus paid help. James Maryon (NPO) asserts, “The young people we get especially are in like a university intern or something. And they'll come because they're interested in the project. They'll stay a year and then they'll go on to something else. So we have a lot of turn-over of people involved.” Caitlin Tilson (NPO) speaks of a nonprofit that had to close: “They had difficulty maintaining volunteers. The volunteers wouldn't show up, so the board decided they'd have to close the business.”

The specific issues regarding resources that received the highest percentage of positive evaluations from for-profit entrepreneurs as well as nonprofit entrepreneurs involved the ability of nonprofit organizations to receive government grants and charitable donations. The large percent of for-profit and nonprofit entrepreneurs that provide positive evaluations of non-profit organizations on the issue of resources signifies an issue where the perceived boundary for both entrepreneurial types is in agreement.

### *Performance*

A third axis of evaluation relates to performance. Performance in this paper refers to how well an organization carries out its goals. Some of the concepts that entrepreneurs evaluated in their interviews pertaining to the issue of performance included concepts such as accountability, effectiveness, efficiency, and sustainability.



(Insert Figure 3)

Out of a total of 45 entrepreneurs (nonprofit and for-profit) the number and percent of those who made evaluative judgments that favored nonprofit forms on the issue of performance was 13 or 29%. A similar percentage of nonprofit entrepreneurs, 6 or 27%, evaluate nonprofits positively on the issue of performance and, 7 or 32% evaluate for-profits positively. A slightly larger percentage of nonprofit entrepreneurs positively evaluate for-profits. These percentages are low indicating not as many nonprofit entrepreneurs evaluated this issue, but those who did, think both forms can be effective in carrying out their goals. Abigail Parker (NPO) demonstrates this duality of thought, when she states, “. . .the nonprofit world is not as efficient as business. Business can make decisions more efficiently and run more efficiently.” However, she is not discouraged by this advantage because she goes on to say, regarding her nonprofit organization, “We do take a lot of structure from business and use it to run our organization. So in some ways, we get the credibility that people want to see from a business and the trust that people see in a nonprofit.” While Abigail recognizes weaknesses as well as strengths in the nonprofit form she uses the strengths of the for-profit structure to help her business perform more efficiently. Out of the smaller percentage of nonprofit entrepreneurs who discussed performance, the specific concepts regarding performance that received the highest percentage of evaluations from nonprofit entrepreneurs involved the effectiveness of both forms.

In contrast, a much larger percent of for-profit entrepreneurs evaluate for-profit organizations as the more effective form on the issue of performance. 17 or 74% percent of for-profit entrepreneurs evaluate for-profits compared to 7 or 30% of for-profit entrepreneurs who evaluate nonprofits. Out of a total of 45 entrepreneurs (nonprofit and for-profit) the number and percent of those who made evaluative judgments that favored for-profit forms on the issue of

performance was 24 or 53%. Marion Collins (FPO) is typical in his response regarding this issue.

He states,

To me, good stewardship means efficiency. Nonprofit is inherently inefficient. One, you've got to spend a lot of time and money collecting money. Two, you've got to spend a lot of time and money reporting to the government, and to your donators, what you're doing. To me, that's horribly inefficient as a stewardship.

He continues,

Our goal is to make a living while supporting needy people overseas. So if you look at all of their contributions [NPOs], their purchases and reselling the product, we were twice as effective. But if you'd look at all of their contributions, including donations, and then look at the amount which actually is bottom line, not in programs (that's why I struggle with programs, because they take big-money donors and take them on big trips to show them where the money goes), that costs a lot of money, but that's considered efficient use of donated funds. If you count that, divided by the amount of money that actually went to the poor people who needed the help, we were four times more effective than they were.

The specific issues regarding performance that received the largest percentage of evaluations from for-profit entrepreneurs involved the idea that the for-profit form is more sustainable and more effective in accomplishing its goals. On the issue of sustainability Theo McBride (FPO) stated the following regarding nonprofits,

When I look at NGOs and nonprofits in general, they're full of waste. They're like these little mini governmental agencies that there's little accountability. And there seems to be a lot of patting each other on the back and nothing, and rarely is anything measured in terms of "How's our success?" and "What are we doing?" and "Can we do it better?" and "Can we do things more efficiently?" and "Are people being held accountable?" There seems to be very little accountability and just lots of volunteer. And so it ends up being really not a sustainable model in terms of, "Can this thing work on its own if you didn't have people donating their time?"

