1-12-2011

Effects of Social Enterprise Among Nonprofit Behavioral Healthcare Providers on Financial Performance

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EFFECTS OF SOCIAL ENTERPRISE AMONG NONPROFIT BEHAVIORAL HEALTHCARE PROVIDERS ON FINANCIAL PERFORMANCE

A Dissertation

Submitted to the School of Graduate Studies and Research

In Partial Fulfillment of the

Requirements for the Degree

Doctor of Philosophy

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December 2010

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Title: Effects of Social Enterprise Among Nonprofit Behavioral Healthcare Providers on Financial Performance

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Historically there has been great focus on the performance of nonprofits versus for-profit entities. The literature has included research on variances in salaries, operational efficiencies, pricing, market penetration, composition of clientele, etc. However, there is a new category of entity that exists between the traditional nonprofit and for-profit spectrum. This entity is the nonprofit engaged in social enterprise activities. Social enterprise is the pursuit of earned income activities. To date, little research has focused on how these particular entities may vary in their performance from traditional nonprofits or even for-profits. If research has found differences in nonprofits versus for-profits could there be differences between social enterprise organizations and their traditional counterparts?

There are various items that could be explored such as variances in operational performance, outcomes, salaries, and others. However, this research examined the differences in financial performance between traditional nonprofit behavioral healthcare providers and those nonprofit behavioral healthcare providers engaged in social enterprise activities.

This research uses financial data available from Guidestar and completed surveys from Pennsylvania behavioral healthcare organizations to determine differences in financial metrics.

Linear regression was used to estimate the impact social enterprise had on current ratio, days cash on hand, net profit margin percentage, net days in accounts receivable, debt ratio, revenue per full time employee, and administrative overheard percentage.

The results of the research did not typically support the hypotheses and the null was accepted that social enterprise did not lead to better financial performance in these various metrics. Further research must be conducted to continue to provide resolution to the ongoing debate of whether social enterprise provides benefits to the organization or harm.

ACKNOWLEDGEMENTS

Pursuing a doctorate requires investment of time, an ability to press on in times of uncertainty, rebounding from failure, self motivation, and of course financial resources. However, it is not a solo act. There are many who have sacrificed much and have been an ongoing source of inspiration and support. First and foremost I must thank my husband and daughter who have spent countless hours without me. My husband has never wavered in his enthusiastic support. I must also thank my parents for raising me to value education, be self motivated, and not shy from a challenge. I must also thank the Community Guidance Center which has offered a cheering section and financial support. I am incredibly grateful to the board of directors who have never questioned the investment. I am most indebted to Dr. Thomas Nowak who has tolerated my email assaults, provided counsel, righted my direction, and shown me the light. I have commented it was great fortune that I selected him to chair my committee. He has been the ideal chair for my personality, irrationality, work ethos, and sense of humor. I must also thank Dr. Willard Radell and Dr. Alex Heckert who have enriched my research and provided counsel and expertise. I have been most fortunate in having the perfect committee and it has allowed me to reach my destination happy to have made the journey.

TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

Social enterprise is the pursuit of entrepreneurial activities to achieve a social mission. Social enterprise may include a variety of activities such as community economic development, profit generating activities in a nonprofit organization that may or may not be related to the organization's services, and collaboration with private industry (Gray, Healy, & Crofts, 2003). A nonprofit charging a fee for its services to those who have an ability to pay is also defined as social enterprise. Other social enterprise activities might involve staff and client resource based activities. For example an organization might use mental health counselors to conduct corporate seminars on stress management. Nonprofits may also capitalize on soft or hard assets such as rental of unused space or allowing its name to be utilized in the selling of products. Regardless of the type of activity, social enterprise activities are also categorized as being "mission related" or "non-mission related". These two classifications are based upon whether the endeavor aligns with the organizational mission such as employment of mentally or physically challenged individuals in nonprofit owned second-hand clothing stores. The mission of the social enterprise activity may not align with the organization. For example, a community mental health center may rent commercial retail property to a lessee.

Massarsky (2006) views the social enterprise movement as reaching critical mass as a social movement in 2000 when the Pew Charitable Trust Foundation, Yale School of Management and the Goldman Sachs Foundation on Nonprofit Ventures collaboratively engaged in a survey on enterprise activities in the nonprofit sector and sponsored a

business planning competition. They found that nonprofits were widely considering or actively using social enterprise. Overall the results of the survey were surprising as the high level of earned income or social enterprise activity in the nonprofit sector had not been anticipated. Organizations who included a broad range of nonprofits including arts and humanities, religious entities, housing and shelter, and other human service providers reported significant byproducts from their social enterprise activities. These byproducts included enhanced public image, increased donations, and better services and program delivery. However, critics of this research have noted that sampling techniques were not employed and organizations may have chosen to respond based upon their success with social enterprise activities.

The social enterprise movement has gained momentum. Funders have been quick to embrace start up funding for something that will ultimately be self sustaining. Some social enterprise organizations have been highly publicized and include the Greyston Bakery that employs individuals who struggle to gain employment or the Delancey Street Foundation which has rehabilitated thousands of drug addicts through multiple enterprises (Kleiman & Rosenbaum, 2007). Some organizations have developed as a result of social enterprise including the Social Enterprise Alliance, Community Wealth Ventures, Akosha, and the Roberts Enterprise Development Fund (REDF). Major educational institutions have also embraced the social enterprise movement. Stanford has the **Stanford Social Innovation Review** – a quarterly journal. Duke University, University of Columbia, Yale and Harvard have all created dedicated programs through their business schools (Kleiman & Rosenbaum, 2007). Gregory Dees, Lester Saloman, Burton Weisbrod, and Dennis Young all are nationally recognized “experts” on social

enterprise. Foundations devote funding to social enterprise start ups. Major funders such as Goldman Sachs, the Pew Charitable Trust and the Kauffman Foundation embrace social enterprise funding and encourage nonprofits to develop social enterprise. Many nonprofits face great pressure to adopt entrepreneurial activities, yet it is not always clear whether or not this pressure is justified.

Nonprofits engage in social enterprise typically to enhance revenue or impact mission (Massarsky, 2006). However, some research has found that an overwhelming percentage of social enterprise organizations (71%) are unprofitable and many fail within their first five years. Research has also shown that social enterprise may lead to mission drift and less service delivered to the original recipients of services (Bradach & Foster, 2005). Social enterprise is still in its infancy and the repercussions of embracing social enterprise must be clarified.

Problem Statement

Scholars have mixed opinions about the positive and negative aspects of social enterprise. Many argue that social enterprise encourages organizational creativity, innovation, and stability. Others perceive it as a serious detriment to the charitable mission of the social sector. These critics contend that social enterprise will displace the nonprofit's mission as they focus on commercial pursuits (Backman & Smith, 2000). Others believe that social enterprise can bring much needed revenue to an organization that can help support the core mission.

Because social enterprise may be a viable means of addressing those issues that nonprofits place at the core of their mission (poverty, mental illness, substance abuse, etc.), it is important to ascertain the effects of social enterprise upon the mission and

performance. Zimmerman and Dart (1998) argue that social enterprise activities have both intended and emergent outcomes within the nonprofit organization. The intended outcomes are to boost financial security and increase independence. Other outcomes may have "unintended consequences" such as a change in organizational focus, organizational culture, or redefining the types of clients the organization seeks to serve.

How does social enterprise affect the organization? Does social enterprise create an organization that looks distinctly different than its counterparts without social enterprise?

To focus this research, I will restrict my study to nonprofit outpatient mental health and drug and alcohol organizations. For purposes of this research, behavioral healthcare providers are defined as those outpatient mental health treatment facilities as well as outpatient drug and alcohol treatment facilities. It is not unusual to include these two types of providers under the umbrella of "outpatient behavioral healthcare". Many professional organizations categorize both entities under the same umbrella. In fact these services fall under the same governmental oversight body– the Substance Abuse and Mental Health Services Administration.

A growing number of substance abuse and behavioral healthcare providers pursue earned income activities through social enterprise. I am primarily interested in how such organizations may look different from their traditional nonprofit counterparts.

Social enterprise requires entrepreneurial qualities and places an emphasis on earned income. Many nonprofits engage in social enterprise in order to improve their bottom line. With social enterprise there suddenly is an increased focus on financial performance. Are revenues increased? Is the bottom line improved? What is the unit

cost of our product? What will be our price for this service or product? While finances must be in order for any nonprofit to persist – they may not be the focus of the organization. Organizations with social enterprise may need more "business" skills and "business" focus on financial performance. Does this focus on financial performance trickle over into other areas of the nonprofit organization? Are there differences in the financial performance of social enterprise organizations versus their traditional nonprofit counterparts? Neither prior research nor existing literature has answered such questions in detail. Answers to such questions may resolve debates within the nonprofit sector regarding the negative or positive benefits of social enterprise and may extend beyond the field of behavioral healthcare.

Purpose and Objective of this Study

The purpose of this study is to determine if there are differences in the financial performance of those traditional nonprofit behavioral healthcare providers and those nonprofit behavioral healthcare providers who engage in social enterprise activities. The primary objective is to ascertain how social enterprise activities impact the financial health of an organization through asset management, debt management, revenue enhancement, and expense control.

Throughout this research I use many financial metrics that are prevalent in the for-profit sector but less widely utilized in the nonprofit sector. It is important to recognize that many of these metrics are somewhat adapted or modified for use within the nonprofit sector. For example, many metrics incorporate inventory valuations within their computations or incorporate or disallow income taxes. The behavioral healthcare industry is a service industry that generally will not have inventory to consider nor pay

income taxes. Additionally, many of these metrics are utilized by outside parties to determine the feasibility of investing in an organization. Nonprofits do not distribute their earnings to shareholders. Nonprofits, while being financially sound, are judged by external parties on their ability to fulfill their mission. Therefore, a metric such as net profit margin which is a key indicator of for-profit performance has a slightly altered meaning and application for nonprofits. The use of the word "profit" in a nonprofit world has an entirely different connotation than in a for-profit organization. In my presentation of financial statements I generally do not note our organization's "profits" but instead note our "revenues in excess of expenditures". Additionally, while a profit margin is desirable, an excessively high profit margin becomes questionable. A profit margin percentage which is derived by dividing net profits by total revenue can be used as an industry benchmark. However in the nonprofit realm exceeding this benchmark can be construed as sacrificing mission in pursuit of profits. Exceeding financial benchmarks is generally viewed as admirable in a for-profit but may be criticized in the nonprofit sector.

The reader should note that I have pursued my research with a position that healthy financial metrics are favorable and have not taken the position that exceptionally positive financial metrics represent a sacrifice of mission.

There has been extensive research exploring differences in financial performance between nonprofits and their for-profit counterparts. This literature has detailed differences in financial performance, market penetration, operational efficiencies, and client satisfaction. Social enterprise is a relatively new phenomenon in the nonprofit sector and has created organizations that operate between the for-profit and nonprofit realm. The literature to date has debated whether mission drift occurs, has monitored the

increased adoption of social enterprise, or has explored the types of leadership that engage in social enterprise. Little literature exists which explores how hybrid nonprofits vary from traditional nonprofit counterparts. This dissertation will augment social enterprise literature and illuminate discussions about the financial performance of those nonprofit behavioral healthcare providers engaged in social enterprise versus their traditional nonprofit counterparts.

Research Question

The research question for this study is: Are there differences in financial performance between traditional nonprofit outpatient behavioral healthcare providers and nonprofit outpatient behavioral healthcare providers who engage in social enterprise?

Hypothesis

My general hypothesis is:

H1: Social enterprise will have a positive effect on the financial performance of a nonprofit behavioral healthcare provider.

More specifically, I argue that:

H1a: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher current ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1b: Nonprofit behavioral healthcare providers who engage in social enterprise will have higher net profit margin percentage than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1c: Nonprofit behavioral healthcare providers who engage in social enterprise will have lower net days in accounts receivable than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1d: Nonprofit behavioral healthcare providers who engage in social enterprise will have a lower percentage of administrative overhead than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1e: Nonprofit behavioral healthcare providers who engage in social enterprise will have a lower debt ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1f: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher ratio of revenue per full time equivalent staff than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1g: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher number of days cash on hand than nonprofit behavioral healthcare providers who do not engage in social enterprise.

Significance of the Study

The research has tended to focus upon differences between nonprofits and for-profits regarding differences in efficiency, client satisfaction, financial performance, market orientation, etc. However, there is relatively little research exploring similar differences between nonprofits and this new class of nonprofits engaging in social enterprise. Many have speculated that social enterprise results in nonprofits looking and acting more like for-profits and it seemed logical that similar research could be conducted

exploring differences between these types of nonprofit entities (traditional versus social enterprise nonprofits).

Nonprofits are generally facing a dwindling and limited pool of financial resources. The behavioral healthcare field has seen a decline in federal and state funding but demand for these services continues to grow. Nonprofits must find some means of producing revenues that can sustain their mission. Social enterprise may be a mechanism for enhancing revenues and improving financial performance in an unstable funding environment. However, if social enterprise drains an organization's resources and does not yield a financial benefit it may be a costly gamble for nonprofits that are already operating in a perilous environment. This research may assist nonprofits to make intelligent decisions regarding whether social enterprise should be pursued or not.

CHAPTER II

LITERATURE REVIEW

Introduction

This chapter reviews current literature on social enterprise in nonprofit organizations. I first define nonprofit. I then define behavioral healthcare. The chapter then explores what environmental factors have spurred the interest and adoption of social enterprise activities. I detail possible effects social enterprise may have on the organization. Finally, I explain the theoretical placement of this research.

Defining the Nonprofit

Nonprofit behavioral healthcare organizations are similar in many ways to other nonprofits. Oster (1995) distinguishes a nonprofit organization from other sector organizations by its tax and regulatory designation by the federal government. The Internal Revenue Service classifies the majority of nonprofits as 501(c) 3 and exempts such organizations from income taxes. Tax exempts nonprofits must operate in one of eight categories: educational, religious, charitable, scientific, literary, testing for public safety, fostering national or international amateur sports competitions, and prevention of cruelty to animals and children (Anheier, 2005). Aside from this legal distinction, nonprofit organizations cannot distribute their earnings and do not have shareholders. Oster (1995) notes variations in the financial goals, incentives, and parties of influence between traditional nonprofits and for-profit organizations. Oster (1995) further notes that the nonprofit sector generally carries out such functions such as religious functions, civic functions, health care, education, research, and social services. The nonprofit sector

provides services or promotes “public interest” or activities for “public purposes” (Anheier, 2005).

Nonprofits must also self-govern and control their own organizations. While governmental organizations regulate or license many nonprofits, these nonprofits operate under their own autonomy or board of directors (Anheier, 2005). Within the state of Pennsylvania, the Office of Mental Health and Substance Abuse regulates all outpatient behavioral healthcare providers (regardless of nonprofit status or not). As part of a nonprofit’s self-governance, there is usually a board of directors whose membership is comprised of community volunteers. This voluntary component of the nonprofit organization is another important characteristic that sets it apart from for-profit organizations (Anheier, 2005). The use of volunteers may also be utilized beyond the board membership and may extend to provide significant human resources within the organization. Many nonprofits rely heavily upon volunteers to fulfill their mission.

Economic theory of nonprofits often argues that nonprofit organizations fill a gap between the state and the private sector. Nonprofits provide services when typical market forces fail to enable the consumer to judge the quality of the product or the price of the product (Hannsman, 1980). For example, in the outpatient behavioral healthcare field, the quality of mental health treatment is quite subjective and can be based extensively on consumer perception.

In a typical market environment, buyers and sellers have different objectives. Buyers want to ensure the lowest price while sellers want to ensure a price that covers their costs, provides maximum profit margin, and does not exceed what the market is willing to pay. Both parties have information at their disposal to make an informed

decision regarding their transaction. In those situations where the consumer cannot obtain complete information and must exercise trust, nonprofits are able to provide these services in a trustworthy manner due to their lack of incentive or ability to distribute profits. The nonprofit objective is to fulfill their mission by providing services to as many individuals as their budgets permit. The primary objective of a for-profit entity is to enhance the total profits or maximize shareholder wealth. This is achieved in part by balancing costs and revenue by establishing an appropriate price and output levels. While both sectors must be financially viable, there is a greater emphasis on profits in the for-profit sector.

Anheier (2005) notes for-profits gauge their performance trying to maximize profits through balancing costs and revenues and having effective pricing strategies. In the nonprofit sector this gauge is not as indicative of performance as for for-profits. Rushing (1974) notes other variances that occur between the sectors based upon profit goals. For example, nonprofits are more likely to invest profits in developing new programs or expanding programs than for-profits. Rushing (1974) also notes that for-profits place a greater emphasis on organizational efficiency than non-profits. Anheier (2005) purports that because nonprofits' missions can yield a diversity of goals and interests, nonprofits may have less organizational efficiency. For example, in simplistic terms, a bike manufacturer's goal is to make bikes. Making bikes is easy to define and to execute. However, for a behavioral healthcare provider their goal is to enhance an individual's behavioral health. Defining enhanced behavioral health and executing that goal is not as clear. Enhanced behavioral health is a subjective goal that could range from reducing symptoms to completely controlling the illness. Additionally, how one

actually enhances behavioral health can be accomplished through various means. One may decide to administer medication, while another practitioner may determine therapy should be prescribed and even the type of therapy or amount of therapy may not be consistent from one consumer to the next.

