



Social Enterprises and the Pursuit of Mission: Form Matters¹

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Abstract

Mission drift serves as an important parameter of success not only on its own right (Epstein and McFarlan 2011), but also because it shines light on the fundamental dilemma that social enterprises face between the pursuit of a solution to the social problem (“purpose”) and financial sustainability of the organisation (“profit”). Without contradicting the legal and resource imperatives, we argue that the choice of organisational form for social enterprises is also a strategic one, and one that has implications for the success of the organisation and its vulnerability to mission drift.

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“Social systems are organized around a *purpose* in the same way that natural systems are organized around a *function*...The difference between function and purpose is the element of human choice. The purpose of an institution is selected by those with the ability to make that choice, the company’s owners. They express their purpose through the design of the organization.”(Kelly 2012, 29)

Most definitions of social enterprises appear to be agnostic about organisational form. Indeed with the idea that these organisations represent the blurring of boundaries(Dees and Anderson 2003), the choice of organisational form is often relegated to primarily being a function of the legal environment and requirements of resources. For instance, (Dorado 2006)cites the more “established infrastructure to finance for-profit than non-profit organisations” as a reason why start-up SEs might choose conventional, “for-profit” forms of organisations. However, a large body of literature (Henry Hansmann 2000), (Glaeser 2006) have pointed to the signalling and governance implications of organisational form (for-profit/non-profit/cooperatives). Without contradicting the legal and resource imperatives, we argue that the choice of organisational form for social enterprises is also a strategic one, and one that has implications for the success of the organisation and its vulnerability to mission drift.

Mission drift serves as an important parameter of success not only on its own right (Epstein and McFarlan 2011), but also because it shines light on the fundamental dilemma that social enterprises face between the pursuit of a solution to the social problem (“purpose”) and financial sustainability of the organisation (‘profit’). In fact, given their hybrid nature, this dilemma between “profits” and “purpose” is in many ways unique to the creature and what significantly differentiates it from other types of enterprises. This is not merely a theoretical claim, with (the albeit limited) empirical evidence pointing to the universality of this dilemma among social enterprises as well (Spear, Cornforth, and Aiken 2009)

The paper seeks to provide a conceptual framework that explains the co-existence of different organisational forms in the space of enterprises seeking to create a social impact. We illustrate situations where one type of organisation form may be more appropriate than the other and using

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cases highlight how factors stemming from the choice of organisation form affect the direction that social enterprises might take in the long run.

Specifically, we argue that threats to mission drift in non-profits often emerge from the “non-market” forms of compensation used to attract and retain skilled and motivated employees as organisations mature. In contrast, for-profit organisations are vulnerable to expectations of higher returns as new investors get drawn in response to initial success and as organisations try to scale up. We also examine the co-operative form of incorporation, in which capital is made secondary to usage or benefits, and therefore by inherent principles there is a blend of profits and purpose. However, horizon problems that inhibit infusion of further capital by the existing members/beneficiaries often leads them to behave like for-profit, for-market form of institutions as they try to scale [where the drift starts] or tend to be stuck in a place.

The paper has implications not only for mature organisations seeking to stick to their missions but also start-ups deciding between alternative forms of incorporation.

The dilemma between “profits” and “purpose”—defining a social enterprise

Defining social entrepreneurship is a task fraught with challenges and it is no surprise that it has come to be an enterprise in itself. However, most definitions have references to two ideas – the pursuit of a social mission (“purpose”) and the manner in which economic resources are generated or managed by them (“profits”). Unlike conventional non-profits, where reliance on earned income is still the exception, for an organisation to be called a “social enterprise”, the term “enterprise” is often narrowly construed to mean like a “market enterprise” and therefore exhibition of business-like traits – the earning of income from market activities being a primary one – are thought to be necessary attributes.

While some definitions, such as Leadbeater (1997) explicitly refer to profits:

“The use of entrepreneurial behaviour for social ends rather than profit objectives, or alternatively, that the profits generated from market activities are used for the benefit of a specific disadvantaged group.”-

Others such Thompson, and Doherty (2006), who state that, *“Social enterprises – simply defined – are organisations seeking business solutions to social problems”* are a lot more implicit.

Defining social entrepreneurship has not merely been an academic exercise with practitioners often taking passionate stands. Some, like mDhil founder Nandu Madhavan, believe that for an organisation

needs to be profit-making to use the suffix, “enterprise” Similarly, Neera Nundy, co-founder of [Dasra](#), too, believes that

“For any social business, profit and social impact go hand-in-hand.. they can’t be separated. If your social impact and your profit aren’t aligned, and visa versa, then neither is likely to be sustainable for too long.”(quoted in Pillai 2011) If there is perfect alignment, there is no tension. In theory it’s a beautiful concept but one that is hard to find in practice.

Uncomfortable with the ambiguity that the term “social entrepreneurship” maintains with the pursuit of profits, one of the most prominent practitioners in this space, Muhammad Yunus has promoted a new term and form of organisation called “social business”, which he treats as a subset of social enterprises (Yunus 2007). Yunus’s conceptualisation of a “social business” has a very clear stand on the relationship between “purpose” and “profits” and it essentially depends on ownership. If ownership lies with the “poor”, then the “purpose” is the “profit” itself since the enterprise is allowed to distribute profits (eg. via dividends) and is allowed to pursue any activity in the pursuit of these profits. Such an organisation type is also like a co-operative and hence (as we elaborate on later) prima facie there is no dilemma between the pursuit of purpose and profit. However, unlike a co-operative in which ownership is typically defined by a minimal set of activities common to all members, it is not clear how eligibility for ownership (the “poor”) would be defined and how drift on that dimension would be guarded against.⁵ Keeping aside the question of whether the “poor” are destined to always remain poor, it is quite possible that the generation of higher than expected financial returns or the quest for more investments leads to pressures on the nature of ownership.

However, if ownership lies outside the “poor”, then Yunus’s concept mandates that “profits” can only be distributed to the extent that they serve to pay back the principal with no further financial returns. In the latter case, it is the “purpose” that presumably draws the capital. While Yunus sees this as a way of mandating the primacy of “purpose”, there are inherent tensions. One, the scope of such organisations is naturally limited to those that can hope to generate enough operating surpluses to at least pay back the principal. Second, the financial cost is clearly dependent on the time taken for the principal to be re-paid, hence there is a tension between the horizon that each of the two goals, “purpose” and “profits” would consider optimal.