Although there is some agreement that for-profits perform better by nonprofit entrepreneurs, not all nonprofit entrepreneurs agree that one form is more effective than the other on the issue of performance. Amy Connolly expresses this idea in the following example,

Well, I think as a non-profit, we enjoy rights and privileges that a for-profit doesn't necessarily have. And I'll give you an example for us. Whole Foods Market is the primary way that we sell our products. Because we are a non-profit, many—not all, but many—Whole Foods stores give their profits right back to us. We have been able to turn those profits around and go do amazing things with them, something that we could not have done because I guarantee you Whole Foods doesn't give its profits back to for-profit companies, say, if they were selling green beans, like they do as a non-profit, for we as a non-profit. So, those kinds of examples are what I'm trying to articulate when I say that as a non-profit we are able to help our people in a way that I believe is far more effective than had we been a for-profit company.

On the issue of performance the pattern is similar to the issue of control. The large percent of for-profit entrepreneurs who provide an evaluation of for-profit organizations on the issue of performance signifies a perceived boundary; the perceptions of entrepreneurs from the two organizational forms are not in agreement on this particular issue.

### *Public Perceptions*

A fourth dimension of evaluation is based on public perceptions. Public perceptions in this paper refer to the ways the public view the organization.

(Insert Figure 4)

Similar to the graph on resources the graph on public perceptions demonstrates that a large percent of for-profit and nonprofit entrepreneurs agree on this issue, signifying a concept where the perceived boundary of entrepreneurs, regardless of form, is not as strong and, therefore, not as salient. Out of a total of 45 entrepreneurs (nonprofit and for-profit) the number and percent of those who made evaluative judgments that favored nonprofit forms on the issue of public perceptions was 29 or 64% compared to 11 or 24% who favored for-profit forms. The

graph shows that a similar number or percentage, 15 or 68% of nonprofit entrepreneurs and 14 or 61% for-profit entrepreneurs evaluate the nonprofit form. This means both types of entrepreneurs evaluate nonprofit organizations as receiving more favorable public perceptions. Kristi Sullivan (NPO) runs her nonprofit using a for-profit model, yet explains the importance of being a nonprofit because of the public perceptions. She states,

People are still confused about, well, how can you be a non-profit when you're selling stuff and you're taking money from people? And they don't understand that non-profits have to be run like a business. You know? It's just that you're not running the business to make money for shareholders. I'm running the business to make money for the people I want to help. But there's still confusion in people's minds. But you do the non-profit for the perception.

Everett James (FPO), when asked about why having a nonprofit branch to his organization would be advantageous, explained the issue as follows:

It would be advantageous, as you mentioned before, because the public sees the nonprofit as something that's essentially doing good. That's the stereotype that they have, and those are the type of people who buy our products. That would be from the sales side. The other reason it would be advantageous from the production side is that if we were a nonprofit, we'd get help from NGOs.

There is also general agreement by both types of entrepreneurs that public-perceptions are not as favorable of for-profit organizations. Janelle Paul (FPO) emphasizes these perceptions in the following way: "Consumers are very familiar with non-profits. Not so familiar with a fair trade business . . . People view non-profits as a charity, I believe, and a business as, a business just wants to make money . . . it's definitely somewhat of a barrier." Emma McGlenn (NPO) states, "There is a veil of credibility that you're given by the public if you are a nonprofit versus a private company. It's not justified at all . . . It's just there." Speaking about why he chose the for-profit form, Andrew Lamb (FPO) asserts, "It's not that there's a positive public perception of business . . . so I guess I picked it despite the negative public perception."

While the general agreement among entrepreneurs is that nonprofit organizations receive more favorable public perceptions, some entrepreneurs think the trend is changing and the public trusts the two organizational forms in different ways. Abigail Parker (NGO) conveys these perceptions by stating, “I think that there is a changing perception of how business can make a difference and have a social mission. . . . I think that people trust nonprofits more than businesses. Although it’s an interesting double-edge sword, because people trust nonprofits to do good work, but they trust businesses to work efficiently.” Katrina Taylor (NPO) adds support to Abigail’s statement explaining the following: “I think the trend is the other way. . . . I think there is a greater and growing trend of people expecting corporate social responsibility that’s more than buzz words and more than an ad campaign.”