Nonprofits are not as sensitive to the market as for-profits. Nonprofits view the recipients of their services as stakeholders rather than customers. Hannsman (1987) found that nonprofits typically are slow to respond to market forces or changes in markets due to a lack of financial resources and poor definition of who is the organization's customer. Hansmann (1987) notes that the broad missions and multiple stakeholders of nonprofits make it difficult to focus solely on customers. There is less likelihood that a nonprofit will actively monitor their market share. Nonprofits are more likely to emphasize collaborations and alliances than for-profits.

Overall, there are numerous distinctions between organizations operating in the for-profit sector and those operating in the nonprofit sector. These distinctions allow us to appreciate the character of the traditional nonprofit organization.

Behavioral Healthcare

Outpatient behavioral healthcare arose through the passage of the Community Mental Health Centers Act of 1963. The Joint Commission on Mental Illness and Health conducted a study resulting in this piece of legislation. This study found that over two-thirds of mentally ill clients were treated in inpatient hospital settings. The study found that many of these clients could be treated in an outpatient setting but these types of facilities were severely limited in availability (Bloom, 1984). This legislation provided grant funding to create community mental health centers which could provide outpatient

treatment enabling more clients to avoid inpatient hospitalization (Bloom, 1984). As a result mental health and outpatient drug and alcohol service providers moved away from the traditional inpatient treatments and toward outpatient treatments.

The field of outpatient behavioral healthcare services has only recently moved from social services (or caretakers) to a model based upon clinical pathways and evidence based treatment protocols. The use of performance measures within the field is relatively new. In 1988 the Joint Commission on Accreditation of Health Care Organizations decided to develop a standard set of performance measurements for various health care providers including behavioral health (Braun, Koss, & Loeb, 1999).

There are variations in how behavioral healthcare providers are structured, licensed, and the types of services they offer. Behavioral healthcare providers may be either for-profit or nonprofit. These providers provide treatment to individuals with a mental illness or a drug and alcohol diagnosis. Within the state of Pennsylvania the Department of Public Welfare regulates and licenses mental health services. The Department of Health regulates and licenses drug and alcohol services. Treatment providers are typically classified based upon the level of treatment they provide – inpatient or outpatient. Those inpatient providers may be short stay hospitals or longer term residential treatment facilities and long term stay institutions – typically state run institutions. Outpatient providers typically have no "beds" or overnight stay. Outpatient services can vary from more intense levels of treatment such as partial hospitalization which involves individuals receiving daily treatment that may involve up to six hours of care per day to the least intense services involving individual counseling for perhaps an hour and psychiatric medication monitoring. Outpatient services can be either delivered

onsite or can also be executed within the community – typically defined as "outreach". The location of services can vary by provider – site based or in the community and their clientele can vary from all age groups to exclusively children or adults.

For this research study I chose to define behavioral healthcare providers as those nonprofit outpatient providers. I exclude inpatient providers since their staffing, expenses, fees, and operations typically are quite different from outpatient providers.

Factors Stimulating Social Enterprise Activities

Since the 1970's federal spending on social programs has declined. The government had expected private funding for these social programs to supplement the reduced federal funding; however private funding actually decreased during this period of time. Demand for social services did not decline with decreased funding, but continued to increase (Eikenberry & Kluver, 2004). Weisbrod (1997) notes nonprofits must offset their declining governmental funding through services or goods that can generate profits.

Additionally, for-profit companies are providing services that have traditionally been provided by the nonprofit industry. The movement of for-profits to provide social services resulted from the federal government's efforts to downsize. The federal government awarded block grants to states and other jurisdictions to turn programs over to individual states. At the state level, these grants have been awarded to both for-profit and nonprofit entities (Alexander, 2000). For example, in 1996 Lockheed Martin IMS become a major competitor as it bid to manage the welfare to work operations in several states. Lockheed Martin IMS, traditionally provided computer systems to government entities. It now also holds the contract to manage welfare systems in several states (Ryan, 1999). For-profits are generally able to secure government contracts because they

have larger capital reserves and greater technological systems than those in the nonprofit sector. The larger capital reserves allow for-profits to be able to assume greater risk and sustain operations during a startup phase when revenues are being established. Technological proficiency allows the for-profit sector to better manage data and meet government reporting requirements than nonprofits. The public sector organizations now capture up to forty-seven percent of all newly established social services (Eikenberry, Kluver 2004). In order for nonprofits to compete for these contracts, they must be able to operate just as efficiently as their public counterparts. Nonprofits cannot ignore this growing trend and must use traditional business models and concepts in order to level the field of competition with the for-profit sector. It is conceivable that this movement of for-profits into traditional nonprofit areas has led nonprofits to mimic some of the practices that have benefited the for-profits or are perceived to be "successful".

Possible Effects of Social Enterprise on the Organization

In her typology of social enterprises Kim Atler (2004) places social enterprise organizations somewhere in the middle of a continuum between traditional nonprofits at one end and for-profits at the other end of the continuum. These social enterprise organizations combine both the social mission of nonprofits and the profit mission of for-profits. Because of both orientations, social enterprise organizations are thought to be more market driven, client driven, and self-sufficient (Zimmerman & Dart, 2004). If social enterprise organizations do have this blended orientation it is reasonable to anticipate that one would find differences between traditional nonprofits and social enterprise nonprofits. Such differences may appear in such categories as: financial resources, human resources, market orientation, operational performance, financial and

operational structure, and even organizational form. I will discuss these dimensions of changes within the organization and from these categories will focus my research upon a subset.

Organizational Form

As nonprofits begin to compete with for-profits and use for-profit business techniques it is possible that the desire to continue to be nonprofit vanishes. Numerous health maintenance organizations originally organized as nonprofit entities, converted to a for-profit status (Tuckman, 1998) to increase their access to capital limited, and better compete. Indeed some nonprofits that engage in social enterprise ventures choose to set up for-profit subsidiaries in order to protect their nonprofit status. Financial incentives and constraints as well as governance considerations guide the choice of legal structure. Entities planning to take advantage of volunteer resources, tax advantages, and have shared governance are more likely to select a nonprofit legal structure. Those entities that do not want to be restricted in personal benefits or who do not want shared governance are most likely to select a for-profit legal structure. However, Young (2001) believes that the legal structure will determine the prioritization of goals – mission versus profits.

Human Resources

Social enterprise may also impact the human resources of the organization. Weisbrod (1983) found that for-profit management salaries were 15 to 20 percent higher than nonprofits. Similarly, Preston (1989) found for-profit white-collar workers had a twenty percent higher wage compared to nonprofit workers. She also found that nonprofit workers have fewer benefits than their for-profit counterparts.

Beinhacker and Massarsky (2002) find that organizations engaged in social enterprise are better able to retain staff than for profits. While their survey does not explain why organizations perceived improved retention, I think that staff may have a higher sense of job security due to relative financial stability within the organization. Staff may also stay due to more competitive market wages social enterprise organizations.

Devaro and Brookshire (2007) analyzed incentives and promotions between various types of for-profit entities and nonprofit entities. They found that nonprofits typically do not use financial incentives such as pay for performance to motivate workers. They also found that a difference in the criteria that nonprofits and for-profits use for promotions. Typically for-profits considered job performance or merit while nonprofits were more likely to use tenure. Unlike previous studies, this study found no statistically significant wage difference between for-profit organizations and nonprofit organizations.

Social enterprise activities generate additional revenues that may reduce the need for volunteer human resources by hiring more personnel. Many traditional nonprofit organizations – particularly smaller organizations – rely upon volunteers to carry out the work of the organization. Nonprofit organizations may find paid staff to be more reliable and retained longer than volunteer staff. Additionally, nonprofits may be able to secure valued skills or knowledge through paid positions than through volunteer positions.

Types of employees hired within an organization may be different in a social enterprise organization versus a traditional nonprofit. As Backman and Smith (2000) note, social enterprise organizations operate very much like businesses and begin to align themselves with the business community through local business networks such as the

chamber of commerce. The need for individuals with various business backgrounds increases as these organizations begin to operate as businesses. Within these organizations, one may see larger or more highly qualified financial staff, chief executive officers with business backgrounds, and a greater number of board members who are selected based upon their business acumen or their business connections. DiMaggio (1986) finds more marketing and finance personnel in cultural organizations where social enterprise is pervasive. In such organizations traditional socially-conscious board members are replaced with business- oriented board members.

Because of increased scrutiny on financial performance, social enterprise entities may have more efficient staffing levels to model their for-profit counterparts. Weisbrod (1997) found significant differences in staffing levels between for-profit and nonprofit nursing homes. For example, nonprofit nursing homes employed almost double the number of nursing staff per 100 beds compared to for-profit nursing homes. These differences in staffing levels will naturally have an impact on the bottom line of the organization. Many social enterprises may seek to become more cost efficient and strive for similar staffing levels of their for-profit counterparts.

Market Orientation

There are differences in market orientation between for-profits and nonprofits. For-profit sector administrators are keenly aware of marketing tactics and the need to maintain and maximize customer satisfaction. Growing demand for services can increase profitability in the business world. While nonprofits are aware of consumer satisfaction or market need, they are not as sensitive to the market as for-profits. Bruce (1995) argues that the payer for nonprofit services is often not the recipient of such services. In

many nonprofit behavioral healthcare organizations, state funding such as Medicaid pay for a majority of program services. Additionally, the nonprofit may have a monopoly on the service provided (Bruce, 1995). For example, in the nonprofit behavioral healthcare sector, mental health centers are located to cover certain geographic boundaries (typically by county). The recipients of these services are typically at or below the poverty level and have limited transportation resources. They generally receive mental health services from their local mental health center. If an individual is dissatisfied with the services they receive, they would need to find public transportation to travel to another mental health center that may be far away. Because the demand for services outpaces the supply, these recipients may also face significant waiting lists prior to receiving services and may not want to wait for services again at another organization (Bruce, 1995).

If one contends that for-profits are more sensitive to marketing then one would expect the incorporation of social enterprise activities would increase nonprofit's market orientation and marketing tactics. In fact, Anheier & Toepler (1998) found that as museums increased their social enterprise activities there was an increase in the number of journal articles and even entire journals devoted to marketing indicating a greater sensitivity to marketing.

Benefits of Market Orientation

Massarsky and Beinhacker's (2004) survey results indicate that a market orientation permeates all parts of the organization and that a majority of organizations indicate that their social enterprise activities resulted in overall better program delivery and customer service. Shoham, Ruvio, Vigoda-Gadot, and Schwabsky (2006) reviewed previous quantitative research on market orientation in the nonprofit sector.

They meta-analyzed previous empirical research and found a positive correlation between an "orientation to the market" that is defined as "attaining a competitive advantage by correctly identifying the customers needs and enhancing customer satisfaction through the development of commercial offers that provider higher value to the market than the competition" and organizational performance. Research shows that organizations with strong market orientation perform better in regards to market share, profitability, new product success, and efficiency than those lacking such an orientation. Such organizations also have strong organizational identities and are cohesive. Consequently, morale and retention improves (Shoham et al., 2006). According to Dees and Anderson (2003), "the use of appropriate business tools has the potential to improve the effectiveness of nonprofit organizations. The discipline of identifying customers, defining how you will create value for them, developing strategies that reflect the organization's competencies and the competitive environment in which it operates, and pushing for more careful tracking of impact can have a very healthful impact on organizational performance". A key component of marketing stresses the importance of satisfying consumer needs. Marketing assumes a direct link between client satisfaction and financial return. Firms will allocate resources in a way that increases consumer satisfaction that in turn causes sales to increase and profits to expand (Shapiro, 1974). For the for-profit sector this is an effective means of attracting and using their resources. With the introduction of social enterprise activities in the nonprofit organization, the marketing focus may spill into other parts of the organization.

Operational Performance

Nonprofits often are reputed to be inefficient. While for-profits use quantitative measures such as financial ratios to measure effectiveness, the nonprofit sector does not give equal emphasis to these measures. Outcome measures are sometimes difficult to determine based on the subjective nature of nonprofit's work. For example, in the behavioral healthcare field what defines a successful outcome? Is it recovery from mental illness symptoms, avoiding hospitalization, maintaining independence, treatment adherence? The definition of a successful outcome varies from study to study. Hermann and Renz (1997) found that nonprofits typically construed effectiveness based upon process measures such as the number of individuals served rather than outcome based measures or bottom-line measures. Moss-Kanter and Summers (1987) suggest that nonprofits still have yet to develop meaningful performance measures that accurately reflect operational performance. They find that nonprofits assess their performance based upon poor data or primarily from anecdotal evidence or preexisting beliefs about performance.

Productivity measures are a more concrete means of assessing operational performance. Productivity translates to efficiency. Essentially the ability to generate increased outputs with the same amount of inputs (resources) indicates efficiency (Hermann & Renz, 1999). The ability to operate efficiently will have a positive impact on the organizational bottom line.

For behavioral healthcare providers there is limited consensus on measures of performance. Many providers use the number of direct billable hours as a measure of organizational productivity. The Substance Abuse and Mental Health Services

Administration (SAMHSA) finds that access and retention of clients through engagement to treatment are key areas to measure the performance of the industry. The number of days a client waits until receiving their first service is used to measure access and client engagement (monitoring cancellations and no-shows) is measured by retention. Others measure number of hospitalizations, incarcerations, or levels of homelessness as indicators of treatment success.

Financial Resources

By diversifying revenues, social enterprise organizations reduce the risk of financial vulnerability and increase their ability to serve their constituencies. If government funding shrinks in one year, social enterprise organizations have additional sources of resources to sustain themselves than do traditional nonprofits. Since 1970, funding from private and government sources continued to decline as demand for social services increases. From 1970 to the early 1990's the number of nonprofits nearly doubled in response to the growing demand for social services. These organizations also more than doubled in total revenue from the early 1980's to the late 1990's. This increase in revenue resulted from a growth in commercial activities (Eikenberry & Kluver, 2004). Without this increase in revenue, services could not have expanded to meet the increased demand. Nonprofits who would have relied exclusively on government funding or private funding would have denied service many more individuals than those agencies who employed commercial practices.

It is possible that funding sources may restrict their funding if a nonprofit earns additional revenue. Conversely, funders may also target funding to promote entrepreneurial activity. Budget deficits and tax revolts make a decline in funding

inevitable. Adams and Perlmutter (1991) found that seventy percent of Philadelphia social service agencies engaged in social enterprise reported that earned income ventures provided revenues that supported the agency's existing nonprofit services and fifty eight percent reported that it allowed them to serve larger client bases or offer additional programs. Skeptics sometimes argue that a focus on the bottom line leads to a focus on more lucrative clients. Nonprofits typically offer services to individuals who are physically, socially, or economically disadvantaged. Salamon (1995) finds that with an increase in nonprofit commercial revenues there is a correlating decrease in the amount of services provided to indigent consumers. Adams and Perlmutter (1991) also received anecdotal reports from nonprofit executives that as their organizations engaged in social enterprise activities they focused more on clientele with an ability to pay for their services.

Impact on Donations

One of the main reasons nonprofits pursue earned income activities is to enhance their financial stability. This expanded revenue source may impact the organization's level of donations. Donations comprise twenty percent of total revenue for the nonprofit sector. Oster (1995) notes that donated revenues distinguish the nonprofit sector from the for profit sector. Social enterprise activities may make it difficult to attract and retain donors repelled by the loss of a "charitable" image. Dees and Backman (1995) state nonprofit sector commercialization through social enterprise activities displaces the relationship between traditional donor stakeholders and the nonprofit. It is possible that these nonprofit organizations experience a strain in the relationship with their donors. Weisbrod (1997) notes the decline in government funding leaves many traditional

nonprofits at the mercy of their donors. The demand for and competition for donations has increased in the face of reduced governmental funding. Commercial activities are seen as a reasonable means of filling the gap in organizational revenue.

Donated revenues are garnered through fundraising activities that are prevalent in the nonprofit sector. With the ability to generate commercial revenue, it is possible that nonprofits will reduce the level of fundraising activities they conduct. Generating commercial revenues may be seen as a more efficient means of creating revenue over traditional fundraising. It is estimated that in 1999, the typical nonprofit spent one dollar for every five dollars that were received in fundraising activities (Bradley, Jansen, & Silverman, 2003). This high cost results from efforts to secure many small contributions from a large number of contributors. Nonprofits spend extensive time writing grants to numerous foundations. When these nonprofits are selected as recipients, they spend even more resources meeting reporting requirements of the grant funder. Fee for service activities or earned income activities in contrast do not come with these reporting requirements. Nonprofits perceive a higher return on earned income activities in comparison to fundraising activities. If there is a reduction in donations, it may be entirely by choice and is not reflective of a donor response.

Segal and Weisbrod (1998) find that increases in commercial revenue do not affect the level of donated revenue. Their findings defy the belief that donors dislike commercial activities and nonprofit organizations prefer commercial revenues. Hermann and Rendina (2001) find that the majority of donors have no appreciation for the revenue sources of a nonprofit. Only a small percentage of donors consider commercial activities in their decision to donate and level of donation. These donors generally approve

commercial activities that are aligned with the organizational mission and disapprove those that are not aligned. The researchers noted that their findings are limited due to a small sample size that was not representative of all nonprofits.

Other research has yielded differing findings. The Nonprofit Study of Self-sustainability Team (NESsT) finds that social enterprise has mixed results on the level of donations. Of the 45 organizations, better publicity or an organizational commitment to social enterprise actually raised donations in 19 cases. The remainder reported either no effect or negative effects on donations. These organizations indicated that many perceive that their organizations no longer need donated revenues because of increased commercial revenues (Davis, Etchart, Jara, & Milder, 2005).