Mission Drift

⁵ For example, Telenor refused to exit GrameenPhone to be far(Prasso 2006)

The pursuit of a “mission”- the creation of social value – is an underlying commonality across all definitions of social enterprises. It is their *raison d'etre*. As Dacin *et al.*,(2010) state, “in the case of social entrepreneurs, their social mission is a source of legitimacy and is the most critical resource to be leveraged with internal as well as external constituencies.” Not surprisingly, no definition of social entrepreneurship puts “profit” as the primary objective(Roy 2010)⁶. Yet in the tension between “profits” and “purpose”, it is often the latter that yields. The primary reason perhaps being that in terms of management, it is also the more elastic constraint. An organisation has far less manoeuvrability as far as its costs are concerned. Financial costs are well measured, clearly defined and more or less taken as a hard constraint. On the other hand, the “purpose” and the extent to which it achieves a social objective are difficult to define and complex to measure and consequently can be contested a lot more. Faced with practical considerations of managing an organisation on a day-to-day basis it is a lot easier to exercise leeway on the purpose side, either by shifting the horizon or re-defining the problem. For example, faced with criticism that its product only reaches rich, urban Indians, the founder of a for-profit social enterprise seeking to provide health information via mobiles, provides the following justification:

“As a former Peace Corps volunteer, my heart is always at the village, the BoP level ..(but) I know that making one of the classic start-up mistakes is trying to be all things to all people from day one. You have to start somewhere and get traction and fill out your model...Does my content reach the poor, rural farmer who is at risk of malaria? Not yet. Does my content reach the 19-year old girl who is looking for contraception. Yes, it does,”.(Callard 2011)

At the extreme, being structured as a “pure” for-profit also allows organisations to disown the social tag if necessary.⁷ This reasoning to first ensure a surplus of income also reflects the advice of influential consulting groups:

“If an initiative is unable to generate funds to grow and increase its impact over the long term, then it will not provide a sustainable solution to the challenge of poverty.”(Kubzansky *et al.* 2011)

Arguments that there is a mission drift i.e. a deviation from the organisations original state mission, can and perhaps should be contested. For example, in the context of the crisis in microfinance in India [described in detail later] , the same Monitor Group report echoes the explanations offered by many

⁶ For example, “TSOs (third-sector organisations) can be characterised as social purpose organisations operating in a range of contexts, and which use capital but do not work *for* capital”. (Ridley-Duff and Bull 2011, 17)

⁷In this case, the tag is being attached to the organization in question based on its identification as such in several forums.

of the promoters in microfinance, arguing that for their sample of providers of “market-based solutions” to poverty in Africa --

“The problem is not that entrepreneurs and business people are making too much money — but rather that they are engaged in a constant and difficult struggle to cover their costs”(Kubzansky *et al.* 2011)

However, precisely because this constraint can be contested, it is challenging to hard-code or institutionalize resistance to deviations from it. Instead, the pursuit of “purpose” becomes the softer-constraint, with the only source of resistance being the values and abilities of those leading the organisation. Without devaluing the strength in that source of resistance, there are limitations to it. One, institutions lead a life beyond individuals and those “in-charge” – whether it be the founder, employees or board members --eventually transition from roles of responsibility and power. Often these transitions are accompanied by changes in dominant values and desire to uphold the founding mission of the organisation. The second limitation is that in the absence of easily measurable and verifiable information on the creation of social impact, the credibility of claims become predominantly dependent on the reputations of individuals.

Understanding the long-term consequences of organisational form on pursuit of mission is also important as funders evaluate the long-term impact of their support. The change in discourse that the perceived success of microfinance engendered has created increased pressure on funders to look for “market-based solutions” to poverty. For example, exhorting funders to change their “traditional” ways of thinking and instead support market-based solutions (MBS), a Monitor group report suggests that:

“Rather than funding a general “clean water awareness” initiative, for example, consider partnering with MBSs that offer clean water” (Kubzansky *et al.* 2011)

What is also interesting is the way the options are juxtaposed. The traditional ways are identified merely as an input or knowledge based intervention, whereas the market-based intervention is identified with a clearly valued outcome. In this discourse, there is no space for solutions to providing clean water that are traditional, non market-based.

Conceptual Framework

Social enterprises can be thought of fundamentally serving two classes of “patrons” (in the language of Hansmann(2010))⁸ – those who provide resources (financial, human and intellectual) and those who receive them—with the enterprise itself transforming (and hopefully multiplying) the resources

⁸(H. Hansmann 2010)

supplied by the former to create social value needed by the latter. There could be an overlap in the set of patrons, like in the case of co-operatives. However, serving both set of patrons is essential for the social enterprise's existence and legitimacy and this is what creates the dilemma between "profits" and "purpose". To illustrate how an enterprise's ability to pursue its mission is critically influenced by its organisational form, we describe a conceptual framework that seeks its basic inspiration from Hansmann.⁹ But before that we provide a working definition of "mission drift" for the purposes of our framework.

Defining "mission drift"

A "mission drift" can be defined to occur when the value, relative to the size of the organisation, being created for the set of patrons originally defined to the "beneficiaries" of the enterprise changes.¹⁰ The drift can manifest itself either in change in activities or the composition of the targeted group and we make no normative evaluations of the drift. While the sources of mission drift could be many, the primary ones we attribute drift to, are based on changes in demands, values or preferences of those providing the resources. An enterprise's ability to negotiate these changes depends crucially on who controls the organisation as well as how stake holders (include society) and observers perceive the changes. And as we argue, organisational form impinges on both these determinants.

Social enterprise

Under our framework, a social enterprise can be conceptualized as an enterprise that generates the required resources and transforms them to create social value at a cost. These costs could include the cost of capital, employee salaries and other costs of operations. The organisation may also have spill-over costs, not all of which are internalized. These might include the effect the organisation has on state capacity [REF] or markets (a dimension to which an enterprise like KickStart is very sensitive to, for example) or the environment. Presumably, the social value that the enterprise creates exceeds the social cost and hence it deserves to be called a "social enterprise". However, not all elements of cost and social value can be easily defined, measured and verified. Further, while well-defined and accepted markets might exist for some resources indicating a market price, there might others for who the markets may not exist or are perceived to be exploitative. Therefore, both the costs borne by these enterprises and value created by them are open for contestation and any evaluation of their

⁹(Henry Hansmann 2000)

¹⁰Since a mission-drift would typically be expected to occur in the context of growth, it is important to define value delivered to the "beneficiaries" relative to the size of the enterprise and not merely in absolute terms.

magnitudes depends critically on how these are perceived and interpreted by different stake holders. Given the complexity of the environments in which most social enterprises intervene in and the social value they hope to create, the claims that organisations make, the legitimacy of those claims and how the enterprise is perceived are often as important determinants of success as more “objective” criteria like resources generated and number of people served.

Suppliers of financial resources

The broad-basing of the idea of social entrepreneurship, has meant that there is a range of capital interested in “investing” in the sector. For instance, one can imagine some suppliers of capital to be primarily motivated by financial interests with the cost of their participation being the financial returns demanded by them. There might be exceptions, but these returns would typically be benchmarked to the market and based on some perceptions of risk. An enterprise organised as a non-profit would hold no attraction for owners and managers of such capital. Instead, they might provide capital to for-profit enterprises either in form of debt, with the agreed upon rate of return forming a part of contractual terms. Alternatively funders may invest in an equity stake, with claims to residual earnings of the enterprise.