Whether both entrepreneurial types agree or disagree on the issue of public perceptions, they do so in similar ways. The large percent of for-profit and nonprofit entrepreneurs who provide positive evaluations of non-profit organizations on the issue of public perceptions and the small percent of for-profit and nonprofit entrepreneurs who positively evaluate for-profit organization on the issue of public perceptions signifies agreement on the perceived boundary by both entrepreneurial types.

## DISCUSSION

While it may be true that organizational characteristics are blurring, my findings suggest that particular issues have not blurred in the minds, or perceptions, of practitioners as demonstrated by how entrepreneurs evaluate the merits of practicing as non-profit or for-profit forms. In contrast to the research of others who have examined the origins of the nonprofit sector as well as why the sector exists as a result of supply and demand, the failure of government, and the failure of economic markets (Weisbrod 1975; Douglas 1983; Hansmann 1980; Hansmann

1987; Salamon 1987; Frumkin 2002; Steinberg 2006), I have examined why nonprofits persist by analyzing the perceptions of entrepreneurs in both sectors. By using an interpretive approach and drawing on Young's (1983) supply-side theory, suggesting the perspectives of the entrepreneur are valuable in understanding the existence of sectors, what has emerged from this study is empirical evidence that the differences between sectors, in addition to those identified by Young (1983), Billis (1993), Ruvio et al. (2010), Witesman and Fernandez (2012), and Child et al. (N.d.)—are a result of different beliefs and perceptions and not solely on legal and structural distinctions as Hansmann proposes (Hansmann 1980; Hansmann 1987; Hansmann 2000). Additional findings include the discovery that out of all of the possible ways entrepreneurs could have evaluated each other's forms they principally focused their evaluations on four areas including control, resources, performance, and public perceptions demonstrating the importance of these concepts to the entrepreneur. This research also produced a tool that can be used by academics and policymakers to identify which sector characteristics are perceived by entrepreneurs as salient. As shown by the compilation of graphs below (Figure 5), when the findings are visually placed together a pattern is revealed indicating the salient sector characteristics in the minds of the entrepreneur. When the percent of entrepreneurs from one particular sector spikes in their evaluations of that sector on a specific issue, such as for-profit entrepreneurs' evaluations of for-profit organizations on the issues of control and performance, the result signifies a specific boundary on which the perceptions of entrepreneurs from the two organizational forms do not agree.

(Insert Figure 5)

On the other hand, when a large percent of entrepreneurs from both sectors offer an evaluation of the same organizational form on a specific issue, such as for-profit and non-profit

entrepreneurs' evaluations of nonprofits on the issues of resources and public perceptions, the result signifies an issue on which both entrepreneurial types are in agreement on the perceived boundary.

As demonstrated by the findings, supply-side theory's focus on the motivations, preferences, values, personalities, and skill sets of individual entrepreneurs proves useful in discovering whether sector characteristics matter to the entrepreneur. This study not only contributes a valuable tool for academics and policymakers but also demonstrates that analyzing entrepreneurial preferences in addition to society's needs for particular goods and services offers insights into the existence and purposes of organizational forms.

Several additional questions arise from this study. Do the findings reflect the particular industry being analyzed and the particular culture where these businesses operate? What would the findings be if the same study were carried out in different countries with different industries? Would the same sector characteristics found to be salient in this study be perceived as salient by entrepreneurs in studies carried out in other countries and in other industrial cultures? How can policymakers use this information to establish protocols for interacting with for-profit and nonprofit organizations?

## CONCLUSION

The most significant contributions of this paper to the field of social enterprise studies include, first, the empirical support for the idea that particular issues have not blurred in the minds of practitioners and that the differences between sectors are a result of different beliefs and perceptions. Additionally, this study provides a tool that can be used by academics and policymakers to identify which sector characteristics are perceived by entrepreneurs as salient.

Finally, new research questions are offered that would help to further clarify the usefulness, relevance and significance of the approach and findings presented.



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Table 1. Four Areas on Which Entrepreneurs Focus Their Evaluations

<b>Areas of Focus</b>	<b>Definitions</b>	<b>Specific Concepts Within Areas</b>
Control	Control means having the ability to influence or dictate the goals and operations of the organization	Working with a board, organizational flexibility, government regulations
Resources	Resources include assets that can be drawn upon in order for the organization to function	Employee commitment, philanthropic support, paid help versus volunteer help, generation of personal income, and the availability of government grants
Performance	Performance is viewed as how well an organization carries out its goals	Accountability, effectiveness, efficiency, and sustainability
Public Perceptions	Perceptions are the ways others view the organization	Public Perceptions

Table 2. Representative Quotes for Each Focus Area Demonstrating Favorable Evaluations of Nonprofits and Unfavorable Evaluations of For-profits.