Summary of Impact on Donations

The literature yields mixed results in regards to how social enterprise affects the relationship between the nonprofit organization and their traditional funding sources. Oster (1995) notes traditional nonprofits are distinct from other entities in regards to their "parties of influence". It is not always clear whether or not adding social enterprise affects donors, but social enterprise does lessen the influence of donors. Specific foundations that fund programs, local governmental bodies that assign block grants, or highly contributing donors may highly influence nonprofit organizations. With the incorporation of social enterprise activities the level of influence from these parties diminishes slightly or altogether as the availability of other resources expands.

Focus on Financial Performance

I expect that social enterprise organizations will resemble some of the characteristics of the for-profit sector by focusing on bottom line performance. I

anticipate that management review of financial performance will also affect other organizational programs. Skloot (1987) notes that nonprofit organizations that employ social enterprise will improve their management skills because management will spend more time focused on analyzing and reviewing financial performance of the social enterprise and other programs. The Nonprofit Study of Self-sustainability Team (NESsT) study conducted in 1990, found that social enterprise activities increases financial awareness and financial scrutiny of overall program operations. This scrutiny may improve financial results. Sloan (1998) finds that for-profit hospitals' and nonprofit hospitals' total profit margin (total revenue less total expenses as a percentage of total revenue) differ. For-profit hospitals' profit margin is typically two percentage points higher. It is possible that for-profits provide less care to the needy than nonprofits and thereby earn higher profit margins. Sloan (1998) does not indicate any research based findings to support this speculation. Sloan (1998) also indicates that the revenue share of Medicare and Medicaid funding is similar between nonprofit and for-profit hospitals. If the funding is similar but the profit margin is healthier among for-profits there may be a difference in overall expenses. A difference in profit margins may be attributed to an ability to provide services at reduced costs that may be indicative of greater efficiencies among for-profit hospitals.

Measuring Financial Performance

The goals between for-profits and nonprofits are traditionally quite different. For-profits have profit-driven goals while nonprofits have mission-driven goals. Nonprofits still have to focus on their financial resources and how well they utilize these resources. Moss-Kanter and Summers (1987) find many financial measures such as return on assets

or profit reflect market satisfaction in the for-profit sector. Such measures may be only marginally relevant for traditional nonprofits that do not charge fees. Nonprofits that rely solely on grants and donations may increase revenues and profit margins through skilled fundraising or grant writing.

Nonprofits can generate profits, but these profits are not redistributed back to shareholders. These profits can be held as reserves or they can be used to enhance and expand program services. While such measures may be most meaningful in the for-profit sector, they help us determine how likely an organization is to survive and assess efficiency. Speckbacher (2003) notes that profit measures are used in the for-profit sector to measure the efficiency of the production process as it converts inputs to outputs. Within both the for-profit and nonprofit sector there are both inputs and outputs. Typically the for-profit sector relies on prices for both inputs and outputs to assess efficiency. Nonprofits may not have market prices for outputs – they may be set by payor sources or be program funded.

Behavioral Healthcare and Social Enterprise

Social enterprise activities are not new to behavioral healthcare. In the 1970's there was an aggressive move to deinstitutionalize psychiatrically diagnosed consumers from inpatient settings. The San Giovanni Hospital in Italy started a cleaning company that employed consumers to clean public buildings. From 1973 to present day, this organization continued to grow this business and added a hotel, café, restaurant, building renovation company, and transportation company. The entire enterprise generates $14 million annually in revenue (Mandiberg & Warner, 2006). While this may not be typical, the success has created an intense interest in social enterprise activity throughout Europe.

I became interested in social enterprise when I repeatedly encountered individuals who were employed at Pressley Ridge, a large behavioral healthcare provider located in multiple states including Pennsylvania. Pressley Ridge initially developed a software system for internal purposes but then marketed this system and created a separate company that promoted and supported the software. Additionally, Pressley Ridge offers consulting services to other nonprofit providers. I was also struck that many employees of Pressley Ridge appeared to be more professional, more business savvy, more politically astute than employees I typically encounter from other nonprofits.

Social enterprise in behavioral health sometimes is used to create employment for individuals who receive behavioral health services (Mandiberg & Warner, 2006). Many behavioral health organizations started bakeries, lawn care services, thrift shops, furniture manufacturing, copying services, cafes and restaurants. The number of healthcare providers creating these earned income opportunities to diversify their revenue or create employment opportunities for their consumers increased in the last 20 years.

Theoretical Placement for this Research

Social enterprise is a relatively new and intriguing phenomenon. Such organizations vary from their traditional counterparts and blur distinctions between traditional nonprofits and for-profits. These organizations have activities that span across nonprofit offerings to for-profit activities. They combine their focus on mission with a focus on making money. They operate with a dependence on donations, member fees and government funding to earned revenue and return on investment (Dart, 2004).

It is important to recognize that organizations function in both institutional environments that encompass belief systems, regulatory structures, and normative

structures and material-resource environments where the organization attracts and converts resources into outputs (Scott, 2003). These two environments are not mutually exclusive and have an equal impact upon the organization.

Within the material-resource environment, one can apply resource dependence theory that recognizes organizational survival is based upon the successful ability to attract and retain resources. This becomes difficult in an environment where resources are limited or uncertain. Organizations that have limited options for their resources are quite dependent upon those resource providers. A change in the resource environment can present threats and opportunities for an organization. Organizations may respond to these changes through avoidance or adaptation strategies. Those organizations that are able to adapt to the changing environment and alter their resource dependency will enhance the capacity for their organization to survive. Mechanisms of adapting include mergers, joint ventures, and diversification (Pfeffer, J. & Salancik, G., 2003). Within the nonprofit and social enterprise sector this theory is highly applicable. Under the Reagan administration, nonprofits faced a decline in government funding. Abramson, Salamon, and Steuerle (1999) found that excluding Medicare and Medicaid spending, nonprofits received less government funding in 1997 than in 1980. Facing a decline in the amount and sources of revenues, many nonprofits tried to expand their resources and reduce the volatility of their funding streams.

Institutional theory recognizes that organizations are affected by cultural cognitive, regulative, and normative forces. These three forces shape the institutional environment and in turn create procedural and structural guidelines for organizations (Scott, 2003). Institutionalism is the resulting processes, actions, behaviors, etc. that

achieve “rule” like status within an organization or organizational field. These rules may originally have rational origins, as they become increasingly predominant and gain acceptance as a “given” they may no longer be based upon or linked with efficiencies. Instead these rules increase an organization’s claims of legitimacy. This perception of legitimacy allows an organization easier access to resources that are needed to sustain the organization.

Institutionalism arises from external coercive, normative or mimetic pressure from the environment. Isomorphism results when organizations under the same environmental conditions or pressures begin to resemble one another. Isomorphism can occur under coercion when for example legislation mandates that organizations must have sexual harassment policies. Organizations may model and mime processes they perceive to be successful. When a profession sets standards such standards may cause organizations to change to conform with new norms Diversity of resources, the availability of resources, the interdependence on other organizations, the clarity of goals, the amount of networking, and the reliance on qualitative measures of organizational validity may affect the rate of isomorphism (DiMaggio & Powell, 1991).

The reward for responding to these environmental pressures is enhanced organizational legitimacy. Organizations will strive for regulatory, normative, and cognitive legitimacy. Regulatory legitimacy allows the organization to operate free of sanction or penalties. Normative legitimacy gains the approval of professionals and associates within the field that the organization operates. Cognitive legitimacy stresses conformity to “templates or archetypes, which provide the models for structural design, schemas, scripts, which provide menus for routines and actions” (Scott, 2003).

Cognitive legitimacy is evidenced by more organizations adopting similar organizational forms. The growth in commercial revenue in the nonprofit sector alludes to growing cognitive legitimacy of social enterprise.

Maurer (1971) casts legitimacy as something that an organization explicitly seeks to attain to justify its existence. Others believed legitimacy was not overtly sought; instead "cultural conformity" shaped their desire (Pfeffer & Salancik, 1978). Legitimacy is also appreciated from multiple perspectives – that of the organizations seeking legitimacy and that of the environment that seeks to understand the organization. Suchman (1995) notes observers of the organization determine legitimacy through perception or an assumption of the organization. For example, we perceive the local bank to be a legitimate entity for holding our funds and providing loans. However, we generally are not intimately familiar with all aspects of the bank and rely upon this legitimacy to shape our belief. He also notes that legitimacy is socially constructed and represents an alignment between the organization's behaviors and the shared values and beliefs of the external environment.

Legitimacy results in continuity because resources are attracted only to those organizations that are perceived as desirable. Illegitimacy will inevitably be squelched as the organization in essence "starves" due to a lack of resources. Only those organizations perceived as legitimate will survive and ultimately be replicated. Suchman (1995) identifies this as "continuity". He also explains that legitimacy results in "credibility" as well. Credibility is attained as individuals see the organization as more legitimate and therefore more "meaningful, predictable, and trustworthy" (Suchman, 1995).

Suchman (1995) provides three types of legitimacy, pragmatic legitimacy, moral legitimacy, and cognitive legitimacy. Pragmatic legitimacy or exchange legitimacy "rests on the self-interested calculations of an organization's most immediate audience". Dart (2004) summarizes this as "if we get anything out of this then it is legitimate". Pragmatic legitimacy is the most basic level of organizational legitimacy and is based on audience self-interest.

Moral legitimacy is based on whether the organizational activities are perceived as appropriate based upon its alignment with externally defined norms. Unlike pragmatic legitimacy, moral legitimacy does not reflect benefit to the constituents of the organization but merely if the activity is "the right thing".

Cognitive legitimacy refers to a passive support of the organization. Unlike the first two types of legitimacy, this level has no actual evaluation of the organization but is merely a "taken for grantedness" of the organization. With this type of legitimacy any alternative is unthinkable. This type of legitimacy is perceived as the most powerful type of legitimacy.

Suchman (1995) explains that there is an underlying continuum from pragmatic legitimacy to moral legitimacy to cognitive legitimacy in the ability of the organization to influence and in the level of self sustainability. While the organization can manipulate pragmatic and moral legitimacy through public discourse or actions, cognitive legitimacy is not explicitly defined and cannot be manipulated.

One of the strategies for gaining legitimacy is to position the organization within an existing legitimate structure. Social enterprise can fall under the nonprofit or for-profit umbrella – both highly legitimate structures. Appealing to organizational

constituents that social enterprise will bring additional revenues towards fulfilling the mission has gained pragmatic legitimacy. Additionally these social enterprise organizations can rely upon their established credentials through previous activities as they embark on this new activity – this lends credence to the new activity. Social enterprise has gained pragmatic legitimacy from external sources such as government bodies, foundations, and other funders who perceive social enterprise as a means of reducing their need to fund the organization. Clearly these funding sources benefit from the perceived benefit social enterprise brings to the entity. Conversely, the organization receives benefit from this endeavor as it may open doors for new funding sources that are eager to fund something innovative and potentially self sustaining.

The concept of moral legitimacy may be most applicable to the case of social enterprise. Clearly the idea of the nonprofit sustaining itself is readily embraced and perceived as the "right thing". External parties have lauded the thought that revenues can be derived from earned income activities to provide financial stability and permit the mission to be carried out or even expanded. Additionally, many individuals and organizations approve of business tactics in non-commercial endeavors. Many politicians often embrace the business model to make the public sector efficient. Social enterprise with its focus on commercial activity is strongly aligned with the morally legitimized "pro business ideology" (Dart, 2004).

Summary of Theory

In reviewing both resource dependency and institutional theory, I believe we can begin to understand the phenomenon of social enterprise. Nonprofit organizations employ social enterprise activities to diversify sources of revenue in response to the decline in

resources. I believe that these nonprofit organizations selected for-profit-like endeavors because they perceived for-profits as having significant legitimacy and success. Social enterprise has gained a foothold because of an increased emphasis on "pro-business ideology" within the environment at large (Dart, 2004).

These nonprofit organizations mirrored for-profit organizations and used business tactics to enhance legitimacy. Once these social enterprise organizations were created, there were increased mimetic pressures to act and look like a for-profit business. Additionally, pressure from funders perpetuated the use of social enterprise. These social enterprise organizations are responding to different environmental pressures than their traditional nonprofit counterparts and therefore will ultimately look and operate differently.

Institutionalism does not directly achieve efficiency or effectiveness but merely legitimacy. Organizations that seek legitimacy are aware of the environment and cues that the environment generates to define what is socially acceptable and expected of the organization. When these environmental cues shift or what is expected begins to change newly legitimated organizations are achieved. Social enterprise is a newly legitimated organization that has responded to shifting environmental expectations and cues.

Literature Review Summary

This chapter provided a definition of the nonprofit organization as well as defined social enterprise. Environmental factors that spurred social enterprise were presented. Additionally the relationship of social enterprise to organizational form, human resources, market orientation, operational performance, financial resources, donations, and focus on financial performance was explored. Resource dependency theory and

institutional theory both provide useful concepts to help us understand how social enterprise affects organizations.

The literature review provides evidence that there are identifiable differences between for-profit and nonprofits. The literature review demonstrates that traditional nonprofits were formed from unique needs and have unique characteristics. Many researchers have defined social enterprise as creating a new hybrid organization that is located in the middle of the for-profit and nonprofit continuum. By placing these organizations as separate from traditional nonprofits many questions arise about what differences arise to support defining social enterprise organizations as hybrids. In referencing the research that has been conducted on for-profit and nonprofit variances, we can begin to form research questions to explore variances between social enterprise nonprofits and traditional nonprofits. In particular, based upon my background, I am interested in identifying differences in financial performance.

Research Question and Hypotheses

The purpose of this research is to determine if there are differences in the financial performance between those traditional nonprofit behavioral healthcare providers and those who engage in social enterprise.

As stated previously, my general hypothesis is:

H1: Social enterprise will have a positive effect on the financial performance of a nonprofit behavioral healthcare provider.

This primary hypothesis will be analyzed through eight additional hypotheses that explore the financial metrics: current ratio, net margin percentage, net days in accounts receivable, administrative overhead percentage, debt ratio, revenue per full time

equivalent employee, and days cash on hand. In each of these additional hypotheses I purport that those organizations engaging in social enterprise will have more favorable financial measures than their traditional nonprofit counterparts.

CHAPTER III

METHODOLOGY

Introduction

This chapter details my research methods that were employed in exploring my hypothesis. I include information regarding my methodology, research units, survey instrument, variables that were included and their definition. I also provide additional information on the subcategories of my general hypothesis.

Research Methodology

This study uses quantitative research methods to ascertain if financial performance varies between traditional nonprofit behavioral healthcare providers and those who engage in social enterprise. I used a cross-sectional design to ascertain the differences in financial performance between those organizations which use social enterprise and those organizations which do not use social enterprise. The dependent variables in this study are financial performance metrics and the independent variable is the use of social enterprise.

For my research I defined social enterprise as any earned income activity that is outside the scope of simply charging a fee for behavioral health services. Because I used a survey distributed to a large number of organizations at one time, a cross-sectional design was the logical choice for the research design (Mertens, 2005).

I employed several variables within this research study. The independent variable was the use of social enterprise. I used a dummy variable to indicate the presence or absence of social enterprise activities. The dependent variables included current ratio, net profit margin percentage, net days in accounts receivable, debt ratio, revenue per full time

equivalent, administrative overheard percentage, and days cash on hand. Specific operationalization of these variables will be discussed later in this chapter.

Research Units

The population for this research study is the nonprofit outpatient behavioral health providers in Pennsylvania. Guidestar, which collects all Internal Revenue Service Form 990 filed by nonprofits with revenues over $25,000, uses the National Taxonomy of Exempt Entities (NTEE) developed by the Center for Charitable Statistics to identify subclasses of the nonprofit sector. In order to most appropriately reach my targeted audience, I have selected those organizations who reported themselves as either an NTEE classified Community Mental Health Center, a Drug and Alcohol Treatment Center, or Other under the Mental Health category. An external entity does not determine the classification; instead the organization selects it in their 990 filing.

I did not sample but used the entire population to ensure an appropriate response to my surveys. Within the state of Pennsylvania, Guidestar identifies 229 nonprofit outpatient behavioral health providers listed with the Internal Revenue Service. My research units were all nonprofit behavioral healthcare providers within Pennsylvania.

Guidestar is a centralized source of information for nonprofits. This information website gathers all 990 filings for nonprofits within the United States and makes available digitized versions of their filings. All nonprofits with gross revenues in excess of $25,000 must file a 990 Internal Revenue Service filing annually. This filing details financial information for the nonprofit as well as board membership, political activities, and basic operational data.

Data Collection

I utilized both a survey and existing data. This survey was patterned after a survey instrument the Pennsylvania Community Providers Association used in a benchmarking process Behavioral Pathway Systems conducted.

The Pennsylvania Community Providers Association consists of community organizations that serve the mentally ill, developmentally disabled and those with substance abuse issues. Behavioral Pathway Systems is a consulting group that specializes in benchmarking services and collecting data. A steering committee of the Pennsylvania Community Providers Association developed the survey. It has been beta tested and is modified each year based upon participant feedback. The survey is in its fifth year of use. This benchmarking project collects measures related to financial performance, operational performance, and clinical performance. These measures were selected based upon input from members of the Pennsylvania Community Providers Association as well as the Office of Mental Health and Substance Abuse. From the list of measures used in the benchmarking study, I used the following financial measures: current ratio, net profit margin percentage, net days in accounts receivable, administrative overhead as a percentage of total expenses, and days cash on hand. In addition to these measures I added debt ratio and revenue per full time equivalent staff. I eliminated questions that were developed for inpatient or residential providers and added questions necessary to gather data related to social enterprise activities. Because this is a modified survey instrument, I piloted the instrument to a small group of local providers within Western Pennsylvania. The survey is shown in its entirely in Appendix A.