While at the other extreme, philanthropic capital may not be interested in financial returns, its providers may impose their own set of costs, which include costs of monitoring, reporting and other related informational costs. Further, accessing philanthropic capital also typically means adhering to the values and agenda of the philanthropic source and this adherence could further add to the costs for the social enterprise.

In the middle of this range, lie an increasing number of investors that emphasize “impact investing” (eg. Robin Hood Foundation). While they do not seek financial returns, they instead seek evidence of quantifiable impact that can be monetized and directly compared with their costs of investment.

Human and intellectual resources

Monetary funds are only part of the resources needed by a social enterprise. Indeed, the far more scarcer and critical ones are human and intellectual resources, that utilize funds to create social value. Here too, resources may be obtained at market or below-market costs. But perhaps even more than financial capital, employees and the ideas they bring in are accompanied with varying motivations, values and commitments. While the choice of organisational form could impinge on the kind of employees an enterprise attracts, the manner in which they are compensated – pecuniary or non-pecuniary-- could impinge on the “purpose” the enterprise pursues.

Recipients of social value

Finally even within the constraints of its social agenda, an enterprise can exercise considerable choice not only in terms of which patrons to serve but also how to serve them. Some activities are likely to “break-even” earlier; some social value or impact is easier and cheaper to measure. Similarly it may be easier and cheaper to demonstrate larger impacts with some patrons than it may be with others.

The organisational form of a social enterprise lays out the formal structure of the relationship between different set of patrons. It helps overcome many of the information asymmetry problems that are endemic to the sector, which make the task of both generating resources and maintaining legitimacy extremely challenging in the sector. The choice of organisational form is perhaps the most explicit way in which an enterprise signals how it plans to manage the often conflicting interests of two equally important set of patrons—those who provide a reason for the enterprise to exist and those who enable the enterprise to exist. Therefore, it plays a crucial role in how the organisation is perceived and since the latter changes across cultures and time, there can be no universal rules about optimality of form of organisation.

To see this empirically, we next consider the archetypical forms of organisation: not-for-profits, for-profits and cooperatives to understand how the dilemma between “profits” and “purpose” manifests itself. The actual legal forms available to organisations vary tremendously across countries and sectors, but the archetypes enable us to draw boundaries for our discussion.

Archetypical organisational forms

Not-for-profits

The defining ownership feature of a non-profit firm is that it lacks an “owner” in the sense that there is no claimant to the residuals (or net) earnings. The organisational form does not prohibit the presence of residual earning distribution (although laws might put a cap on it), but prohibits their distribution to those in “control”.¹¹ Apart from legal and tax considerations, by deliberately tying their hands and denying themselves a claim on residual earnings, the choice of a not-for-profit form serves as a means for social entrepreneurs to signal that they are in it for a purpose.(Glaeser 2006). Traditionally such organisations have also predominantly existed in areas that could be roughly termed “entitlements”—eg. health, education, water, nutrition -- services that social norms typically

¹¹The issue of who “controls” the non-profit is one we will return to, but for the time being in terms of our framework it refers to the class of patrons who provide the resources – funders or employees.

dictate should not be denied to anybody on the basis of affordability. Hence, non-profits provide these services at subsidized rates for which they need to raise “charitable” capital. As Hansmann (2000) describes, the non-profit form has served to overcome the information asymmetry problems that donors to such causes face.

The principal “problem” that not-for-profit organisations are thought to face is the ability to grow beyond a certain size.¹² This is often a result of constraints on retention and distribution of surplus. Despite the growth in philanthropic capital, it remains a fraction compared to capital seeking market returns. And this in turn poses constraints on its scale of activities as well as wages and compensation that non-profits can pay to its employees and other providers of human capital. While below market compensation has often been looked as a screening device that potentially helps nonprofits to attract employees that are driven more by “purpose” rather than pecuniary considerations, it also poses limitations to the growth of organisation

The threat to mission drift in such organisation emerges as it tries to grow or sustain itself over time. As it scales, it becomes increasingly difficult to access philanthropic capital – predominantly constituted of government funds and individual donors(Werker and Ahmed 2008) --that is aligned with the existing mission of organisations. The reasons for this are manifold, but two important ones are that donors often have conflicting demands on their resources and they would like to contribute to causes that are more pressing (Viravaidya and Hayssen 2001)¹³. The second pertains to traceability and monitoring of the funds. If philanthropic funding is largely driven by the desire to create social impact, it is much easier to identify the impact of particular contributions in smaller organisations. As the organisation becomes larger, this becomes difficult and the signalling ability of non-profit status starts to fading as they become big. Therefore, it is not surprising that the distribution of non-profits in terms of size (revenues) is extremely skewed with very few, exceptionally large organisations and a majority of very small organisations. Moreover, the majority of large organisations work in the area of humanitarian and disaster relief, where there are clear economies of scale , increasing returns to reputation and limited threat of mission drift. (Werker and Ahmed 2008).

Most of the literature on mission drift in non-profits has emphasized the threats to pursuit to mission

¹² The extent to which this is a problem is obviously contingent on the organisation’s mission, the value it seeks to create and for whom.

¹³ “If the problems they address are still around in five, ten, twenty years, will donors keep paying program costs ad infinitum? Or will donors’ generosity shift to other more needy or more popular causes?” (Viravaidya and Hayssen 2001)

from the increased use commercialized means to generate financial resources (Weisbrod 2004). Calling the former as “preferred” activities of managers of non-profits and the latter as “non-preferred”, Young (2007) argues that “nonprofit managers make trade-offs, deciding to undertake a certain level of non-preferred activity in order to maximize their overall satisfaction from the combination of preferred and non-preferred programming.”¹⁴ The assumption underlying this claim is that the non-preferred activities generate resources for the preferred activities. While this is not an uncontested assumption (for example, see William Foster and Jeffrey Bradach 2005), the example of the growth of microfinance industry in India is perhaps the starkest example of how commercial considerations may affect the manner in which social enterprises conduct their business and how they are perceived. We delve into the case of micro-finance and the nature of mission drift (if any) in greater detail later. For now it is worth remembering that although almost all the large enterprises, that were held responsible for the microfinance crisis in India, eventually morphed into for-profit forms; they began their lives as non-profit organisations (Sriram 2010). The logic for taking on a for-profit form was the accessibility it provided to commercial capital markets and therefore enhanced the ability to pursue the purpose of reaching increased numbers of women borrowers at a much faster pace than more conservative actors like the Grameen Bank historically had (Akula 2010). While the strategy was finally accepted as a mistake (Alex Gregor 2012), its consequence were tragic (Erika Kinetz 2012).