Areas of Focus	<u>Favorable Evaluations of Nonprofits/Unfavorable Evaluations of For-profits</u>	
	Nonprofit Entrepreneurs	For-profit entrepreneurs
Control	There's a big advantage to not having to pay tax— <i>James Maryon</i>	When you're non-profit there's a lot of advantages that you have. For example, . . . you don't pay tax— <i>Tiffany Pennington</i>
Resources	Maybe you'd have different kinds of headaches, like you can't make payroll this week. Or . . . I've got to pay the electric bill and we don't have the money for it right now— <i>Afton Wye</i>	I think sometimes it feels like a great weight on our shoulders . . . It's payroll, we need to get the money for payroll. We didn't get paid yet from the customer. Where are we gonna get the money? You know? . . . We are the ones responsible for all the people we work with. If you have an NGO, you can go to your funders, you can ask for donations— <i>Nikki Patel</i>
Performance	Because we are a non-profit. . . Whole Foods stores give their profits right back to us. We have been able to turn those profits around and go do amazing things with them, something that we could not have done because I guarantee you Whole Foods doesn't give its profits back to for-profit companies . . . like they do as a non-profit. So, those kinds of examples are what I'm trying to articulate when I say that as a non-profit we are able to help our people in a way that I believe is far more effective than had we been a for-profit company— <i>Amy Connolly</i>	[speaking of the for-profit form] it's not a very quick path to a community getting around to, say, building a clinic or something that they really need— <i>Brigham Ambrose</i>
Public Perceptions	I would not be getting the support that we're getting if they thought it was a business— <i>Caitlin Tilson</i>	People view non-profits as a charity, I believe, and a business as, a business just wants to make money— <i>Janelle Paul</i>

Table 3. Representative Quotes for Each Focus Area Demonstrating Unfavorable Evaluations of Nonprofits and Favorable Evaluations of For-profits.

Areas of Focus	<u>Favorable Evaluations of For-profits/Unfavorable Evaluations of Nonprofits</u>	
	Nonprofit Entrepreneurs	For-profit Entrepreneurs
Control	Filing for the non-profit is much more difficult and much more costly than it would be if I was just a regular business — <i>Kristi Sullivan</i>	When you're faced with some situation that needs immediate action, you don't have to go to a committee to get approval— <i>Nikki Patel</i>
Resources	It seems like there are government grants that would be available for women or minorities starting a business, so you would have that going for you, if you were a for-profit business that you might not as a non-profit— <i>Juan Torrens</i>	If you're looking up start-up costs and you're like, OK, I can get a loan and make it or not make it, it's my problem. Or I can apply for grants and maybe I'll get it, maybe I won't, you know? So, a business loan is a sure thing. Searching for grants is like, who knows?— <i>Heather Gonzalez</i>
Performance	Business can make decisions more efficiently and run more efficiently — <i>Abigail Parker</i>	Philosophically the goal is to take the fire hydrant of economic activity, which is, you know, global trade, and kind of redirect it to the global poor. The way you do that sustainably is to get them to actually participate without what are effectively economic subsidies [referring to the nonprofit form]— <i>Andrew Lamb</i>
Public Perceptions	If you were just a business you wouldn't have to deal with...well, you might not get criticized as much...I think we're kind of a lightning rod because we are a non-profit . . . for example, we have campaigns against Starbucks or Proctor and Gamble for their coffee but we also sell fair trade coffee, so people think, oh it's in your self-interest, this campaign isn't honest because you also sell stuff — <i>Freya Carpenter</i>	Over the past few years, I've noticed a shift. I've had people congratulate me for choosing to be a for-profit-saying that that's what they like about [us] because they feel that nonprofits are inefficient and risk money. These are especially people who work in the development world. They feel like it's refreshing when they find an organization like this that's a for-profit rather than a nonprofit — <i>Ellen Boyle</i>

Figure 1. Entrepreneur Evaluations of Organizational Forms on the Issue of Control.