The survey was mailed to the Chief Financial Officer of all identified organizations. The survey permitted organizations to either complete a hard copy of the survey or complete the survey online.

In order to garner maximum response, I also employed the Pennsylvania Community Provider's Association to promote my survey. They shared my endeavors on their website as well as in the monthly publication. The surveys were mailed to 269 organizations. Sixty nine were returned yielding a 30% response rate.

In addition to the survey, I gathered the financial data from the Internal Revenue Service 990 filings available through Guidestar. All data were derived from the 2008 filing period.

Modification of Research

The original research proposal included both financial performance as well as operational performance metrics. The survey included several operational measures such as productivity metrics and access metrics. While this data would have been highly interesting to analyze, gathering sufficient response to this portion of the survey was futile. The overwhelming majority of organizations ended the survey at this final section and returned their surveys with this section blank. Less than ten organizations attempted to compile this data. I could assume that many organizations do not have this information readily accessible and are not using these types of benchmarks routinely within their organization. It is also possible that the Chief Financial Officer may have been comfortable with submitting financial data but may not have been the chief source of this type of operational data. However, given the limited data, the pursuit of

researching operational performance in conjunction with financial performance had to be abandoned.

Additionally, I had hoped to gather additional information on those organizations that were engaging in social enterprise. I had hoped to gather details on revenue, expenses, staffing, tenure, and structure of the social enterprise activity. However, the data on social enterprise revenue and expense was either incomplete or suspect. With so few organizations indicating they engaged in social enterprise I had minimal data to begin to analyze. I chose to proceed by simply using either the presence or absence of social enterprise as my independent variable.

Variables and Definitions

The survey was designed with closed format questions that yielded either normative or interval data. The design of the survey yielded pre-coded results that were then entered into a spreadsheet. My variables included:

Organizational identifier is a unique numerical identifier.

Zip Code refers to the zip code of the organization's main location.

Urban/Rural designation is a self reported geographic determination of service location indicated as urban or rural. This was represented as a dummy variable – urban dummy where a 1 indicated a predominantly urban designation and a 0 indicated a predominantly rural location.

Department of Public Welfare (DPW) Region represents the DPW licensing region for the organization which is indicated by a dummy variable as either Western (1) or non Western Region (0).

Accreditation Status is a dummy variable with 0 indicating no accreditation or a 1 indicating JCAHO, CARF, or AABH accreditation.

Econdisadvantage% refers to the percentage of individuals at or below federal poverty level within the school district the organization is headquartered.

Total Number of Programs represents the total number of service programs.

Years in Business is the number of years from the organization's founding to 2009.

Number of Full Time Equivalent Employees refers to the total number of paid hours divided by the number of hours within the pay period. For example, 100 hours were paid divided by a 40 hour work week – this equates to 2.5 full time equivalents.

CEO Tenure is the length of tenure within the position of CEO (this does not include previous position tenure).

CEO Background refers to the educational background of CEO. This was represented by a dummy variable – CEOBusiness where a 1 indicated a CEO with a business degree and a 0 indicated a CEO with a non business degree (generally a social degree or educational degree).

Total Revenue refers to the total revenue reported on the year end 2008 financial statements.

Current Ratio is the current assets (cash, cash equivalents, marketable securities and accounts receivable) divided by current liabilities (accounts payable and debt that will be paid within one year).

Net Margin Percentage is the net profit divided by total revenues for year end 2008.

Net Days in Accounts Receivable is the accounts receivable balance as of year end 2008 divided by total revenues for year end 2008 multiplied by 365 days.

Administrative Overhead Percentage is the administrative related expenses such as salaries, benefits, and overhead for indirect staff that do not provide direct services divided by total expenses reported at year end 2008.

Debt Ratio is the total liabilities divided by total assets for year end 2008.

Days Cash on Hand is the total cash divided by the average daily operational expense for year end 2008.

Social Enterprise refers to a dummy variable of either yes (coded as 1) or no (coded as 0) with yes indicating the organizational use of social enterprise activities.

Independent Variable

My independent variable for all models was the use of social enterprise. As stated, I used a dummy variable to indicate either the presence (1) or absence (0) of the organization's use of social enterprise.

Dependent Variables

My dependent variables were various financial ratios. I chose current ratio, net profit margin percentage, net days in accounts receivable, administrative overhead percentage, debt ratio, revenue per full time equivalent employee, and days cash on hand as my dependent variables.

In selecting my dependent variables I strove to include variables that would measure various aspects of financial performance. These financial ratios can be utilized to ascertain an organization's efficiency and effectiveness. Efficiency is the amount of output derived from a unit of input while effectiveness is the ability to attract and exploit resources from the environment (Davis & Pett, 2002).

Financial ratios can be categorized into four categories: liquidity ratios, profitability ratios, debt ratios, and activity ratios (Brigham & Gapenski, 1988). Financial ratios explain a relationship of information from a company's income statement or balance sheet. Financial ratios allow for cross organizational comparison as it controls for organizational size (Chabotar, 1989).

Liquidity Ratios

Liquidity ratios measure the ability of an organization to meet its short term obligations (Oster, 1995). Nonprofits typically are quite concerned with liquidity and historically are quite concerned with cash flow (Chabotar, 1989). Liquidity indicates the availability of cash or cash equivalent assets that are at the disposal of the organization. I have selected the current ratio as an appropriate measure of liquidity. The current ratio is one of the most widely used ratios of liquidity within the nonprofit sector and is used as an indicator of financial strength (Chabotar, 1989). The current ratio is computed by taking current assets divided by current liabilities. Current assets typically include cash, marketable securities, accounts receivable and inventory. Essentially these assets can be converted into cash within a one year time frame. Typically, there are not inventories for the behavioral healthcare field. Current liabilities include accounts payable, short term debt payments, current portion of long term debt payments and accrued expenses (Brigham & Gapenski, 1988). Again these are liabilities that are anticipated to be paid within one year.

When current liabilities increase beyond current assets an organization will have a lower current ratio. A low current ratio can be indicative of financial difficulty and delayed ability to pay organizational obligations. Typically for nonprofits a ratio of 2 or

higher is desirable (Chabotar, 1989). Essentially there are two dollars in assets for every dollar in liabilities. Because some assets may not be immediately converted to cash (such as receivables) this 2.0 ratio permits some cushion.

Profitability Ratios

Profitability ratios are key indicators of organizational efficiency. Profitability reflects organizational policies and decision making (Brigham & Gapenski, 1988). Solid financial management is reflected in an ability to efficiently and effectively utilize one's assets. The ability to maximize revenues and control expenses results in enhanced profits. Profitability measures reflect the combination of liquidity, activity management and debt management (Brigham & Gapenski, 1988). Typically net margin is the predominant metric utilized to determine organizational efficiency (Davis & Pett, 2002). This ratio is computed by dividing the net profit by the total revenue. This ratio indicates an organization's ability to convert its assets into profit (Oster, 1995). Net total revenue is derived by computing total revenue less total expenditures. This numerator is then divided by the total revenues. A negative ratio indicates the organization has incurred a deficit. As noted previously, profits and net profit margins are highly regarded in a for-profit setting. In nonprofits, the drive to increase profits is supplanted by the drive to fulfill the organizational mission. While the debate around nonprofits seeking profits is prevalent in literature the same debate is for the most part absent in the for-profit sector. For nonprofits it is important to cover expenses and at minimum achieve a break even financial position however maximizing profits is not the primary goal of the organization. Any revenues in excess of expenditures are not distributed to public shareholders. If

there are “profits” they can be re-invested in the organization to enhance programs or develop new programs or to establish cash reserves.

Additionally, I have employed total revenue divided by full time equivalent employees as a measure of efficiency. Essentially this ratio indicates the revenue generated per employee. A higher ratio indicates greater efficiency. Aside from net margin, this metric may be best suited to indicate efficiency within the nonprofit sector where assets may not be comparable across organizations. Inherently, use of an asset number is heavily dependent on accounting practices and not correlated to performance. This ratio is widely used across various sectors and is a common measure of efficiency.

I also included a review of the percentage of administrative overhead as a profitability ratio. This ratio takes all administrative overhead divided by total expenses. Administrative overhead is typically defined as non-direct care staff salaries, benefits and related costs, technology costs, office supplies, and equipment lease expense. In general it is any cost that is not specifically tied to the direct provision of services. Administrative overhead percentage is a metric used throughout the nonprofit sector. External parties typically use this percentage to ascertain efficiency. Those organizations with less administrative overhead are perceived as being more efficient.

Debt Ratio

Debt ratio indicates what portion of debt an organization has in proportion to its assets. This ratio indicates the organization’s ability to generate new funds from the capital market (Oster, 1995). Organizations with high debt ratios have fully leveraged those assets they have and typically have no further capacity to borrow. If we reflect on our definition of effectiveness which is the ability to exploit and attract resources, debt

ratio provides a financial indication of organizational effectiveness. Debt ratio is calculated by dividing total debt by total assets.

Activity Ratio

Activity ratios measure the organizations ability to convert assets into cash (Oster, 1995). There are several metrics that fall under this category I have chosen net days in accounts receivable as it is commonly used within the behavioral healthcare field. Net days in accounts receivable indicate how long an organization's cash is tied up in accounts receivable. This metric is computed by taking the accounts receivable balance as the numerator and the denominator is total annual revenues divided by 360 days. Within the state of Pennsylvania, the Medicaid managed care organizations, Medicare, and most commercial payers typically pay receivables within forty-five day. An organization that has days in receivable that is significantly larger than forty-five days may indicate an organization's inability to effectively bill and collect upon their services.

Control Variables

Naturally, I had many control variables to minimize the likelihood of spurious results. These control variables included tenure of the CEO, educational background of the CEO, total programs, total revenues, number of full time equivalent employees, age of the organization, accreditation status, Department of Public Welfare region, geographic region type, and percentage of economic poverty within the geographic region. I chose these control variables because I thought they might have an impact upon the financial performance of the organization. In the subsequent section I will indicate why I initially chose these variables.

CEO Tenure

There has been extensive research on how the CEO impacts the organization via retention, performance, culture, and numerous other variables. Miller (1991) found an inverse relationship between CEO tenure and financial performance. Miller (1991) cited loss of touch with the environment and a desire to preserve reputation and avoid risk as attributing to reduced financial performance. It is also possible that a CEO with minimal tenure might be indicative of an organization that has turned over this position due to poor performance. Alternatively, a new CEO may be eager to produce financial results that will be appreciated by the board of directors in order establish credibility. For these reasons I included CEO tenure as a control variable for this research study.

CEO Education

Educational background of the CEO, particularly a business background, could directly impact financial performance. Drucker (1990) finds that the role of the CEO is central to setting the course of actions of the organization in response to a changing environment. The CEO must be able to gather and act upon information. Those CEOs with a business background may have an advantage in processing and acting upon financial information. A business background could result in a CEO who places more emphasis and attention to financial performance.

Total Programs

Program diversity is akin to revenue diversification. Within the behavioral health industry there are varying types of programs such as outpatient counseling, outreach, crisis services, case management, and psychiatric services. Each program typically receives different rates of reimbursement and may even have different payment

methodologies such as case rate, fee for service, per diem, or program allocation. Additionally, each program may face varying degrees of scrutiny from payers in an effort to control or maintain costs. Having greater program diversification may enable an organization to minimize its financial risk and give greater financial stability (Brealey & Myers, 1991).

Conversely, an organization may have so many programs that it leads to mission drift or an inability to gain efficiency by concentrating its efforts. I am aware of an organization that had ventured into every conceivable type of service in hopes of enhancing their bottom line. However, they had so many small programs operating in multiple locations and could not gain control of their staff activities, effectively monitor expenses, ensure all activities were being billed, and have effective supervision. Their managers scrambled in many directions and the organization essentially lost its focus. For these reasons I chose to include total programs as a control variable for this research.

Total Full Time Equivalent Employees

I captured this variable as an additional measure of organizational size. This is a commonly used benchmark among organizations to gauge size. Naturally the human service field and in particular behavioral healthcare field is highly labor intensive. Employee salaries and benefits is our organization's primary expense category. While total assets is sometimes used to illustrate organization size, within the behavioral health industry total full time equivalent employees is a commonly used measurement. It is generally thought that larger organizations achieve economies of scale. For a behavioral healthcare provider a psychiatrist is a major expense. Typically outpatient facilities licensed by the state must have sixteen hours weekly of psychiatric time. For a small

organization, this becomes a significant expense to absorb. For a larger organization, this expense can more easily be absorbed across multiple programs.

Larger organizations also have more power to negotiate various expenses. For example, the behavioral healthcare field is highly labor reliant. Staff related salaries and wages and benefit costs typically comprise the majority of an organization's expense. Our organization recently experienced a significant increase to our health insurance premiums. When determining what alternatives we had to mitigate the increase we learned that we were not large enough to ideally negotiate with the insurance company. We also learned that if we were an organization with over 200 employees we would be able to contemplate self funding our health insurance. Larger organizations have more bargaining power and alternatives that may not exist for smaller organizations.

Larger behavioral healthcare providers also have better negotiating abilities for the revenue side of their financial statements. Typically, providers secure contracts with insurance companies to offer their services. Larger providers who cover perhaps a larger geographic region have far more ability to negotiate rates for these services than smaller providers. These larger providers cover more "lives" than smaller providers which is important for insurance companies. Many times there are not alternate providers within the area to assume these "lives" if the contract were to cease. I am aware of a large provider in Erie who capitalized upon this very concept in their negotiations with the managed care entity that had newly won the state contract for their region. The managed care insurance company offered low rates assuming the provider would take them. However, the provider requested higher rates. The negotiations came to a stand still and the provider threatened to close their doors. This was of course a very risky and bold

move. However, the provider knew that their closure would create chaos and the state would not view this favorably. The managed care insurance company ultimately agreed to the rates the provider sought. Smaller organizations would not have achieved this type of response.

Organizational Age

Age of the organization could have both a positive or negative effect on financial performance. One could theorize that older organizations are more bureaucratic which lessens innovation and risk. Conversely, one could also theorize that older organizations have more experience and proven ability to adapt to their environment. Glisson and Martin (1980) conducted research on human service agencies by size and age of the organization and found these variables predicted organizational performance.

Accreditation

Accreditation typically requires organizations to meet specific quality standards and allows organizations to benchmark their performance against their peers. This activity could result in an organization that has operational efficiencies or a reputation for quality that attracts a larger portion of the market that contribute to a healthier bottom line. Additionally these organizations may have access to resources and discounts from vendors that are not available to non-accredited providers. Accreditation has been found to be negatively correlated with an increased risk of hospital closure (Muller, Rich, Rydman & Whiteis, 1989). The authors contended that accreditation aligns the organization's focus and could result in attracting better staff and retaining these staff. Indeed accreditation is the act of gaining recognition as providing high quality care. Accrediting bodies set forth specific standards which are measured and monitored. This

may garner enhanced organizational legitimacy and allow an organization to attract more resources from the environment versus those who are not accredited. Conversely, accreditation can be an expensive endeavor and require significant organizational resources that could adversely affect the bottom line.

Licensing Region

Within the state of Pennsylvania there are four Department of Welfare licensing regions. Each region has staff responsible for annual licensing of those providers within their jurisdiction. These staff follows applicable Department of Public Welfare (or Department of Health regulations for drug and alcohol services) regulations which can be subjective in their interpretation. Regulators who are more restrictive in their interpretation can place onerous demands upon the organization that could have associated expenses or present barriers to generating revenue. For example, one region may require entirely separate electronic medical systems for drug and alcohol services versus mental health services while another region may permit them to be housed in the same system provided access is restricted. Separate systems would mean additional costs to an organization versus simply having stringent access controls.

Geographic Region Type

Geographic region type (urban, rural, and mixed) was also selected as a control variable. Barkoulas, Rice & Younis (2001) found that rural hospitals were typically smaller in size than urban hospitals and consequently had reduced economies of scale. With reduced economies of scale, rural hospitals had an inability to spread fixed overhead costs versus urban hospitals. Barkoulas, Rice & Younis (2001) also found a difference in the mix revenue (Medicare versus Medicaid) for urban versus rural

hospitals. Urban areas had a higher percentage of Medicaid patients and could capture additional government dollars that were allocated based upon Medicaid utilization. Overall rural hospitals were less profitable than their urban counterparts. While this research was focused on hospitals it is conceivable that similar findings could occur within the behavioral healthcare field.

Economically Disadvantaged Percentage for Region

Behavioral health providers identify commercial insured clients as being more financially lucrative than clients in which the state or county pays for their services. Typically individuals with commercial insurance are employed and have higher income levels. Individuals with lower income levels or who are unemployed are eligible for medical assistance or government provided insurance. Typically reimbursement rates are higher for commercial insurers than medical assistance plans. Additionally, those individuals who have medical assistance may be eligible due to a chronic mental illness that would require more intensive treatment that can be more expensive to provide. Within the behavioral healthcare field it is a common complaint that for-profit providers will "cherry pick" clients with commercial insurance because they tend to require less intensive and less expensive treatment. Providers who have a higher percentage of commercial clients may have a financial advantage over those who the state and local government predominantly reimburse. For this reason, I included the percentage of economically disadvantaged as a control variable.