However, as Jones (2007) describes, commercialization represents one among many multiple sources of mission drift that a non-profit has to negotiate with, and these can exist regardless of the source of funding. However, threats to mission need not emerge from external sources only or because of funding pressures alone. A potential source that has not received much attention is the issue of “ownership” and “control” in nonprofits that more often than not lies in the hands of its employees. While theoretically, the employees are accountable to the board and the board to funders, in practice the lines of accountability are rarely as clear. In an environment of information asymmetry and uncertainty, lack of clearly defined outputs and outcomes, nonprofits frequently resemble “loosely-coupled systems” (Weick 1976), where employees enjoy a distinct autonomy not found in other types of organisations. The autonomy is further enhanced as it often serves as a mean to compensate and motivate employees in the absence of market-based salaries and incentives (Glaeser and Shleifer 2001). An implication of this autonomy is that instead of employees being driven by the “purpose” of

¹⁴ This is along the lines of the theory of nonprofits as multi-product firms. in which “nonprofit organizations are viewed as producing two kinds of services –those which are profitable and help sustain the organization, and those which directly impact its mission and may require subsidy” (Dennis R. Young 2005)

the organisation, the organisation starts being driven by what drives the employees. And this need not be in complete alignment with the original mission of the organisation.

Let us examine a small hospital in Vallabh Vidyanagar as an example. While this is run by the *Nagar Panchayat* [local self government] and thus an enterprise of the government, given its organisational culture, it could very well be a hospital run by a not-for-profit organisation (M. S. Sriram, Jairath, and Sinha 1995), (M. S. Sriram 2001). This hospital was set up as a primary healthcare centre. When this hospital becomes efficient and starts delivering services to the poor and at a price that is far lower than any alternative source, it serves its purpose, but possibly does not earn resources for redeployment in making the hospital modern and sophisticated. The Chief Medical Officer came up with this problem as a student project. The students suggested cross subsidization through a pharmacy, found suppliers of generic medicines, ensured that the inventory management system was in place and created a win-win situation. The hospital grew in services, donations poured in and the hospital became profitable while serving the purpose. If it were a primary health care centre, should it be dispensing medicines? Should it have a pathology lab and a radiology unit? Should it have visiting obstetricians and ophthalmologists? Should it have a dental unit? Each one of these questions could be answered in the positive because there is a micro-argument as to why the poor need to be served with these specialised services. How and where is the line that distinguishes a primary health care centre from a multi-speciality hospital drawn? And what motivates the Chief Medical Officer and other employees to go so far beyond the minimum mandate of a primary health care centre?

Albeit complex, the answer definitely does not lie in “high-powered” economic incentives. The financial compensation for employees was governed by the bureaucratic norms of the *panchayat* and in no way linked to the margins. Instead the explanations lie in the intangible “pride” that the team got in extending the ‘purpose’ of serving people at an affordable cost, with greater sophistication. Further evidence of the salience of this factor can be found from the example of the much larger and well-know institution in India, the Christian Medical College (CMC) and Hospital in Vellore. CMC started in the early 20th century to meet the primary health care needs of the residents of Vellore. Where is it now? It continues to serve the poor, but not exclusively. It is no longer just a primary care hospital and was recently ranked as one of India’s top multi-speciality hospitals. (CMC Vellore 2011). Probing the apparent anomaly of offering super-specialized services in a hospital that, by all accounts, remains true to the mission of providing care to the poor, provides clues to the pulls that exist in organisations even as committed to purpose as CMC (Sivaramakrishnan 2009).

The possible reasons again are many. The first may be the environment to which CMC has had to adapt to remain self-sustainable – an explicitly articulated goal.

“(With) corporate hospitals coming up, these hospitals will attract the paying patients. The challenge is that if the paying patients do not come to CMC, we will not be able to raise funds to care for the poor and the needy” – Dr. George M Chandy, Director CMC (<http://www.youtube.com/watch?v=hdDKJK4pNWY>)

The other possible explanation might lie in the statistic that CMC also produces the second largest number of medical research papers in India. This is quite a remarkable achievement for an organisation that spends nearly a fifth of its total income on subsidizing health care and education and despite paying only “modest salaries for staff”(Sivaramakrishnan 2009). Without ruling out others, one explanation may be that the CMC system allows its doctors and research staff to pursue their intellectual pursuits and the growth of many specialized departments is concomitant to or as a result of these pursuits. To what extent this substitutes for the lower salaries is a matter of conjecture but it is widely acknowledged that a culture such as this is common in specialised institutions like hospitals, educational institutions, which are run by knowledge workers, who are well qualified with opportunities for lucrative alternative careers. Here, growth may gradually lead to a mission drift. If the drift does not happen through employees seeking autonomy, then pressures on market linked compensation would grow, leading to skimming of finances above the line, leaving little for reinvestments. The pressure to distribute of surpluses will move above the line -- to people who call the shots from within.

However, there are institutions, that have grown and seemingly avoided the pitfalls of a drift. The Bhagwan Mahaveer Vikalng Sahayata Samiti [BMVSS] that produces the famous Jaipur Foot and Aravind Eye Hospital are two such instances. It is worth examining plausible reasons behind the ability of these organisations to overcome the pulls of mission drift.

Founded in 1975, BMVSS has never had a corpus(Prahalad 2009). It is run by the Mehta brothers, and has survived, and grown. In spite of the growth, the organisation is on a hand to mouth existence, cutting down plans if it cannot generate resources. The focus of BMVSS is on providing artificial limbs to all without a charge. Whether the recipient is poor or not is of no concern to them. The single minded concern is, if a person comes with a problem that could be solved s/he should return with a solution. Resources would incidentally flow. The unwavering focus on ‘purpose’ has helped the organisation to focus on the critical aspects – cutting costs and increasing the effectiveness of the solution through research.

Aravind Eye Care (Pralhad 2009) (Rangan 2007), focuses on eliminating avoidable blindness. It is structured as a not-for-profit but works on a model of cross subsidisation by charging patients extra for peripheral benefits. The choice of level of benefits and therefore payment is left to the patient. If certain physical facilities like a cot, a private ward are desired, the charges are higher. While this is no different from other private hospitals, what distinguishes Aravind is that no fees are charged from those unable/unwilling to pay for the higher benefits with no compromise on the quality of the core service. The actual quality of the service is maintained for both segments by rotating the people who attend to the non-paying and paying patients. Moreover Aravind pro-actively seeks poor patients who may otherwise not come to the hospital for free treatment. Thus, the focus is on 'purpose'.