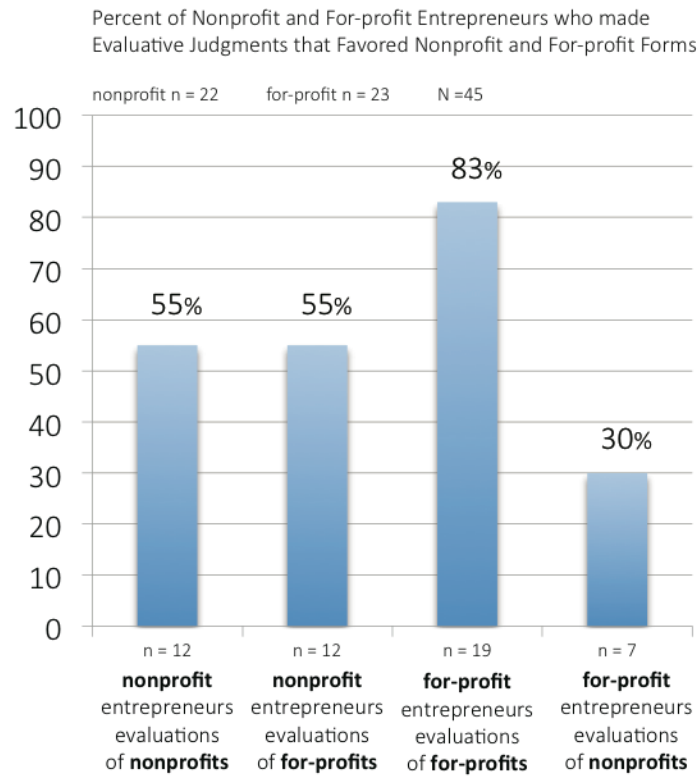




Figure 2. Entrepreneur Evaluations of Organizational Forms on the Issue of Resources.

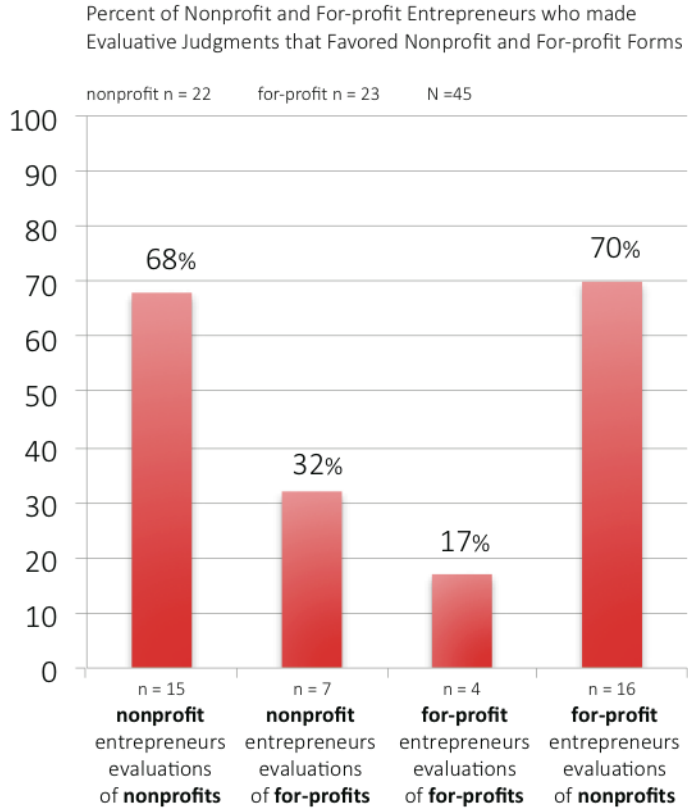


Figure 3. Entrepreneur Evaluations of Organizational Forms on the Issue of Performance.