Univariate Analysis

The first stage of the analysis involved reviewing each variable within the data set to ensure it was normally distributed. SPSS software was used for all data analysis.

Descriptive statistics were compiled for each variable along with a histogram to visually inspect the distribution of the variable. Skew and kurtosis were reviewed for each variable. Several variables had to be normalized using the natural log. These included Full Time Equivalent Employees, CEO Tenure, Current Ratio, and Administrative Overhead Percentage. Additionally, the variable Years in Business was normalized using the square root.

Bivariate Correlations

Pearson product-moment correlation statistics were run for all variables. This analysis revealed a high correlation between Full Time Equivalent Employees and Total Programs. The correlation between Full Time Equivalent Employees and Total Programs was significant, $r(67) = .65$, $p < .001$. Additionally, there was an exceptionally high significant correlation between Full Time Equivalent Employees and Total Revenue, $r(67) = .90$, $p < .001$. These correlations are not surprising. The provision of behavioral health services is highly labor intensive. Those organizations with more programs would require more staff to deliver the program services. Also, organizations with more programs would most likely generate more revenue from an expanded program offering. Because of this correlation, I decided to exclude Total Revenue and Total Programs and instead use Full Time Equivalent Employees as my control variable to most appropriately gauge organizational size. My intent is to avoid issues of multicollinearity. Given that I have a small number of cases, I am sensitive to this issue. The effect of multicollinearity is an inability to precisely ascertain the effect a specific predictor variable has on the dependent variable (Hamilton, 1992). By removing those variables that have high

correlations with other control variables, I reduced the potential for multicollinearity within my data analysis.

Modification of Control Variables

During the course of the data analysis it became apparent that my original models were complex and many of the control variables displayed weak associations with the dependent variable, indicating they were not relevant. In particular, CEO Tenure, Accreditation Status, and Percentage of Economically Disadvantaged consistently had weak effects and did not contribute to the variance in my dependent variables. Additionally, in numerous models there was significant variation between the R^2 and the adjusted R^2 values which also indicated potential multicollinearity or the presence of nonsignificant predictors. As a result, I chose to revise the control variables I would ultimately use in my models. In these revised models I redefined my geographic region type as either predominantly urban or predominantly rural. I then only used one dummy variable (urban) within the model. Additionally, I reconsidered the three dummy variables that related to the background of the CEO (business, social, or other) and collapsed these into one dummy variable indicating either a business degree or not (CEOBusiness). I then chose to retain total full time equivalent employees and years in business as my additional variables given their higher tolerance statistics. I used only these control variables in my analysis of each hypothesis.

Data Analysis

As mentioned all analyses were conducted using SPSS software. Upon completion of my review of the descriptive results as well as univariate analysis, I employed multivariate ordinary least squares (OLS) as well as ordinal regression to

assess any relationship between the dependent and independent variables. In order to fully consider a relationship between my independent and dependent variables I used ordinal regression in certain models where further analysis was warranted. Ordinal regression allowed me to reduce the dependent variable to categories and minimize any issues with outliers.

As is typical for research conducted in the social sciences, I used a .05 one-tailed level of significance unless otherwise indicated.

Summary of Methods Chapter

This quantitative methods research used both a survey and existing data to conduct analyses to test my hypotheses. My research seeks to determine if there are differences in the financial performance between those traditional nonprofit behavioral healthcare providers and those who engage in social enterprise.

CHAPTER IV

FINDINGS

Introduction

This chapter reports on the findings from the analyses of each specific hypothesis. Descriptive statistics are presented from the survey results. Next each hypothesis is explored and the results of the statistical models are detailed.

Descriptive Statistics

There were sixty nine organizations that responded to the survey. Sixty-one percent of the organizations were located in areas that had at least a third of the population who were economically disadvantaged. Twenty seven percent served predominantly urban areas and the remainder served predominantly rural areas. Fifty-three percent indicated the western region of the Department of Public Welfare (DPW) licensed them; twenty-four indicated the south eastern region of DPW licensed them; seventeen percent responded that the northeastern region of DPW licensed them and the remaining six percent were licensed by the central region of DPW.

The tenure of these organizations ranged from a mere four years as a provider to one hundred and nine years. The median tenure of the organizations was thirty-nine years. Eighty-one percent of the organizations have an organizational tenure of twenty years or more. This is not entirely surprising as the costs of starting many behavioral healthcare services are quite prohibitive especially if psychiatric time is required.

Sixty percent of the organization's chief executive officers had a background in either psychology or social work, twenty-five percent had a business background and the

remaining fifteen percent had some other type of educational background – typically education.

The organizations had an average of five programs offered. The range was from only one program to a maximum of thirteen programs. Of the organizations, thirty-six offered drug and alcohol services. Fifty offered outpatient counseling services. Twenty-four offered crisis services. Forty-two offered psychiatric services. Fifty-three offered some type of outreach service such as Family Based, Case Management or Behavioral Health Rehabilitative Services.

There are various methods of measuring organizational size. One can use the number of full time equivalent staff, the total revenues or the total assets to define the size of an organization. The data reveals that the number of full time equivalent employees ranges from a mere two staff to a maximum of eleven thousand five hundred staff. The median number of full time equivalent staff is one hundred and fifty.

Total revenues for the organizations surveyed ranged from thirty-eight thousand dollars up to just under three hundred eighty five million dollars. The median of total revenues for the group was roughly ten million dollars.

Total assets of organizations surveyed ranged from nine thousand dollars to three hundred thirty-two million. The median assets for this group was five million four hundred thousand. While many industries use assets as a means of determining organizational size, I rely more on total full time equivalent employees. It is not uncommon within the behavioral healthcare industry to have very few assets other than cash and accounts receivable. It becomes challenging to measure an organization that has no fixed assets, perhaps a half million dollars cash and accounts receivable of three

hundred thousand versus an organization with the same amount of cash and accounts receivable but also has fixed assets of two to three million dollars. One would surmise the second organization is larger based upon total assets but both could be generating the same amount of revenue. Therefore, I believe the use of full time equivalents or total revenues are better measures of organizational size.

Twenty-one of the organizations indicated that they were accredited. Of these organizations ten were accredited through the Joint Commission on Accreditation of Hospital Organizations (JCAHO). Four organizations were accredited through the Council on Accreditation and the remaining organizations were accredited through the Commission on Accreditation of Rehabilitation Facilities.

Of the total sixty-nine organizations twenty five percent indicated that they engaged in social enterprise activities. Seven of the seventeen social enterprise organizations had consulting or administrative services. This was the most popular category of social enterprise followed by property management services of which three entities responded. The remaining social enterprise organizations engaged in catering or operating a restaurant (2), landscaping services (1), farming (1), online retail (1), manufacturing (1), and printing and copying services (1). The investment of employees to social enterprise varied with the smallest having only one full time equivalent employee to an organization with 100 full time equivalent employees devoted to the social enterprise activity. The median number of full time equivalent employees for this subset of the population was two full time equivalent staff.

These social enterprise organizations ranged in tenure for social enterprise activities from one year to thirty years. These organizations have been engaged in social enterprise ventures for a median nine years.

One would surmise that those entities with a CEO who had a business background would dominate the organizations engaged in social enterprise; however, this was not the case. Forty-seven percent of the organizations with social enterprise have CEOs with a social sciences or psychology education, twenty-nine percent had a business background and twenty-four percent had some other type of educational background.

Perhaps one of the most surprising findings from a review of the data is that forty percent of this subgroup either broke even or had losses on their social enterprise ventures. The greatest loss was one hundred and twenty-five thousand dollars and the median loss of those who were not in the black was twelve thousand dollars. Of the remaining nine social enterprise organizations who were making profits on their ventures, the median profit was forty-three thousand dollars.

Additional descriptive statistics are provided in Table 1:

Table 1

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error
Total Programs	69	1.00	13.00	5.2029	2.89817	.348	.289
Sqrt of Years in Business	69	2.00	10.44	6.0956	1.79336	-.221	.289
Ln of FTE's	69	.69	9.35	4.7893	1.69769	-.311	.289
Ln of CEO Tenure	69	.00	3.69	2.2923	.98724	-.629	.289
Tenure of Social Enterprise	17	1	30	8.35	6.919	1.963	.550
Social Enterprise FTE's	17	.1	100.0	12.624	25.1343	3.015	.550
Ln of Current Ratio	69	-2.47	4.46	1.2897	1.16611	.408	.289
Net Profit Margin	69	-4570809	7756000	475514.25	1239417.584	2.167	.289
Ln of Days Cash on Hand	69	.6155120	321.53003	58.097059788	54.7446071674	2.091	.289
Ln of Revenue/FTE	69	9.06	13.91	11.0336	.71502	1.367	.289
Ln of Admin Overhead	69	.37	4.35	2.4974	.57901	-.435	.289
Ln of Debt Ratio	69	-5.33	.95	-1.2131	1.18436	-1.164	.289
Ln of Net Days in A/R	69	.00	7.63	3.9540	1.41390	-1.031	.289
Ln of Total Revenue	69	10.56	19.77	15.8228	1.65089	-.728	.289
Ln of Total Assets	69	9.15	19.62	15.1698	1.77517	-.721	.289

Liquidity Models

I chose two metrics to analyze liquidity. I used current ratio and days cash on hand. I chose to use two metrics to ensure I was fully reviewing liquidity for the behavioral healthcare industry. While current ratio is perhaps the most common metric of liquidity, I felt that many organizations may not be as appropriately measured in current assets and current liabilities. I chose days cash on hand as a second model to explore knowing that this metric could most easily be applied to all organizations within my research study.

Current Ratio

My hypotheses regarding how social enterprise will affect liquidity ratios is:

H1a: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher current ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise.

A multivariate linear regression model was conducted to test my hypothesis. Current ratio was entered as the dependent variable. All control variables were entered into block one and the independent dummy variable of social enterprise was entered into a separate block. Because the Western Region was the predominant group, I used the Western Region dummy variable throughout my models.

Casewise diagnostics did not detect dependent variable outliers outside three standard deviations. Therefore, I included all sixty nine cases within the model. The R^2 values were summarized in Table 2.

Table 2

Current Ratio Model Summary for Western Region N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.482[a]	.232	.171	1.06160	.232	3.809	5	63	.004
2	.483[b]	.233	.159	1.06962	.001	.059	1	62	.809

When only the control variables are entered, the model explains 23.2% of the variance in current ratio. With the addition of social enterprise, the model two explains 23.3% of the variance within current ratio. The change in R^2 indicates the overall variance the independent variable contributes to the model – essentially the independent variable social enterprise explains .001% of the variance within the model. The adjusted R^2, which accommodates for the fact that sampling is used to make general inferences to the population, is less than the original R^2 with a value of 17.1% for model one and 15.9% for model two. Model two is statistically significant, $F(6,62) = 3.137$, $p = .009$.

In reviewing the coefficients, only FTE's is statistically significant ($\beta = -.335$) and is detailed in Table 3.

Table 3

Variable Contributions and Correlations for Social Enterprise and Current Ratio for Western Region N = 69

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics
		B	Std. Error	Beta	T	Sig.	VIF
1	(Constant)	2.131	.501		4.248	.000	
	Urban	.517	.301	.199	1.717	.091	1.108
	Western Region	.439	.267	.188	1.645	.105	1.077
	CEO Business	-.247	.305	-.092	-.808	.422	1.058
	Years in Business	.068	.082	.104	.823	.414	1.305
	FTE's	-.329	.087	-.479	-3.797	.000	1.305
2	(Constant)	2.143	.508		4.220	.000	
	Urban	.502	.309	.194	1.624	.109	1.152
	Western Region	.432	.270	.185	1.598	.115	1.089
	CEO Business	-.248	.307	-.092	-.806	.423	1.058
	Years in Business	.068	.083	.105	.825	.413	1.307
	FTE's	-.335	.090	-.487	-3.704	.000	1.397
	Social Enterprise	.079	.327	.029	.243	.809	1.147

In summary those organizations that have higher FTE's will have a lower current ratio by .335. One explanation of this finding could be increased expenses associated with more employees. While expenses are not a direct component of current ratio they do deplete cash reserves and could factor into a lower numerator in the current ratio.

Because the univariate analysis of the dependent variable current ratio was not normally distributed I had to transform the variable using the natural log. However, the transformed variable of current ratio still had two outliers present. Given the small sample size and the continued presence of these outliers, I decided to convert the current ratios from a scale to an ordinal variable. I used the Risk Management Association's

2008 financial ratio benchmark report for nonprofit mental health and substance abuse outpatient providers. The Risk Management Association is one of the leading resources for financial ratio benchmarks. Using the industry benchmarks for current ratio I assigned a score to each organization in my data set ranking them as a one, indicating a current ratio score under the industry median, a two indicating a current ratio score at the industry median, or a three indicating current ratio above the industry median.

I then conducted an ordinal regression model to review how well social enterprise influenced current ratios. The model was not significant and in particular the predictor variable social enterprise was not significant. Given no change in outcome through this additional modeling, I feel quite comfortable in ascertaining that I must keep the null hypothesis.

In summary, I had sought to find support for the following hypothesis:

H1a: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher current ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise.

However, given the results of my analysis I fail to reject the null hypothesis of:

Nonprofit behavioral healthcare providers who engage in social enterprise have no significant difference in their current ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise.

Days Cash on Hand

An additional metric of liquidity is days cash on hand. I conducted a multivariate linear regression model to determine if social enterprise predicted a higher number of days cash on hand. Days cash on hand was entered as the dependent variable. All control variables were entered into block one and the independent dummy variable of social enterprise was entered into a separate block.

The R^2 values were summarized in Table 4 for the Western Region model.

Table 4

Days Cash on Hand Model Summary for Western Region N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.477[a]	.227	.166	49.99274066	.227	3.708	5	63	.005
2	.493[b]	.243	.170	49.87129445	.016	1.307	1	62	.257

When just the control variables are entered, the model explains 22.7% of the variance within our dependent variable – days cash on hand. After the introduction of the independent variable, social enterprise, the model explains 24.3% of the variance in days cash on hand. Essentially, the addition of social enterprise accounts for 1.6% of the variance in days cash on hand. Model two is statistically significant, $F(6,62) = 3.323$, $p = .007$.

In reviewing the coefficients, I found that there is significance for the variable Urban ($\beta = 27.295$) and FTE's ($\beta = -14.642$). Essentially, those organizations located in an urban location will have a higher number of days cash on hand by roughly 27 days. Conversely, those with more FTE's will have a lower number of days cash on hand by 14 days. The coefficient for social enterprise did not have any significance as a predictor of days cash on hand.

Table 5

Variable Contributions and Correlations for Social Enterprise and Days Cash on Hand for Western Region N = 69

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics
		B	Std. Error	Beta			VIF
1	(Constant)	105.190	23.616		4.454	.000	
	Urban	30.517	14.181	.251	2.152	.035	1.108
	Western Region	-9.351	12.554	-.086	-.745	.459	1.077
	CEO Business	10.794	14.365	.086	.751	.455	1.058
	Years in Business	1.838	3.862	.060	.476	.636	1.305
	FTE's	-13.406	4.080	-.416	-3.286	.002	1.305
2	(Constant)	107.907	23.678		4.557	.000	
	Urban	27.295	14.424	.224	1.892	.063	1.152
	Western Region	-10.865	12.594	-.099	-.863	.392	1.089
	CEO Business	10.545	14.331	.084	.736	.465	1.058
	Years in Business	1.992	3.855	.065	.517	.607	1.307
	FTE's	-14.642	4.211	-.454	-3.477	.001	1.397
	Social Enterprise	17.416	15.233	.135	1.143	.257	1.147

In summary those organizations located in an urban area will have a higher number of days cash on hand. Those organizations with more employees will have a

lower number of days cash on hand which could be due to the expense of these employees.

While my model is statistically significant, it does not reveal that social enterprise has an impact on the number of days cash on hand. Therefore, I must reject my hypothesis that social enterprise will have a positive effect on the number of days cash on hand.

Profitability Models

My hypotheses that explore profitability metrics include:

H1b: Nonprofit behavioral healthcare providers who engage in social enterprise will have higher net margin percentage than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1f: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher ratio of revenue per full time equivalent staff than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1d: Nonprofit behavioral healthcare providers who engage in social enterprise will have a lower percentage of administrative overhead than nonprofit behavioral healthcare providers who do not engage in social enterprise.

Net Margin Percentage

I used multivariate linear regression to analyze my profitability hypotheses. Net profit margin percentage was entered as the dependent variable. All control variables were entered into block one and the independent dummy variable of social enterprise was entered into a separate block.

Casewise diagnostics detected three dependent variable outliers outside three standard deviations. These cases involved two organizations with extremely poor (negative) profit margin percentages and one with an extremely high profit margin percentage. I chose to exclude these cases in my analysis. I have the following model summary for Western region:

Table 6

Net Profit Margin Percentage Model Summary for Western Region N = 66

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.493[a]	.243	.180	.05271	.243	3.860	5	60	.004
2	.522[b]	.273	.199	.05212	.029	2.377	1	59	.128

In model one I have a R^2 of 24.3% and in model two I have an R^2 of 27.3%. The addition of social enterprise in model two explains 3% of the variance in net profit margin for the Western region. Model two is significant with F (6,59) = 3.687, p = .004. In reviewing the coefficients, FTE's is significant with β = -.018 and Western Region is moderately significant with β = -.023. Those organizations with more employees will have a lower net profit margin and those within Western region will also have a lower net profit margin than their peers. Social enterprise is not significant in model two.