In BMVSS the risk of a drift from purpose was avoided by ensuring a grant based revenue model. Once free service has been made non-negotiable, there is no discretion at client level. The case of Aravind is more complex. The cross subsidization is applied through physical demarcation of the spaces and porting the discretion to the customer rather than the professionals.

Enabling factors for adherence to mission

Both BMVSS and Aravind are largely hierarchical organisation; have standardised systems; and are cost-efficient. Unlike CMC which is a multi-speciality hospital Aravind focuses on eye care, specifically on cataract and lens implants. The end-service is non-discriminatory, after they have developed low-cost of Intra-ocular lenses. The staff would not be able to differentiate between paying and non-paying customers in its core product. The case of BMVSS is similar, the product-service is standardised – focussing on lower limb replacements for its beneficiaries. The customisation to be done for each patient is through standardised process that does not need much of intellectual inputs. Further, Aravind was run by a closely knit family with deeply shared values might have helped it to serve the 'purpose'.

Narayana Hrudayalaya (Khanna, Rangan, and Manocaran 2005) is another organisation that also serves the poor. It is a for-profit model. Because NH is structured as a for-profit entity, the model articulates the double bottom-line imperative. So, unlike Aravind, NH does not actively go looking for the poor. Instead they provide service to the poor who walk in. They specifically earmark a part of their revenue and raise funding through a foundation for this purpose. In addition NH focuses on cutting costs, to make healthcare less expensive. Serving the poor is not their main business, but they actively set aside resources to serve the poor. While literature has termed both these enterprises [Aravind and NH] as social enterprises, we see the difference between the primacy of purpose and

profits. They are driven by the imperatives of their organisational form and how the promoters have articulated their “social enterprise”.

Co-operatives

In a co-operative there is little dilemma between “profits” and “purpose”. The pay-offs of the profits are fully aligned with the purpose. In terms of our framework above, the two classes of patrons overlap significantly. Therefore co-operatives are the most elegant form of social enterprise.

Co-operatives function on the principle of mutuality –people with common needs gather and the residues are shared on the basis of patronage rather than capital. However, like the not-for-profit enterprises discussed above, they suffer from a possibility of drift that can be traced to restrictions on residual claims. While current residuals are shared on the basis of patronage, co-operative principles do not allow for residual claims on liquidation. The members get only their share capital back. Accumulated profits are not distributed, because the co-operatives operate on a principle of open membership. Therefore, the set of people who have a common cause and membership in a cooperative could be dynamic. This results in the ‘horizon’ problem. Since there are no claims on accumulated profits, members have a diminished incentive to accumulate capital for future growth. This does not imply that co-operatives do not grow. But the growth may emanate through heavy outside investments, as in the case of Dairy co-ops and/or through internal accruals. However, internal accruals are simultaneously denials of distribution of current income. Thus, the accumulated resources in a co-operative may not be identified with “stakes” of individual members. Therefore, growth from either of these two mechanisms could result in member apathy and make the co-operative vulnerable to a capture from particularistic interests.

This threat is even more pronounced in federal co-operatives where the primary stake holder is not represented through a representational democracy. In a multi tiered structure, the primary member who votes for the management committee and their representative votes in the federal body. The primary member does not have a direct say in the affairs of the federal body and usually a federal body – given that it aggregates the interests of the primary co-operatives is larger with more power and resources vested in it. This is structurally designed to be weakly governed since the primary member does not have a say in what happens in the federal body, though what happens there, has a significant bearing on the benefits and pay offs to the primary member.

However co-operatives may be unsuitable to run certain activities which do not have a regularity of

aggregation. In addition to regularity of aggregation, we should also look at how intertwined one man's produce is with the other and how important it is to obtain economies of scale. In activities that have potential for significant value add, there would be intertwined interests like in milk. In other activities the co-operative at best could be a referral price.

Examples- oilseeds cooperatives which did not succeed in India, which had a meeting point once or twice a year during harvest season, with multiple interests operating at the time of harvesting. While the price offered by the co-operative turned out to be a referral price, it did not realise in equivalent quantity of procurement through such price discovery. However, this does not seem to have affected the sugar co-operatives because of interlinked arrangements and the difficulty of transporting cane over long distances. Historically co-operatives have also benefitted from state patronage that gives them near monopoly rights in operation in certain areas as they operate under the benevolent principle of mutuality.

For-profits

Unlike "pure" for-profit where a mission is an instrument for the pursuit of profits, social enterprises organised as an "investor owned" firms presumably pursue the path of profits to achieve a mission.

Since capital owners have claims to all residual earnings – the profits, shifts in strategy that affect profits exposes these firms to several questions. When a not-for-profit enterprise moves away from its mission, it is not often that the drift is recognised and questioned since it is assumed that "promoters" are not in a position to derive any pecuniary benefits from the shift. However, other than their reputations, promoters of for-profit enterprises lack effective means to communicate their commitment to "purpose" and have to be prepared for addressing the accusation of drift with the alleged motive of profiteering.

A legitimate question to be asked is why would an entrepreneur committed to a purpose wish to structure the intervention as a for-profit? The logic for a for-profit social enterprise is often the follows: any problem needs a sustainable and scalable solution. Sustainable and scalable solutions come from models that align the interests of the organisation to the self-interest of the individuals that control the organisation. And the most important self-interests are pecuniary. Therefore, the organisational form that is most suited is a for-profit enterprise. There are additional arguments – these problems need the best talent who need to be paid market salaries and that can only be sustained in a for-profit environment. Finally, social problems demand the best practices to run the enterprise efficiently and need modern management tools. These tools, the argument goes, best

reside from where they emanated – in the private “investor owned” enterprise. The desired isomorphism is explained by a prominent actor in the social enterprise space in India in the following way:

“To make an impact at scale, you have to have an organisation similar in quality and competence that you would find in a private enterprise, you have to have imagination and philosophy and the measurement of outcome with the same level of rigour and discipline as you would in a private enterprise.”

Romesh Wadhvani, Chairman, Wadhvani Foundation (quoted in Jenkins 2011)

A double bottom line of doing good and doing well has a subjective proportionality on how much ‘good’ and how ‘well’. Even the performance benchmarks will be subjective. Organisations like Aravind, BMVSS and the co-operatives overcome this by keeping employee compensation far lower than the comparable peers, signalling austerity and identification with the ‘beneficiary’. They may be accused of ‘inefficiency’ by modern day management parameters. The internal management and systems of social enterprises often have scope for professional inputs to come in at market costs. The call then is, whether the additional inputs will also bring in a cultural change. This dilemma is real and stark.

Fabindia(Singh 2010) is an example where we can examine this in greater detail. When John Bissel set up Fabindia as an export house and a single store in Greater Kailash in Delhi, it was an enterprise that helped the artisans to find international and upper-end markets. Once his son William Bissel took over the operations and decided to grow, there are questions on whether there is a mission creep.