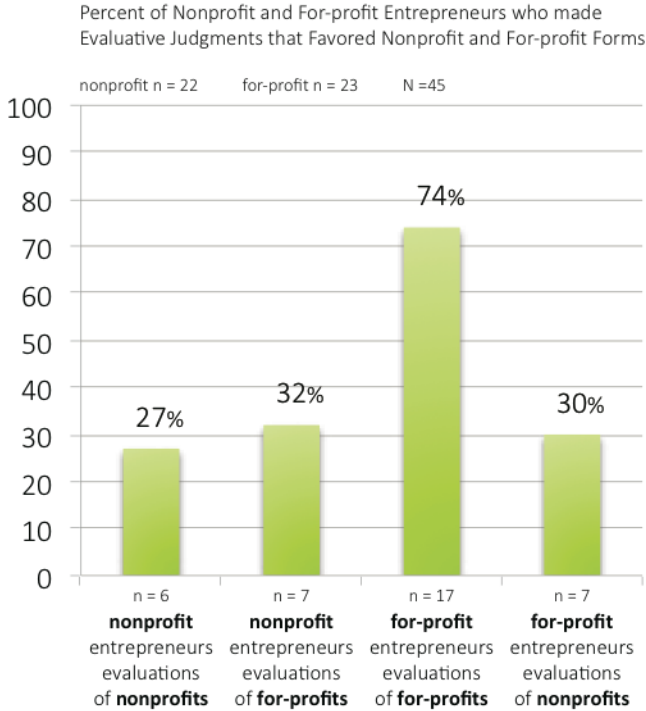


Figure 4. Entrepreneur Evaluations of Organizational Forms on the Issue of Public Perceptions.

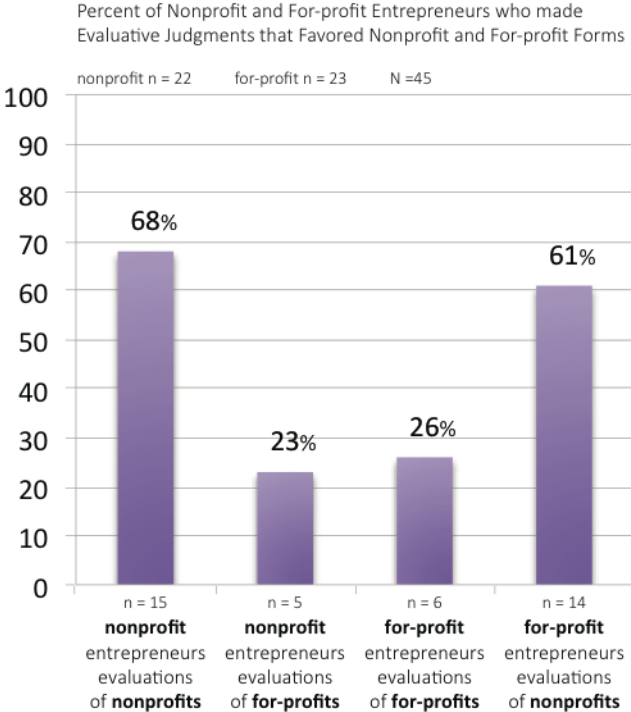
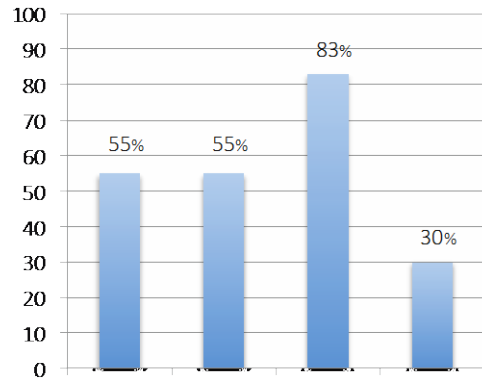
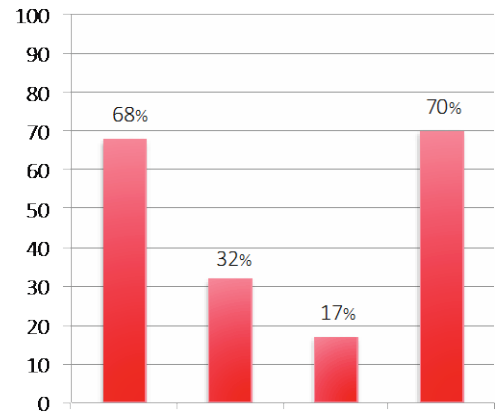


Figure 5. Compilation of Graphs.

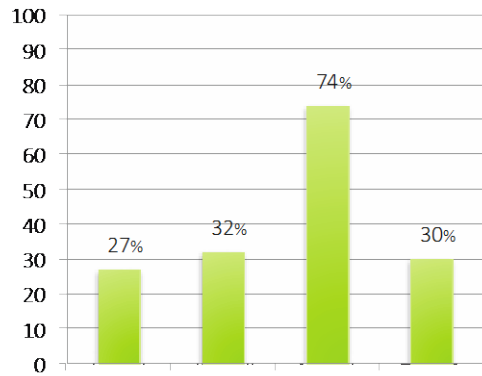
**Control**



**Resources**



**Performance**



**Public Perceptions**