Table 7

Variable Contributions and Correlations for Social Enterprise and Net Profit Margin Percentage for Western Region N = 66

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
		B	Std. Error	Beta			VIF
1	(Constant)	.129	.026		4.870	.000	
	Urban	.015	.015	.114	.960	.341	1.110
	Western Region	-.021	.014	-.176	-1.517	.135	1.069
	CEO Business	.002	.015	.018	.160	.874	1.062
	Years in Business	.000	.004	-.011	-.083	.934	1.392
	FTE's	-.015	.005	-.436	-3.302	.002	1.380
2	(Constant)	.131	.026		5.016	.000	
	Urban	.011	.015	.088	.743	.461	1.133
	Western Region	-.023	.014	-.200	-1.729	.089	1.089
	CEO Business	.001	.015	.009	.076	.940	1.066
	Years in Business	.001	.004	.022	.163	.871	1.428
	FTE's	-.018	.005	-.508	-3.665	.001	1.559
	Social Enterprise	.026	.017	.186	1.542	.128	1.186

In summary FTE's was found to be a significant variable that adversely impacted the net profit margin. Additionally, the variable Western Region was moderately significant and also negatively affected the net profit margin percentage.

In addition to this model, an ordinal regression model was explored to fully assess any possibility of a relationship between social enterprise and net margin percentage. In this model I again used the financial benchmarks available through the Risk Management Association and ranked the organizations on a scale of one to three with one equating to an organization whose net profit margin was in the lower range of industry benchmarks, a

two for those who were within the median range, and a three for those who performed above the industry benchmark. No relationship was revealed and the results did not offer any conflicting findings to the multivariate linear regression model. Given these results I am comfortable in rejecting the hypothesis:

H1b: Nonprofit behavioral healthcare providers who engage in social enterprise will have higher net margin percentage than nonprofit behavioral healthcare providers who do not engage in social enterprise.

Revenue Per Full Time Equivalent Employee

A linear regression analysis of the second hypothesis focusing on profitability per full time employee was explored. The hypothesis is:

H1f: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher ratio of revenue per full time equivalent staff than nonprofit behavioral healthcare providers who do not engage in social enterprise.

The model revealed the following in Table 8:

Table 8

Revenue Per Full Time Equivalent Model Summary for Western Region N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	Df2	Sig. F Change
1	.317[a]	.100	.029	.70456	.100	1.407	5	63	.234
2	.321[b]	.103	.016	.70916	.003	.184	1	62	.669

Model one has an R^2 of 10% and model two has an R^2 of 10.3%. The addition of social enterprise in model two explains .3% of the variance in the dependent variable revenue per full time employee. Model two is not significant with F (6,62) = 1.188, p = .325. In reviewing the coefficients, only FTE's is significant with β = -.156, indicating that those organizations with more employees will have a lower revenue per FTE ratio. Social enterprise is not significant in model two.

Table 9

Variable Contributions and Correlations for Social Enterprise and Revenue Per FTE for Western Region N = 69

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics
		B	Std. Error	Beta	t	Sig.	VIF
1	(Constant)	11.347	.333		34.092	.000	
	Urban	.105	.200	.066	.525	.602	1.108
	Western Region	.059	.177	.041	.331	.741	1.077
	CEO Business	.090	.202	.055	.446	.657	1.058
	Years in Business	.052	.054	.131	.960	.340	1.305
	FTE's	-.149	.058	-.355	-2.597	.012	1.305
2	(Constant)	11.361	.337		33.742	.000	
	Urban	.088	.205	.055	.427	.671	1.152
	Western Region	.051	.179	.035	.282	.779	1.089
	CEO Business	.089	.204	.054	.437	.664	1.058
	Years in Business	.053	.055	.133	.969	.336	1.307
	FTE's	-.156	.060	-.370	-2.604	.012	1.397
	Social Enterprise	.093	.217	.055	.429	.669	1.147

However, this analysis also reveals that there are outlier cases through casewise diagnostics. By removing these three identified outlier cases a further analysis indicates the results of Table 10.

Table 10

Revenue Per Full Time Employee Model Summary for Western Region Without Outliers

N = 66

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.613[a]	.376	.323	.37294	.376	7.102	5	59	.000
2	.613[b]	.376	.311	.37606	.000	.025	1	58	.874

By removing the outlier cases the R^2 for model two is improved to 37.6% but is identical to model one. Essentially the addition of social enterprise explains no variance in the dependent variable. I must note that two of the outlier cases engaged in social enterprise. Model two is significant with F (6, 58) = 5.825, p = .000. In reviewing the coefficients, FTE's is significant with β = -.192 and Years in Business is significant with β = .114. Those organizations with more employees will have a lower revenue per full time equivalent ratio and those that have a longer tenure (years in business) will have a higher revenue per full time equivalent ratio. Social enterprise is not significant in model two.

Table 11

Variable Contributions and Correlations for Social Enterprise and Revenue Per FTE for Western Region Without Outliers N = 66

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
		B	Std. Error	Beta			VIF
1	(Constant)	11.068	.189		58.437	.000	
	Urban	.178	.107	.180	1.653	.104	1.116
	Western Region	.123	.098	.136	1.252	.216	1.118
	CEO Business	.128	.108	.125	1.186	.241	1.049
	Years in Business	.113	.031	.435	3.713	.000	1.296
	FTE's	-.193	.034	-.677	-5.633	.000	1.366
2	(Constant)	11.065	.192		57.652	.000	
	Urban	.182	.111	.184	1.631	.108	1.181
	Western Region	.125	.100	.138	1.251	.216	1.133
	CEO Business	.129	.109	.126	1.182	.242	1.051
	Years in Business	.114	.031	.435	3.684	.001	1.297
	FTE's	-.192	.035	-.674	-5.487	.000	1.403
	Social Enterprise	-.019	.121	-.018	-.159	.874	1.134

In summary, I found that FTE's was statistically significant and negatively affected revenue per full time employee. In those models where the outlier cases were removed, FTE's continued to be statistically significant and negatively affected revenue per full time employee. Years in Business was also statistically significant and positively impacted revenue per full time employee.

In no analysis did I find that social enterprise was statistically significant. Given these findings, I do not have statistical reason to accept the hypothesis:

H1f: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher ratio of revenue per full time equivalent staff than nonprofit behavioral healthcare providers who do not engage in social enterprise.

Administrative Overhead Percentage

My final hypothesis pertaining to profitability metrics is:

H1d: Nonprofit behavioral healthcare providers who engage in social enterprise will have a lower percentage of administrative overhead than nonprofit behavioral healthcare providers who do not engage in social enterprise.

A multivariate linear regression model was employed to explore any relationship between the use of social enterprise and administrative overhead percentage.

My model yielded an R^2 for model one of 6.8% and an R^2 for model two of 7% as indicated in Table 12.

Table 12

Administrative Overhead Percentage Model Summary for Western Region N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.261[a]	.068	-.006	.58064	.068	.924	5	63	.472
2	.265[b]	.070	-.020	.58468	.002	.132	1	62	.717

Model two is not significant with F (6,62) = .781, p = .588. In reviewing the coefficients, none of the variables are significant.

Table 13

Variable Contributions and Correlations for Social Enterprise and Administrative Overhead Percentage for Western Region N = 69

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
		B	Std. Error	Beta			VIF
1	(Constant)	2.809	.274		10.241	.000	
	Urban	.113	.165	.088	.687	.494	1.108
	Western Region	-.138	.146	-.119	-.944	.349	1.077
	CEO Business	.138	.167	.103	.825	.412	1.058
	Years in Business	-.001	.045	-.004	-.026	.979	1.305
	FTE's	-.061	.047	-.180	-1.294	.200	1.305
2	(Constant)	2.819	.278		10.155	.000	
	Urban	.101	.169	.079	.598	.552	1.152
	Western Region	-.143	.148	-.124	-.970	.336	1.089
	CEO Business	.137	.168	.103	.814	.419	1.058
	Years in Business	-.001	.045	-.002	-.014	.989	1.307
	FTE's	-.066	.049	-.193	-1.335	.187	1.397
	Social Enterprise	.065	.179	.048	.364	.717	1.147

This analysis found one outlier through casewise diagnostics. I reran the model with this case excluded and had the following results:

Table 14

Administrative Overhead Percentage Model Summary for Western Region Without Outliers N = 68

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.426[a]	.182	.114	.45413	.182	2.706	5	61	.028
2	.477[b]	.227	.150	.44494	.046	3.544	1	60	.065

The R^2 is improved for model two to 22.7%. Model two is now significant with $F(6,60) = 2.94$, $p = .014$. In reviewing the coefficients, FTE's is significant with $\beta = -.104$ and social enterprise is moderately significant with $\beta = .264$. These coefficients indicate that those organizations with more employees will have lower administrative overhead expense and those that engage in social enterprise may have higher administrative overhead expense.

Table 15

Variable Contributions and Correlations for Social Enterprise and Administrative Overhead Percentage for Western Region Without Outlier

N = 68

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics
		B	Std. Error	Beta			VIF
1	(Constant)	3.279	.231		14.182	.000	
	Urban	.055	.129	.051	.422	.674	1.101
	Western Region	-.146	.115	-.151	-1.261	.212	1.071
	CEO Business	.101	.131	.092	.772	.443	1.051
	Years in Business	-.044	.036	-.158	-1.228	.224	1.234
	FTE's	-.085	.038	-.292	-2.266	.027	1.234
2	(Constant)	3.335	.229		14.596	.000	
	Urban	.003	.129	.003	.023	.982	1.153
	Western Region	-.164	.114	-.170	-1.446	.153	1.079
	CEO Business	.094	.128	.085	.730	.468	1.052
	Years in Business	-.044	.035	-.157	-1.249	.217	1.234
	FTE's	-.104	.038	-.355	-2.720	.009	1.322
	Social Enterprise	.264	.140	.230	1.883	.065	1.157

In the original models that included all cases, the models were not significant and there were no significant coefficients. In the revised model that eliminated the outlier case, the model that included social enterprise was significant and FTE's was a significant variable predicting a lower administrative overhead percentage. Social enterprise was moderately significant and unfortunately predicted a higher administrative overhead percentage. I have chosen to fail to reject the null hypothesis that there is no difference in the administrative overhead percentage between those organizations that engage in social enterprise and their traditional counterparts.

Debt Ratio Model

The third category of financial metrics involves reviewing organizational debt. This item involves reviewing both assets and liabilities on the balance sheet and can reveal information that is not contained on the profit and loss statements. The debt ratio was employed as the dependent variable. Debt ratio is calculated by dividing the organization's total assets by its total liabilities. A multivariate linear regression model was utilized to explore the relationship between the independent variable - debt ratio, the dependent variable - social enterprise and the control variables. The model for debt ratio yielded the following results:

Table 16

Debt Ratio Model Summary for Western Region N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.363[a]	.131	.063	1.14674	.131	1.907	5	63	.106
2	.404[b]	.163	.082	1.13449	.032	2.367	1	62	.129

The R^2 for model one is 13.1% and the R^2 for model two is 16.3%. The inclusion of social enterprise in model two explains an additional 3.2% of the variance in the dependent variable debt ratio. Model two is not significant with F (6,62) = 2.018, p = .077. The Urban coefficient is significant (β = -.714) and predicts a lower debt ratio. The FTE coefficient is moderately significant (β = .180) and predicts a higher debt ratio. Social enterprise is not a significant variable in this model.

Table 17

Variable Contributions and Correlations for Social Enterprise and Debt Ratio for Western Region N = 69

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics
		B	Std. Error	Beta	t	Sig.	VIF
1	(Constant)	-1.765	.542		-3.258	.002	
	Urban	-.616	.325	-.234	-1.892	.063	1.108
	Western Region	-.363	.288	-.154	-1.261	.212	1.077
	CEO Business	-.049	.329	-.018	-.149	.882	1.058
	Years in Business	-.018	.089	-.027	-.200	.842	1.305
	FTE's	.217	.094	.312	2.324	.023	1.305
2	(Constant)	-1.682	.539		-3.122	.003	
	Urban	-.714	.328	-.271	-2.176	.033	1.152
	Western Region	-.409	.286	-.173	-1.429	.158	1.089
	CEO Business	-.057	.326	-.021	-.174	.862	1.058
	Years in Business	-.013	.088	-.020	-.148	.883	1.307
	FTE's	.180	.096	.258	1.876	.065	1.397
	Social Enterprise	.533	.347	.191	1.539	.129	1.147

In summary, the model for debt ratio was not found to be significant. FTE's and Urban could be considered moderately significant coefficients. Social enterprise was not found to be statistically significant in any of the models.

An ordinal regression model was also utilized to fully ascertain any possible relationship between social enterprise and debt ratios. The organizations were ranked from one (lowest score) to three (highest score) based upon the Risk Management Association's benchmarks for this financial metric. The results of the model did not support the hypothesis.

After this review, I rejected my hypothesis:

H1e: Nonprofit behavioral healthcare providers who engage in social enterprise will have a lower debt ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise.

Instead I failed to reject the null hypothesis that social enterprise has no predictive relationship to debt ratios.

Activity Ratio

In assessing activity ratios, I chose to review the number of days accounts remain classified as receivables. My hypothesis is:

H1c: Nonprofit behavioral healthcare providers who engage in social enterprise will have lower net days in accounts receivable than nonprofit behavioral healthcare providers who do not engage in social enterprise.

A multivariate linear regression model was constructed to assess a relationship between social enterprise and net days in accounts receivable.

The analysis of net days in accounts receivable is detailed in Table 18.

Table 18

Net Days in Accounts Receivable Model Summary for Western Region N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.361[a]	.130	.061	1.37010	.130	1.884	5	63	.110
2	.361[b]	.130	.046	1.38103	.000	.007	1	62	.936

The R^2 for model one is 13% and remains unchanged for model two. This indicates that social enterprise does not explain any of the variance in net days in accounts receivable. Model two is not significant with F (6,62) = 1.546, p = .178. In reviewing the coefficients, only FTE's is significant with β = .249 predicting a higher net days in accounts receivable. Social enterprise is not significant in model two.

Table 19

Variable Contributions and Correlations for Social Enterprise and Net Days in Accounts Receivable for Western Region N = 69

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics
		B	Std. Error	Beta	t	Sig.	VIF
1	(Constant)	2.654	.647		4.101	.000	
	Urban	.198	.389	.063	.509	.613	1.108
	Western Region	-.215	.344	-.076	-.626	.533	1.077
	CEO Business	-.527	.394	-.162	-1.338	.186	1.058
	Years in Business	.051	.106	.065	.484	.630	1.305
	FTE's	.247	.112	.296	2.206	.031	1.305
2	(Constant)	2.649	.656		4.040	.000	
	Urban	.204	.399	.065	.511	.611	1.152
	Western Region	-.212	.349	-.075	-.609	.545	1.089
	CEO Business	-.526	.397	-.162	-1.326	.190	1.058
	Years in Business	.051	.107	.065	.477	.635	1.307
	FTE's	.249	.117	.299	2.136	.037	1.397
	Social Enterprise	-.034	.422	-.010	-.081	.936	1.147

In summary, in the model for net days in accounts receivable, the R^2 remained the same between model one and model two. Additionally, this model was not statistically significant. FTE's was a significant coefficient and adversely impacted net days in accounts receivable. A final review of the hypothesis with an ordinal regression reveals no significance in the model and no significance in the dependent variable of social enterprise.

Upon a full assessment of any possible relationship between social enterprise and net days in accounts receivable I reject my hypothesis:

H1c: Nonprofit behavioral healthcare providers who engage in social enterprise will have lower net days in accounts receivable than nonprofit behavioral healthcare providers who do not engage in social enterprise.

I find that I fail to reject the null hypothesis that there is no relationship between social enterprise and reduced net days in accounts receivable.

Summary of Findings

The purpose of this study is to determine if there are differences in the financial performance of those traditional nonprofit behavioral healthcare providers and those nonprofit behavioral healthcare providers who engage in social enterprise activities. The general hypothesis is that social enterprise will have a positive effect on the financial performance of a nonprofit behavioral healthcare provider. Subsequent hypotheses explore this primary hypothesis. These subsequent hypotheses use various financial metrics such as current ratio, days cash on hand, net profit margin percentage, net days in accounts receivable, debt ratio, revenue per full time equivalent, and administrative overheard percentage.

This research relied upon quantitative research methods to test the hypotheses. Descriptive statistics were calculated using SPSS. These statistics revealed that of the total sixty nine organizations, seventeen organizations indicated that they engaged in social enterprise activities. Consulting or administrative services was the predominant form of social enterprise. These social enterprise organizations ranged in tenure for social enterprise activities from one year to thirty years. Perhaps most telling was that

forty percent of the organizations were either losing money or only breaking even on their social enterprise activities. Any organization achieving profits had only modest returns.

Throughout the various regression models conducted, social enterprise was not a significant indicator with the exception of the model for administrative overhead percentage and it can only be considered significant if the threshold is broadened. The direction of the coefficient for social enterprise indicates that those organizations who engage in social enterprise actually have higher administrative overhead percentages. The results of the regression models do not support any contention that social enterprise yields improved financial performance.

Additional Exploration of the Data

While my original hypotheses did not reveal any significance of social enterprise on the various financial metrics, I did conduct additional exploratory models with interesting and perhaps promising results. These models involved the dependent variables of total revenue, full time equivalent employees, and gross profit margin. These models are not entirely ideal and have some outlier and leverage issues particularly given the use of non-normalized variables; hence, the results must be regarded with this is mind.