Under William Bissel, Fabindia has professionalised, revamped its supply chain, innovated the way it connects with its weavers and helped them to set up localised companies. However, over a period, Fabindia has moved from ‘handlooms only’ to getting bits and pieces of power loom material, storing organic food and continuing their original line of furniture. From being exclusively handlooms to gradually stocking some material from powerlooms is a case in point. While the intent of working with artisans is intact, the internal norm was modified from exclusive artisanal products to products with artisanal elements. A block print on a power loom fabric, a button that comes from areca shells, or even an embellishment on the corner of a dress would have an artisanal element. This is a shift from what Fabindia had articulated in the past.

Two aspects drive this shift. Fabindia got significant professional inputs and started planning like any other large corporation involving targets of number of outlets, topline and bottomline numbers. Fabindia also went in for an acquisition of a UK based label – East. It modified its image of being only

in heritage and exclusive buildings to move into malls and corner shops. Given that Fabindia's brand and reputation were built (quite literally) by the hand of the artisan's, a non-charitable way of looking at this change is to say that the changes are driven by profits and turnovers and lament that it is taking the focus away from the artisans by focussing on the growth. An even more uncharitable view would argue that given the increasing difficulty in distinguishing between powerloom and handloom fabric (Sriram and Sarin 2011), Fabindia is hurting the cause of handlooms by stocking powerloom (typically cheaper) and handloom fabric next to each other, without identifying which is which.

On the other hand, a charitable analysis is: if the market is expanding, it is a good idea to occupy the market and pass on the efficiency of the expanded market to the artisans through better pricing. A charitable evaluation will also ask if the growth in the non-artisanal segment coming from the shrinkage of the artisanal segment in absolute and not relative terms? On both counts, Fabindia will come out looking favourably.

What this indicates is that, while there could be alignment of pay-offs, there is an underlying question of "fair" distribution that a social enterprise will be called to address. In all the three models growth is a goal. But the question to deal with is how the benefits of the growth are distributed in the alternative structures.

It important to understand the process of distribution. In case of co-operatives it is codified. In for-profits it is left to the discretion of owners of capital. A co-operative cannot grow without its members unless it drifts, while a for-profit can grow irrespective of the beneficiary. Therefore growth in for-profits needs to be scrutinised a lot more carefully.

The natural question that emerges is whether for-profit social enterprises can be designed to remain true to 'purpose'? There are two instances we would like to illustrate. SELCO Solar systems specialises in providing solar lighting solutions to the rural poor. SELCO is structured as a for-profit organisation because the promoter Harish Hande believes that you need to stand out in a world that is constantly driven by subsidies¹⁵. He believes that subsidies build inefficiencies, and therefore the positioning as a for-profit is necessary to push the organisation to the test and rigors of a market. However, Hande had the passion and not resources for investing in a cause he believed. Capital and entrepreneurship were fully de-coupled. In a mainstream corporation, the interests of the entrepreneur and that of the investor converge on returns. It is complex in a social enterprise which is structured as a for-profit company. As growth happens, the corporation may take a direction that the original promoter/mission

¹⁵Hande, Harish [2010]: Personal Communication.

did not want to head in, just out of the inevitability of the situation that the entrepreneur did not have enough capital to invest.

At one stage, SELCO became vulnerable to this pressure from the investors and it took some serious juggling to get SELCO back to what it was designed to do, provide customised solar lighting solutions for the poor (Yale School of Management). This instance just indicates the conviction of the leadership is as important as the organisational structure. In this instance the mission creep was prevented because of the conviction of the entrepreneur. When we examine the for-profit model closely it is possible to see the vulnerability of the purpose when profits take over.

A former investment banker Dhruv Lakra set up a courier company that works exclusively with the deaf. He insists that it was important for him to set the company up [Mirakle Couriers] as a for-profit because he wanted to make a statement about mainstreaming the challenged and what better way to do that than to set up a for profit enterprise?¹⁶ Mirakle's objectives and mission, like Aravind Eye Care is codified in its business. It does not matter whether it is eventually a for-profit or a not-for-profit enterprise. As long as the employment conditions are not onerous to the deaf, Mirakle will be regarded as a 'social enterprise' irrespective of the profits it earns. Mirakle works in a highly competitive industry of couriers. While Mirakle has to compete with the mainstream couriers, its administrative overheads are bound to be higher because of the challenges of working with people with disabilities. At the same time, nobody will pay Mirakle a premium for its services (Bansal 2011). Mirakle will always be less profitable than the industry peers unless they find some super-efficient means of cutting costs. In case of Mirakle the purpose overwhelms because it is entering into employment generation in a highly competitive market. His beneficiaries are not the beneficiaries of the service and thus his parameters will be measured not on the price he charges for the couriers but for the compensation his employees get. In this example we find a fine balance between purpose and profits.

For-profit social enterprises, especially ones based on the idea of doing good by serving the "Bottom of the Pyramid" (Prahalad 2009), intrinsically depend on the inability of their customers to be serviced by other means. In some sense, the deprivation or exploitation of their customers is the *raison d'être* for their existence and they are working to fulfil needs or demands that emerge from their deprivation. For example, the social good that micro-finance firms claim to provide is access to less predatory forms of lending in comparison to traditional money-lenders. However, taking the example of a "market-

¹⁶Lakra, Dhruv [2011]: Personal Communication.

based solution” like Sarvajal(www.sarvajal.com), that is organised as a for-profit, and seeks to provide cheap clean water via setting up of franchisees in low-income households. It is worth asking: what in the logic of these organisations would drive them to imagine and therefore pursue means that would one day enable these communities to get clean water at no cost and without dependence on a third-party organisation like themselves? To what extent we can consider this as a case of mission drift depends on large part on how they articulate their mission and the how society judges them. We investigate this in greater detail with the case of microfinance in India.

Case of Microfinance in India

It may be interesting to contrast the case of microfinance vis-à-vis mission drift. While most of the literature on commercialization of microfinance posits the developments in microfinance as a result of mission drift, the phenomenon is to be understood with a slightly different perspective. It is important to understand the change in motivations of the promoters and the service they were delivering. Clearly the change in motivations might be the first step towards mission drift, but did that indeed happen in the context of microfinance? The answer clearly depends on the problem microfinance institutions claimed to address.

If the problem that the players in the microfinance arena [both internationally in organisations like Compartamos and within India like SKS] targeted was the lack of access to finance in the formal sector, then one could argue that the increased commercialization actually deepened the mission of these organisations. The design of the delivery of services -- the methodology of identifying the poor women, through a wealth ranking exercise and targeting loans to them, having small amounts of loans with frequent repayments and using social collateral to make the loans were all there -- were clearly etched out and did not change radically. If for instance, we compare the difference between the operating procedures of Grameen Bank [undisputably to be classified as a social enterprise, which may not have suffered a mission drift in the popular perception] and the Grameen replicators in India and elsewhere, we find that operationally they were all similar. Therefore at the customer level there was no perceptible difference between the service offered by these institutions in their initial avatar as not-for-profit organisations and their later avatar as for-profit corporations. So if the articulation of the “purpose” of these organisations was of providing formal financial services at locations that were accessible and on terms that were significantly superior to the informal sources, then that purpose was still being achieved.