As I noted previously, nonprofit organizations can gauge their size by various means such as full time employees, total programs, and total revenues. Organizational size is indicative of a nonprofit's power and influence within the field. As I noted previously, larger organizations have more influence with payors. They also tend to reside higher on the pecking order in relation to all providers. They have a greater voice

not only with payors but also with licensing bodies and outside vendors. In further exploring my data, I chose to analyze how social enterprise might predict total revenue. For my model I included years in business and accreditation status. I had the following model summary:

Table 20

Total Revenue Model Summary N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.575[a]	.331	.311	1.37063	.331	16.326	2	66	.000
2	.617[b]	.381	.353	1.32821	.050	5.284	1	65	.025

The R^2 for model one is 33.1% and in model two the R^2 increases to 38.1% indicating that social enterprise explains an additional 5% of the variance in total revenue. This model is significant with F (3,65) = 13.352, p = .000. Social enterprise is significant with β = .879. It is interesting to note that social enterprise has a higher beta than years in business.

Table 21

Variable Contributions and Correlations for Social Enterprise and Total Revenue
N = 69

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	14.652	.757		19.352	.000
	Years in Business	.331	.099	.359	3.345	.001
	Accreditation Status	-1.215	.383	-.341	-3.176	.002
2	(Constant)	14.561	.735		19.818	.000
	Years in Business	.308	.096	.335	3.197	.002
	Accreditation Status	-1.178	.371	-.331	-3.174	.002
	Social Enterprise	.879	.382	.226	2.299	.025

In further exploring organizational size, I also used full time employees (FTE's) as a dependent variable. In this model I included the Urban dummy variable and years in business. My model summary was:

Table 22

FTE's Model Summary N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.476[a]	.227	.203	1.51544	.227	9.670	2	66	.000
2	.530[b]	.281	.248	1.47256	.054	4.900	1	65	.030

The R^2 for model one is 22.7% and in model two the R^2 increases to 28.1% indicating that social enterprise explains an additional 5.4% of the variance in FTE's. This model is significant with F (3,65) = 8.461, p = .000. Social enterprise is significant with β = .955 predicting a higher number of employees for those organizations engaged in social enterprise.

Table 23

Variable Contributions and Correlations for Social Enterprise and FTE's N = 69

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.034	.653		3.116	.003
	Years in Business	.443	.103	.468	4.302	.000
	Urban Dummy	.198	.410	.053	.483	.631
2	(Constant)	2.007	.634		3.164	.002
	Years in Business	.419	.101	.442	4.161	.000
	Urban Dummy	.028	.406	.007	.069	.945
	Social Enterprise	.955	.431	.239	2.214	.030

I also explored gross profit margin or total revenue less total expenses. I included FTE's, Urban Dummy and Years in Business as my control variables. My model summary revealed:

Table 24

Gross Profit Margin Model Summary N = 69

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.465[a]	.216	.180	1122146.871	.216	5.985	3	65	.001
2	.517[b]	.267	.221	1093898.061	.050	4.400	1	64	.040

The R^2 for model one is 21.6% and in model two the R^2 increases to 26.7% indicating that social enterprise explains an additional 5.1% of the variance in gross profit margin. This model is significant with F (4,64) = 5.824, p = .000. Social enterprise is significant with β = 696,833 predicting a higher gross profit margin (by $696,833) for those organizations engaged in social enterprise. Again I must note that due to the small data set this result must be framed in the understanding that the sample size is not optimal and there are issues with outliers.

Table 25

Variable Contributions and Correlations for Social Enterprise and Gross Profit Margin
N = 69

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	-1628028.728	517689.693		-3.145	.003
	Urban Dummy	72584.694	304435.627	.026	.238	.812
	Years in Business	197713.975	86282.930	.286	2.291	.025
	FTE's	183402.858	91146.372	.251	2.012	.048
2	(Constant)	-1543485.713	506264.142		-3.049	.003
	Urban Dummy	-41625.968	301724.622	-.015	-.138	.891
	Years in Business	202703.352	84144.475	.293	2.409	.019
	FTE's	132227.758	92140.073	.181	1.435	.156
	Social Enterprise	696833.713	332184.865	.239	2.098	.040

This additional exploration of the data indicates that there may be potential benefits of social enterprise and clearly indicates that further research is needed.

CHAPTER V

DISCUSSION

Introduction

This research explored variances in financial performance for those nonprofit behavioral healthcare providers who engage in social enterprise activities versus those who do not engage in social enterprise activities.

Multivariate linear regression and ordinal regression were employed to assess any statistically significant effect social enterprise has upon various financial performance metrics: current ratio, net profit margin percentage, net days in accounts receivable, administrative overhead percentage, debt ratio, and revenue per full time equivalent employee. The results were disappointing in that all hypotheses were rejected. Overall, my selected ratios do not indicate a clear predictive relationship between the use of social enterprise and enhanced financial performance.

This chapter reviews my various hypotheses and the findings of my analysis as well as reviews previous research and literature and seeks to frame how my findings relate to the body of knowledge. Finally, the chapter concludes with implications of my findings, research limitations, and proposed future research.

Review of Hypotheses

My intent was to ascertain if social enterprise activities have a positive effect on the financial performance of nonprofit behavioral healthcare providers. The general hypothesis for my research was:

H1: Social enterprise will have a positive effect on the financial performance of a nonprofit behavioral healthcare provider.

In order to appropriately explore this hypothesis it had to be broken in subcategories that assessed various aspects of financial performance. My related subcategories of hypotheses were:

H1a: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher current ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1b: Nonprofit behavioral healthcare providers who engage in social enterprise will have higher net profit margin percentage than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1c: Nonprofit behavioral healthcare providers who engage in social enterprise will have lower net days in accounts receivable than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1d: Nonprofit behavioral healthcare providers who engage in social enterprise will have a lower percentage of administrative overhead than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1e: Nonprofit behavioral healthcare providers who engage in social enterprise will have a lower debt ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1f: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher ratio of revenue per full time equivalent staff than nonprofit behavioral healthcare providers who do not engage in social enterprise.

H1g: Nonprofit behavioral healthcare providers who engage in social enterprise will have a higher number of days cash on hand than nonprofit behavioral healthcare providers who do not engage in social enterprise.

Separate multivariate regression analyses were conducted on each hypothesis. In some cases ordinal regression was also conducted to ensure that I could conclusively accept my research findings. Because many of the variables had significant skew that was not fully addressed with univariate transformations, ordinal regression was employed to categorize the dependent variable and reduce the impact of persistent skew in the data. However, this additional analysis did not cause a reversal of any findings from the multivariate regression analysis.

In analyzing my first hypothesis, I failed to reject the null. I found that nonprofit behavioral healthcare providers who engage in social enterprise have no significant difference in their current ratio than nonprofit behavioral healthcare providers who do not engage in social enterprise. Social enterprise explained .001% of the variance in current ratio. Essentially, those nonprofits that engage in social enterprise have no greater ability to pay current obligations from their current assets.

The second hypothesis also indicated that I could not reject the null. I concluded that nonprofit behavioral healthcare providers who engage in social enterprise will have higher net profit margin percentage than nonprofit behavioral healthcare providers who do not engage in social enterprise. My analysis revealed that social enterprise explained 3% of the variance in net profit margin percentage. This model was statistically significant; however, social enterprise was not a significant variable in the model.

My third hypothesis posited that nonprofit behavioral healthcare providers who engage in social enterprise will have lower net days in accounts receivable than nonprofit behavioral healthcare providers who do not engage in social enterprise. However, my model indicated that my dependent variable social enterprise explained no variance in net days in accounts receivable. Additionally, my model was not significant. I chose to conduct an ordinal regression model to further assess my dependent variable and independent variable however I found no significance in the model and no significance in the dependent variable of social enterprise. Given these results, I failed to reject the null hypothesis and concluded that social enterprise has no effect on net days in accounts receivable.

My fourth hypothesis pertaining to administrative overhead percentages resulted in a model where my dependent variable social enterprise explained only 2.2% of the variance in administrative overhead percentage and was not significant. Again I had an outlier in the model and chose to rerun the model without this single case. This improved the model, enhancing my dependent variables explanation of the variance in administrative overhead (to approximately 4%) and resulting in a significant model.

In the original model none of the coefficients were significant. In the revised models social enterprise could broadly be viewed as significant. However, in these revised models it is interesting to note that the social enterprise coefficient predicted a higher administrative overhead percentage. Essentially those organizations with social enterprise have a higher administrative overhead percentage than those traditional nonprofit organizations. Based upon the mixed results of the model I failed to reject the null hypothesis.

My fifth hypothesis explored debt ratio. My analysis revealed that social enterprise explained 3.2% of the variance in debt ratio. The model was not significant and social enterprise was not significant. I further analyzed this hypothesis through ordinal regression model. However, the results of the model indicated no significance. Therefore, I concluded that social enterprise had no effect on debt ratio for nonprofit behavioral healthcare providers.

My sixth hypothesis purported that nonprofit behavioral healthcare providers engaged in social enterprise would have a higher revenue per full time equivalent employee versus those nonprofit behavioral healthcare providers who did not engage in social enterprise. The initial model included all cases and was not found to be significant. In this model social enterprise explained .3% of the variance in revenue per full time employee. In the revised model that excluded three outlier cases, social enterprise explained no additional variance in net revenue per full time employee. Again, I failed to reject the null hypothesis.

My final hypothesis proposed that nonprofit behavioral healthcare providers who engage in social enterprise will have a higher days cash on hand than their traditional counterparts who did not engage in social enterprise. My model was significant. The social enterprise variable explained an additional 1.6% of the variance within the days cash on hand. However, as was typically the case, the variable social enterprise was not a significant predictor. Given these results I failed to reject the null hypothesis that there was no difference in days cash on hand between those organizations who engaged in social enterprise and those that did not.

Review of Control Variables

My control variables included tenure of the CEO, educational background of the CEO, full time equivalent employees, age of the organization, accreditation status, Department of Public Welfare region, geographic region type, and percentage of economic poverty within the geographic region. Many of these variables were included based upon support from previous research or my literature review. Some variables were included based upon a logical assessment of what factors might influence organizational financial performance. In early analysis very few of these variables were actually significant predictors of my dependent variable. This finding led me to reduce my number of control variables.

FTE's which was used to control for organizational size was a significant predictor in all of my models. However, the oddity that appeared throughout the models was that generally full time equivalent employees seemed to have a negative bearing on the ratios. The only exception to this trend was administrative overhead percentage where this variable predicted a lower administrative overhead percentage. In reviewing these ratios there are several logical relationships that manifest. If we assume that organizations with higher FTE's have higher expenses it is logical that they use more cash to pay those expenses and therefore have lower total assets. This would explain why FTE's had a direct predictive relationship for a higher debt ratio. Additionally this would explain why FTE's predicted a lower current ratio as well given that current ratio is computed by dividing current assets by current liabilities.

Net profit margin percentage is computed by dividing total revenue less expenses by total revenue. In reviewing this computation, one could decipher that larger

organizations have larger expenses. The unfavorable net margin percentage indicates that these organizations may have expenses that exceed an appropriate revenue to expense ratio. This seems to defy the economies of scale notion that larger organizations have an advantage over small organizations in their ability to capitalize on their size and gain efficiencies that translate to reduced expenses. This is apparent in the negative predictive relationship FTE's has with net revenue per full time employee ratio. Those organizations that are larger will have a lower ratio than those with fewer employees.

This trend continues in the days cash on hand ratio and the net days in accounts receivable ratio. FTE's predicts a lower number of days cash on hand and higher net days in accounts receivable. These two ratios are related as those organizations that are unable to turnover their receivables will have an adverse impact on their cash balances.

From my analysis, geographic region type was another frequent statistically significant predictor of financial performance. More specifically those organizations located in urban settings had an advantage in regards to debt ratio and days cash on hand. Being located in an urban location enhanced the days cash on hand by approximately 30 days and reduced the debt ratio by approximately .60%.

The background of the CEO was used as a control variable. I thought perhaps that those CEOs with a business background may have an advantage in regards to managing financial performance. However, this did not manifest in the any of my models.

Years in business is the final variable that yielded a statistically significant predictive relationship. Years in business predicted more favorable revenue per full time equivalent employee ratio. It appears that those in the industry longer are able to achieve

financial efficiency through managing their operating expenses and maximizing their operating revenues.

The literature indicated that tenure of the CEO has an impact on organizational performance. As noted previously, Miller (1991) found an inverse relationship between CEO tenure and financial performance. This research indicated that perhaps CEO's become less energized and are held less accountable as they cement their relationships and credibility with their board of directors. Logically, I also considered that CEO tenure could impact the organization's financial performance. A relatively new CEO may create organizational chaos or may have been hired due to ongoing organizational under-performance. A new CEO may bring changes that could enhance or hurt financial performance. However, both logic and research were refuted in my early analysis as this control variable was never a significant predictor of financial performance. Consequently it was dropped from further models.

I had included accreditation status based upon previous research as well as logical considerations. Accreditation creates credibility that can attract a larger portion of the market and yield positive financial results. However, accreditation is also costly and could create a variance in overall expenses between those who are accredited and those who are not. Research has shown that accreditation aligns the organization's focus, results in attracting better staff and retaining these staff (Muller, Rich, Rydman & Whiteis, 1989). Yet accreditation status was not statistically significant as a predictor within my initial models. Again, I chose to remove this variable from final models.

Finally, the economic climate of the organization's location was employed as a control variable but did not prove a relevant predictor of financial performance and was

dropped from final models. This was particularly intriguing given the amount of literature and research that contradicted my particular findings.

Review of Independent Variable

My research focused on whether social enterprise had an effect on financial performance. I chose to use the presence or absence of social enterprise as my independent variable. This was reflected as a dummy variable with a one (1) indicating social enterprise was used within the organization or a zero (0) indicating the absence of social enterprise.

Throughout my analysis of each hypothesis I found that social enterprise had no bearing on financial performance.

Methodological Limitations

The largest limitation I encountered was the limited number of participant organizations engaged in social enterprise as well as an overall small sample size. Mertens (2005) notes a small sample size yields more variability and less sensitivity to detect an effect on the dependent variable. Indeed many of my variables required additional manipulation because of skew. Mertens (2005) also notes that sample size impacts the power of the statistical test or the "probability that statistical significance will be attained given that there really is a treatment effect". With my small sample size I am at risk for a Type II error or the risk of accepting the null when a difference really exists.

Perhaps if I had an overall larger sample size and a larger number of social enterprise organizations I could conduct more robust analysis. Analyzing the various types of social enterprise or exploring alternate measures of social enterprise such as

social enterprise revenues or social enterprise net profits would provide a more detailed analysis.

While Guidestar provides an excellent resource for identifying any particular subset of nonprofit entities, it will generally only recognize those nonprofits with revenues in excess of $25,000 which is the minimum requirement limit for filing a 990 return. I will be missing very small provider organizations and could only identify them through snowball sampling or other significant investigative means. This is not feasible for this study and I believe I have identified almost the entire population. Additionally, I am at the mercy of those provider organizations who self-determine which National Taxonomy of Exempt Entities (NTEE) category they use to identify their organization. In particular there is discrepancy between the "Community Mental Health Center" category and the "Other" category. I believe that many providers are reluctant to classify themselves as a community mental health center because they do not meet the federal definition of a community mental health center which was established to recognize a subset of behavioral healthcare providers who were established with specific federal funding.

Unconsidered, spurious factors may threaten my research. I have defined several control variables that will minimize this potential. I am also relying upon self-report which can be subject to interpretation error or intentional misrepresentation. I have sought to ensure that my survey instrument had minimal potential for misinterpretation through trial administrations. Additionally, the validity of responses has been checked against existing data contained within Internal Revenue Service 990 filings and company

websites. Finally, my results have been checked against the findings from the Pennsylvania Community Provider's Association benchmarking process.

I must recognize that I am studying nonprofit behavioral healthcare providers within Pennsylvania and generalizing my findings to the national level or generalizing my findings to the healthcare sector overall is dependent on how representative my population is of the broader audience. Behavioral healthcare and physical healthcare are both the delivery of health related services and at a national level they both fall under the governmental department of health and human services. However, each type of healthcare is more closely monitored under different agencies within the department of health and human services. National Institutes of Health governs physical healthcare while behavioral healthcare falls under the Substance Abuse and Mental Health Services Agency. Both types of healthcare are nationally accredited through the Joint Commission of Accredited Healthcare Organizations (JCAHO) but under different programs of JCAHO with differing standards and differing accreditation expectations.

Insurance companies also treat the two types of healthcare differently. For example, an individual may have physical healthcare coverage with no behavioral healthcare coverage. Typically, if an individual does have behavioral healthcare coverage a separate entity or division of the insurance company manages it. The funding mechanisms for physical and behavioral healthcare are generally divergent.

Both physical health and behavioral healthcare delivery begin with a diagnosis, a prescription for treatment, and the delivery of the treatment. Broadly there are many similarities between the two fields and the ability to generalize research findings to the broad spectrum of healthcare is possible but should be qualified.