However, the roots of the controversy lay in the fact that each of the players also articulate bringing the poor out of the clutches of poverty as a purpose, often as means to raise resources or build legitimacy. The issues that the MFI's were drawn into were two fold:

1. As they grew, they made significant efficiency gains, which brought their cost of operations down. The benefits of efficiency were not passed on to the poor customers by way of lower interest rates.
2. The promoters who started as not-for-profit institutions (using public funds) morphed into the for-profit formats when they had to grow and these for-profits kept all the incremental profits that accrued on efficiency and scale factors and enriched themselves through above the line skimming and below the line distribution of residual claims.

In both the above there is a sense of disproportionate gains/benefits accruing to the provider of services and thereby providing a sense of exploitation of the beneficiaries, while the services provided to the beneficiaries and the method of identification of the beneficiaries themselves did not undergo a fundamental change.

The taste of profits does result in a possible mission drift in the articulation of who the customer is. In case of microfinance the issue of mission drift is seen in the second generation institutions later when the design of the products changed to suit – not the poorest customers – but a notch above. The case of Bancosol in Bolivia where efficiency parameters forced them to redefine the customer segment and they moved up the poverty chain from the extremely small and petty entrepreneurs to larger units is a case in point. The recent shift of SKS to provide collateralized gold based loans to customers is another. From providing collateral free loans to customers who did not have any physical asset to offer to offering gold based loans can be seen as a drift, but the controversy in the microfinance sector happened much before these product based changes were made.

Despite the contested nature of mission drift, the case of microfinance supports our argument that form matters. It is not that Grameen Bank of Bangladesh did not go through a crisis. It did go through a crisis of sorts when following a cyclone in 1998 there were large scale defaults and if it were a commercial organization there would have been enough pressure to keep the business going by moving the customer segment to a notch upwards. Instead Grameen went back to the drawing board (M. S. Sriram 2007) to change their model to continue to serve the same set of customers more effectively. It resulted in reaffirming their faith in the customers by calling the book that documented the change as "The poor always pay back". In contrast, when SKS was hit with a crisis of default

because of extraneous factors the investors wanted a change in the model to keep afloat and introduced not only introduced gold loans, but also ensured that the original promoter was eased out of the organization. However, the promoter in the process of moving from not-for-profit to for-profit model had enriched himself substantially under the same organizational format and lost the moral high ground in arguing for the poor.

The importance of context

So far we have highlighted the importance of an organisation's internal structure. However, for the structure to achieve its intended purpose, it also has to resonate with the external environment. To illustrate this, we explore interventions working to connect traditional artisans with modern markets. In a pure-market driven enterprise, the resource generator is the customer and the intended beneficiary is the artisan. However, a lower price to the customer also imply lower earnings to the artisan and the enterprise. Therefore, the interests of the customer and the artisan are in direct conflict. Given that a priori, there is no reason to believe that a for-profit would be more efficient than a non-profit and therefore there would be a larger pie to distribute,¹⁷ would a for-profit enterprise be the ideal form if our purpose was to create social value for the artisan?

For example, it could be argued that, like in the case of Mirakle Couriers, the primary social impact that can be created for the artisan is to wean her off charity and integrate her with the demands and rigors of the market and therefore for-profits would serve the artisan best. A pure-market actor is able to signal to customers that they are being sold products that have been selected only on their marketability criteria (or their ability to satisfy the customer at a particular price point) and not on grounds of charity, compassion etc. Therefore, no compromise has been made on the quality.

However, to evaluate the merit of this argument one needs to understand the environment in which a courier company operates and compare that to the market with which we wish to integrate artisans. For a courier company there are some clear and definable measures of performance – timeliness and reliability. On the other hand, an organisation working with artisans (especially those whose craft is not widely known) also has the task of informing, educating and shaping the criteria on which the customer finally makes choices. This is a task which again lacks clearly defined measures for monitoring, but which is likely to be a significant determinant of the social impact that the organisation

¹⁷ "Even with no owners at all – or, as we might say, even with a true "separation of ownership from control" -- firms can be managed with fair efficiency." (H. Hansmann 2010)

creates. Moreover, the service being provided here – generating higher demand for artisanal goods – can be construed as a public good. Once created, the benefits of a higher demand could be appropriated by enterprises other than the one creating it. Therefore like any other public goods, individual actors driven only by their pecuniary interests are less likely to invest in it.

A second dimension between a Mirakle and Fabindia is that in the former there are clearly defined “market” wages for employees in courier companies – either mandated by the government or set by the market. If Mirakle is ever faced with questions about unfair exploitation of using the deaf as cheap labor, it merely needs to point to the wages it pays and compare those to those paid by its competitors. On the other hand the “value” of an artisan’s work is inherently difficult to define and defend. It is also not one that can be simply left to the “market”, because the enterprise is often creating and setting the terms of the “market” itself.

Organisational form as instrument for social change:

If a mission serves as the *raison d’etre* for a social enterprise, its theory of change (or social impact theory)¹⁸tells us how it thinks it will achieve it. However, despite being “at the heart of the venture’s strategy and generally (embodying) the organization’s mission’s and values”,¹⁹ the theory of change rarely involves thinking about the organisational form of the enterprise and how it affects its ability create social impact.

Any discussion on organisational form of social enterprise must begin with a discussion of the social impact that the organisation wants to create and attributes of the social impact. What resources are needed? How will these resources be generated? At what costs? What are the elements of costs – including financial and contractual (eg. monitoring) that resource providers might impose? How will the “authenticity” of costs be evaluated? Are there transparent benchmarks? How identifiable (ability to isolate the influence of particular resources from other influences), measurable (can the social change be reduced to comprehensible and consistent units), verifiable (what are the costs of collecting the required information) is the social impact that organisations wish to create?

In the case of Mirakle Couriers, for example, being organised as a for-profit is integral to the social value it seeks to create. It also makes business sense, since there is no room for slack in the courier business where reliability and efficiency are key. Therefore, while Mirakle is able to use its social mission to open doors, it cannot use it to sign contracts and generate business. Being organised as a

¹⁸(Guclu, Dees, and Anderson 2002)

¹⁹(Guclu, Dees, and Anderson 2002)

for-profit sends a strong signal to potential customers that Mirakle competes on the same terms as other operators and that there is no slack for which are not relying on any charitable contributions. Mirakle would simply fail to create the social impact it desires if its employees continued to believe that they were receiving charity.

Similarly in the case of Goonj, whose mission statement includes, “Re-positioning cloth and other underutilized material, beyond charity, adding dignity and turning it into a big resource for development.”²⁰

Despite wanting to “re-position cloth other unutilized material, beyond charity” it is organised as a non-profit. For Goonj, cloth is not just a basic necessity but essential to bringing dignity to the otherwise impoverished. They seek to value the resources that the poor have in plenty – labour, hardwork and a sense of community—and de-emphasize the resources that they have in paucity, namely financial resources. Hence, the organisation sees the “high point” of its work as “the elimination of dependency on financial transactions”²¹. Given this mission, it would be contradictory for Goonj to organise itself as a for-profit.

Finally, Dastkar Andhra Marketing Association (DAMA) is organisation that like Fabindia began its journey working with weavers and furthering the cause of handlooms. Unlike Fabindia, it still continues to do so exclusively (Sriram and Sarin, 2011). However, what is interesting in DAMA’s case is not only its own organisational form but also that of actors it chooses to work with. While DAMA itself is organised as a non-profit, it has worked predominantly with co-operatives. For DAMA, handlooms represent a lot more than fabric, they represent a way of organising society around principles of self-dignity, sustainability and a framework of social justice that empowers weavers. Therefore, it sees working with co-operatives as integral to furthering its mission.

In Conclusion: Ultimately it is Governance

Most definitions of Social Enterprises are static i.e. they either refer to attributes that an organisation has at a particular point in time or assume that the attributes are unchanging over time. This also reflects the relative recent nascency of the concept. However, as the concept and enterprises referred by it mature, the empirical evidence suggests that enterprises are constantly negotiating, adapting and transforming to internal and external pressures in the quest for growth or mere sustenance over time. Even if formal mission statements do not change, outcomes in practice could. The ideal social

²⁰(Goonj Web Page)

²¹(Goonj Web Page)

enterprise remains one that will eventually make itself redundant. However, given the complexity of the problems these enterprises try to solve, the goal of redundancy will remain elusive for most organisations. Therefore, we need to start engaging with analysis the likely trajectory of organisations over their life-time. While the issue of financial sustainability has received considerable attention, the issue of sustainability of the purpose itself has either been taken for granted or neglected.

The word “social” in their name itself points to the dilemmas and tensions these enterprises face. Their existence is defined in reference to the society it is located in and its needs. Their operations and strategies are in part determined by what society believes to be permissible and what is not (is it ok to be making profits while serving the poor?). The resources available to them depend in no small part to the prevailing ideas and values of the society they work in. Simply put, they seek to define society and are yet defined by it. And to repeat the unchanging adage – the only thing that is constant is change itself.

One instrument to negotiate these tensions is the choice of organisational structure. The discourse on social “enterprises” and “entrepreneurship” has opened the choices in terms of organisational form available to individuals wanting to intervene in the solution of a social problem. At the start-up stage, the choice is driven largely by legal frameworks and resource availability. Without devaluing those constraints, we argue that the primary determinant should be the “purpose” that the enterprise wishes to pursue. The questions we believe all social entrepreneurs should be asking are: How do they see themselves scaling of sustaining the purpose to which they are committed to? What is the nature of mission drift that is acceptable? What is non-negotiable in the choice between “profits” and “purpose”? What are the resource requirements? Where will these resources be sourced from? How will the resource owners be compensated? At the time of start-up? As the organisation grows, what new resources will have to be drawn? Will the nature of compensation change?

Hande of Selco is quite clear that he does not envision themselves scaling up. Instead, what he hopes to do via Selco is provide a replicable model and help others interested replicate it. A desire to scale up rapidly, as in the case of SKS, will naturally push entrepreneurs to capital markets and towards a “for-profit” model. Similarly a for-profit model in a competitive market environment pushes Fabindia to grow with or without its purpose – the “artisans”. While precious little in Fabindia’s logic as an organisation would lead it to work with apprentice/novice craftsmen, an organisation like DAMA will seek resources that will enable it to work with them.

The question of organisational choice also poses the question of what type of governance are

entrepreneurs willing to impose on themselves as they grow? Without ascribing any motive, the demands of governance can act as constraints to the “restless” – constraints that a short-sighted view may not appreciate.

In summary the following issues help in understanding the space between purpose and profits.

1. Enterprises articulating double bottom line invite scrutiny. While the profits can be measured, measuring the purpose becomes subjective and contentious.
2. The scale applied will be subject to the positioning of the enterprise. If the enterprise starts at the profits end and moves towards the purpose, it is usually seen in a positive light. If it is obverse, it is seen with suspicion.
3. Even not-for-profits are subject to capture and skimming above the line and subject to mission drift. Being incorporated as a not-for-profit does not assure the adherence to purpose. In this form of organisation vulnerability usually comes from the employees.
4. Co-operative form of incorporation appears to be the ideal form for social enterprises.
5. For-profits that have double bottom line have a great vulnerability to tilt disproportionately towards profits and get questioned on purpose. However, when the activity is well defined and focussed as in case of Mirakle couriers it is likely to last without this dilemma.
6. As long as the management/governance remains steadfast about the purpose, the form does not matter. For-profits are vulnerable when the governance blinks or when succession happens.

Good Governance will negate the advantages/disadvantages of organisational forms. However, good governance is not codified and is difficult to implement. It is possible to prescribe the characteristics of what makes an ideal board that results in good governance. However, the people on the board should understand the mission, should be independent and vigilant against mission drift. However, history proves that while the governance might appear to be independent, it still might not keep the organisation from drifting.

Board decisions are largely dictated by the facts, figures and proposals that the management makes. It is rare that the governance structure takes suo-motu steps to steer the organisation. It could happen with a set of individuals sitting on the board at a given time, but not by their CVs. While prescriptions on the board structure and the governance structure can prevent certain profiles of people coming

on, it does not assure that the right profile of people actually come in. Experience shows that even the so called independent board members turn out to be from a familiar circle of the promoter/management and true independence is rarely exercised.

The dilemma that organisations face between the pursuit of a solution to the social problem (“purpose”) and economic sustainability of the organisation (“profit”) is a key defining characteristic of social enterprises. Yet many definitions of social entrepreneurship simply assume away this dilemma. Albeit in different ways, what they have in common is the idea of a “win-win” i.e. an organisation that is not only able to solve social problems but also do it in a financially remunerative way. Thus, it is able to meet the interests of both the altruist and the capitalist. We question this assumption and illustrate the different ways in which the dilemma manifests itself and the reasons for it. While neither the orientation towards profits nor the commitment to purpose can be genetically engineered, we find great merit in Kelly’s (2012, 42) simple yet powerful assertion: “Systems do what they are designed to do.”

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