Narrowing the scope from healthcare to behavioral healthcare, the funding environment is typically similar across states with Medicare and commercial insurance funding. States may place special restrictions or an emphasis on particular programs that can cause some variation in Medical Assistance funding but it does not result in unique organizations by state. For example, in Arizona there is a larger emphasis on consumer delivered services and in telemedicine. While Arizona may be at the forefront of these types of services, these services begin to traverse across the nation. There are so many nationally referenced journals and member organizations that advancements, research, discussions of behavioral healthcare are with a national audience. Additionally, the same evidence based treatment protocols are used across the nation and are not defined by regional interpretations. The same diagnostic criteria are used across all national providers; the same requirements for psychiatric professionals and psychological professionals cross all states. While there may be slight variations in state funding or state regulations, overall behavioral healthcare providers are very similar to one another regardless of state boundaries. While behavioral healthcare providers may have little variation across the nation, it becomes difficult to generalize my findings to a broader population given the limited number of social enterprise organizations I was able to study. I cannot affirmatively conclude that my sample of social enterprise organizations is reflective of the national population.

Finding if there are differences in financial performance and operational performance between those nonprofit behavioral healthcare providers who engage in social enterprise and those who do not was the intent of this research. I am not attempting to prove causality, i.e. social enterprise causes enhanced financial

performance and operational performance. I may be at risk for not fully understanding historical factors attributing to differences between my two classes of organization. It is possible that there are other pre-existing factors that resulted in the use of social enterprise and affects the results of my research. For example, an organization may have employed an executive staff member with particularly strong business acumen who pursued social enterprise activities due to self interest and it is this leadership that affects the financial performance and operational performance rather than the use of social enterprise. A longitudinal study could explore the question of causality.

Review of Findings

While social enterprise has gained acceptance and interest within the nonprofit sector it has continued to receive criticism and words of caution. This research study has perhaps helped to continue the debate and to support those words of caution. The results of my research were not what I had expected. My hypotheses were not supported and overall I found that social enterprise did not have an impact on the financial performance of the nonprofit behavioral healthcare organization. The question becomes, "Why?".

In reviewing the literature there are critics of social enterprise activities. Bradach and Foster (2005) were among those who cautioned the virtues of social enterprise. They cited that many nonprofit earned income ventures failed to make an actual profit. They found that financial returns were not accurately portrayed, managers were distracted from the core mission, and many nonprofits were ill-equipped to operate commercially. Bradach and Foster (2005) also noted that like many small businesses the start up costs were high for many of the ventures and the ultimate profits (if any) were modest. The ability to pay for the start up expenses would take on average over ten years. Overall,

Bradach and Foster (2005) found in research they conducted that of their sample, seventy-one percent of earned income ventures were unprofitable and another five percent were merely breaking even. They also found that of those who reported profits, their indirect allocation methods were not appropriate and in most cases under allocated overhead expenses to the earned income venture.

In truth, these social enterprise endeavors are very much like starting a small business. Depending on the business type there can be substantial up front investments of both time and money. A bakery requires a commercial kitchen with all the commercial baking appliances. A location is needed and depending on the type of business it may be an expensive store front. Additional insurance must be secured to cover the business. Employees must be secured and trained and paid. Marketing expenses must be incurred. Additionally staff with expertise in the particular business venture may need to be recruited or consulted. There may be up front legal expenses associated with establishing the venture. Starting up a business is not easy and generally is not cheap. Bradach and Foster (2005) cite that only thirty nine percent of small businesses are profitable and half fail within the first five years of inception. Dees (1998) gives even more dire odds of fifty to eighty percent of small businesses failing within their first five years. These are not good odds for any individual much less those who may not be the most business savvy or experienced in commercialism.

Most nonprofits are created to serve a disenfranchised population. Behavioral healthcare providers serve typically low income individuals, many of whom suffer from severe and persistent mental illness. It is an industry with very little glamour. The majority of individuals who work in nonprofits are not attracted to the field because of

financial interests. Many of these individuals are “human service providers” who are there to serve and assist others. It is not atypical for a behavioral healthcare provider to continue a program that is losing money simply because it fulfills a community need or is identified as part of the organizational mission. Bradach and Foster (2005) found that nonprofits may in fact offer wages that are higher than their competitors (a “living wage”) or hire individuals who typically would be passed over in the mainstream business world. These tactics while admirable are not going to poise a business to be competitive with its peers.

Bradach and Foster (2005) also noted that nonprofits may continue these earned income ventures even in the face of losses. What originally started as an earned income venture to increase revenues may become another program that has board approval, community notoriety and needy individuals who are served via employment opportunities. It may be embarrassing to stop a program that had been started with great hope. Bradach and Foster (2005) note that this level of “commitment escalation” is more intense in the nonprofit sector than for-profits. These social enterprise organizations operate under what has been coined the “double bottom line”. This double bottom line recognizes the traditional profit margin but also recognizes a value added bottom line. Has the organization or more importantly its consumers derived more value or benefit? If one part of the double bottom line has a favorable result the ability to terminate a program becomes less clear.

Tuckman (1998) details four factors that are inherent for the financial success of a venture. The first item is that the nonprofit embraces the need and use of social enterprise. The entire organization must wholeheartedly embrace this endeavor. Lack of

support could lead to failure. For example if the individuals who typically handle promotion for the organization do not believe in the endeavor they may postpone marketing activities or put together a marketing plan that is not indicative of their best work.

Second, the endeavor must not imperil the organization's central mission. Ideally the board of directors should render this decision and provide ongoing monitoring.

Third, the organization must have a business that is soundly developed via a business plan and have a product that is competitive within the marketplace. Mandiberg and Warner (2006) identified that social enterprise businesses were best able to compete in the market when they sought to serve a market niche. Finding the right niche is critical and requires a firm understanding of the market and pricing. If a niche exists one must ask why the market has not sought to serve it. The answer may be that the niche is too small or simply not financially viable. However there are niches that social enterprise organizations have identified and successfully served.

Finally, the marketplace or consumers must be willing to purchase the service or product. Without these key factors, Tuckman (1998) cites an increased risk of business failure. McBrearty (2007) added a fifth factor for success derived from her research studies. McBrearty (2007) noted the need for management who has the skills to handle the complexity of this endeavor. Her research found that organizations who failed tended to struggle with the ability to gather and interpret operational and financial data.

McBrearty (2007) also expands Tuckman's work by identifying three critical failure factors for social enterprise endeavors. First, these organizations fail to accurately estimate the development time needed to launch the endeavor. While McBrearty cites

this as a separate failure factor it may mirror Tuckman's (1998) success factor related to solid business planning. If these organizations managed to put together a coherent and well thought out business plan they might not underestimate the time to launch the business.

McBrearty (2007) also identifies the bureaucracy of the typical nonprofit organization as a critical failure factor. She notes that nonprofits are often comprised of "silos" or programs that may have separate funding streams and staff. The ability to flexibly use staff across programs hampers the ability of the organization to spread knowledge across the organization and use staff where most needed. This can hamper the start up of the business venture. Finally, many nonprofits engage in social enterprise activities as a final effort to halt its own organizational failure. Rather than approaching social enterprise in a strategic manner they are reacting to a pending crisis and leaping into social enterprise.

Ultimately social enterprise endeavors are much like starting a small business. The chances of failure are great, the start up is significant and the need for solid planning and skilled staff is essential. Couple these factors with the "double bottom line" where added benefit to consumers or the organization receives similar weight to financial performance and it no longer seems surprising that social enterprise organizations may not have better financial performance than traditional nonprofits.

As an individual with a business degree who has believed in the market and values self sufficiency, I had hoped this research would prove that social enterprise activities do provide improved financial performance. However, that is not the case. This research did not support the notion that social enterprise activities yield improved

financial performance indicated by favorable current ratios, net profit margin percentage, net days in accounts receivable, administrative overhead percentage, debt ratio or revenue per full time employee.

Future Research

In reviewing the literature and conducting this research I have formed additional questions regarding social enterprise. Within my research I was surprised to find that organizations headed by chief executive officers with social work degrees were just as likely to engage in social enterprise as organizations headed by chief executive officers with business degrees. Was this particular to my population? It would be interesting to see future research that explored what type of chief executive officers engaged in social enterprise activities or initiated these activities.

It may also be interesting to explore what types of social enterprise activities are associated with financial success. There are many forms of social enterprise activities ranging from thrift shops, landscaping services, maintenance services, manufacturing, bakeries, restaurants etc. Perhaps there are certain types of businesses that are more prone to be financially successful.

A longitudinal study could provide insight to what leads an organization to engage in social enterprise. Are there certain triggers that occur prior to engaging in social enterprise that are prevalent across these organizations? Is there a change in management, increased competition, reduced funding, or a change in board members?

Tuckman (1998) details success factors for social enterprise organizations and McBrearty (2007) posits critical failure factors based on research conducted with a

limited pool of organizations. Perhaps broader research could be constructed to provide further evidence to support these positions.

I must also go back to my experience with Pressley Ridge. I perceived that they were just more sophisticated that their peers. They seemed more politically connected, more knowledgeable, more professional in their dress and demeanor. What this merely my perception? Are there perhaps differences in organizational culture in social enterprise organizations? Are these differences present before engaging in social enterprise and attributable to the adoption of social enterprise or does the culture change after the adoption of social enterprise. This type of question seems ideally suited to qualitative research or perhaps a mixed methods (qualitative and quantitative) study.

My original intentions were to explore how social enterprise organizations varied from their traditional nonprofit counterparts on both financial performance and operational metrics. However, I had to scale back my research to assess only financial performance after I could not obtain a suitable response rate on operational metrics. There should be future research on operational performance differences in nonprofit social enterprise organizations versus their traditional counterparts. Perhaps there may be no financial advantage to social enterprise activities but if operational processes are superior or outcomes are enhanced social enterprise will have redeeming value.

This research found that social enterprise organizations could potentially have higher administrative overhead than their counterparts. Further investigation of whether this occurs and why could provide benefit to those organizations engaging in social enterprise.

In my additional data exploration, the results give some allusion to the promise of social enterprise in terms of predicting higher FTE's, total revenue, and gross profit margin. I believe additional research must be conducted with more robust data sets in order to determine if these results truly indicate a benefit from social enterprise.

Social enterprise is still a relatively new phenomenon and the research is limited and conflicting. The debate on benefits and harm of social enterprise continues. Nonprofits are already in such a perilous environment that a gamble on social enterprise cannot be ideal. The debate must be resolved with continued research.

Conclusion

This research has not supported my initial contention that social enterprise behavioral healthcare organizations would have enhanced financial performance versus traditional nonprofit behavioral healthcare providers. While there are many social enterprise organizations that are celebrated in the media for their ability to sustain and even enhance organizational missions, place individuals in jobs who typically would struggle for employment, and bring positive attention to the organizational cause, social enterprise is still so new that it must be subjected to continued research and scrutiny before widespread acclaim.

Nonprofit organizations are categorized in a distinct sector that has its own unique characteristics that distinguish it from other sector organizations. I believe we must appreciate that nonprofits cannot be simply molded into for-profit images. While business tactics and principles are to be valued, their application to the nonprofit sector must accommodate the uniqueness of the sector.

Social enterprise cannot be discounted yet. It is still new and there are so many aspects of these social enterprise organizations that need to be explored. I believe the nonprofit sector serves a valuable purpose but the sector is so dependent on limited resources that are continuing to dwindle. I understand why social enterprise could be so readily embraced – the sector is starved for resources. This past year in Pennsylvania at least three nonprofit behavioral healthcare providers closed their doors. These organizations operate on the narrowest of margins if any margin even exists. If one organization touts its success with social enterprise many others will readily embrace it and give it a try. However, social enterprise may not be the cure all for all organizations.

This research was limited by insufficient organizations responding and particularly a suitable number of social enterprise organizations. There are numerous questions that persist about social enterprise that have not been resolved in this research or other research endeavors. Given the need for additional answers, nonprofits must tread carefully before considering social enterprise.

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APPENDIX A – Survey Instrument

Social Enterprise and Behavioral Healthcare Survey

Organizational Demographics:

Are your services primarily delivered in a (check one):

- Predominantly urban setting
- Predominantly rural setting
- Mixed Urban/Rural Setting

What programs do you offer? (circle all that apply)

- Outpatient Mental Health therapy
- Outpatient Drug and Alcohol therapy
- Partial Hospitalization for Mental Health
- Partial Hospitalization for Drug and Alcohol
- Walk In/Crisis services
- Case Management Mental Health
- Case Management Drug and Alcohol
- Family Based Mental Health
- Behavioral Health Rehabilitative Services/ Wraparound
- Psychiatric Medication and Evaluation for Mental Health

What is your DPW Region? -

- Western
- Central
- Northeastern
- Southeastern

How many years has your organization been in operation? _____

What is the size of your organization's yearly budget (based upon the current fiscal year)? _____

How many full time equivalent employees are employed? _____

What is the tenure in years of the current CEO? _____

What type of educational background does the current CEO have?

- Social services related (psychology, sociology, criminology, etc.)
- Business related (marketing, accounting, etc.)
- Other

Is your organization accredited and if so what type(s) of accreditation (JCAHO, CARF, etc)?_____

Does your organization currently actively engage in social enterprise or earned income activities that have been in operation for more than one year? For example, does your organization provide consulting services, sell mission based marketing items such as t-shirts, magazines, etc., operate a second hand thrift store, etc.

- Yes
- No

If you have selected "YES" please indicate the appropriate category:

□ Thrift Store	□ Staffing Service
□ Restaurant/Café/Catering	□ Retail other than Thrift Store
□ Property Management	□ Packaging/Distribution
□ Print/Copy Service	□ Agriculture/Farming
□ Clerical Services	□ Construction
□ Consulting Services	□ Employee Assistance Program
□ Manufacturing	□ Housing Rehabilitation
□ Information Technology	□ Janitorial/Cleaning Services
□ Landscaping/Ground Maintenance	□ Other (please describe)

_____

If your organization does have social enterprise activities, how long has the organization engaged in these activities (indicate in years)? _____

What percentage of the total annual revenues is derived from these social enterprise activities? (Skip this question if you do not have social enterprise activities)_____

If you have social enterprise activities how is your organization structured?

- Social enterprise is department or profit center within parent organization with staff and leadership integrated and shared
- Social enterprise is department or profit center within parent organization with separate and distinct staff and perhaps leadership (separate manager of unit)
- Separate for-profit legal entity
- Separate nonprofit legal entity

If you indicated you have social enterprise activity please indicate the percentage of total expenses devoted to the social enterprise activity?_____

If you indicated you have social enterprise activity, please indicate the total full time equivalent staff devoted to the social enterprise activity?_____

Financial Measures:

Please complete the following based on annual or annualized figures for the most recent fiscal year.

Current Ratio – *calculated as total current assets divided by total current liabilities* –

_____

Net Operating Revenue – *defined as excess revenue over expense or "net margin". This is sometimes referred to as a "contribution to margin" and is the "bottom line" operating profit or loss after all revenue deductions and expenses are considered* –

_____

Net Days in Accounts Receivable – *Calculated as patient accounts receivable divided by (net patient revenue divided by 365)* -_____

Operating Ratio **–** *Calculated as total operating expenses divided by gross revenue*-

_____

Current Assets - _____

Short Term Debt (payable in less than one year) – _____

Long Term Debt (payable in more than one year) - _____

Bad Debt Percentage – *Calculated as total bad debt expense divided by net patient revenue* - _____

Days Cash on Hand – *Calculated as total unrestricted cash divided by the average daily total expense (excluding depreciation) -* _____

Administrative Overhead as a percent of total expenses – *Calculated as total administrative expense divided by total expenses. Total administrative expense is defined as total salary, fringe benefit, and indirect allocated expenses (including occupancy, telecommunications, networking, etc) associated with administrative staff whose primary function is to provide support or supervisory services to programs. These expenses would be associated with individuals who are not solely identified with a particular program and would include administrative/executive staff, fiscal staff, administrative support staff, human resources, quality assurance, and information management staff.*

_____

What percentage of your total revenue is derived from fundraisers or donations?_____

Operational Measures: *Access to outpatient services – computed as the number of calendar days between initial referral and the first actual scheduled outpatient appointment. This does not include crisis or special access services. Using the date of the first scheduled appointment (rather than the first actual completed appointment).*

Average number of calendar days between a routine request for service (intake assessment) and the date of the initially scheduled face-to-face appointment

_____

Average number of calendar days between a routine request for psychiatric evaluation and the date of the initially scheduled face-to-face appointment.

_____

Average number of days from date of a hospital discharge to the date of the outpatient follow-up appointment. _____

Productivity – please report the total number of FTE's delivering the service in each staffing category and the total annual or annualized hours of service provided. Hours of service provided is defined as direct "billable" hours.

Annual or Annualized number of outpatient counseling/psychotherapy service hours provided _____

Total FTE's that provided outpatient counseling/psychotherapy services in the same reporting period_____

Outpatient attendance can be computed by having staff tally the number of no shows and cancellations that occur during some set period of time of no less than one month as well as count the total number of appointments scheduled in the same time period. Cancelled appointments, including late cancellations, should not be included as no-shows. The no-show column should only include completely unexpected loss of appointment times:

Service	Total Appointments Scheduled During Reporting Period	Total number of no-shows during same reporting period	Total appointments cancelled by clients during same reporting period	Total Appointments cancelled by therapists during same reporting period
Initial Appointment				
Counseling/Psychotherapy				
Psychiatric Medication				

APPENDIX B - Informed Consent Form

Informed Consent Form

You are invited to participate in this research study. The following information is provided in order to help you to make an informed decision whether or not to participate. If you have any questions please do not hesitate to ask. You are eligible to participate because you are a Nonprofit Behavioral Healthcare Provider located in Pennsylvania. I am asking that the Chief Financial Officer (or equivalent) within your organization complete the survey as they are most likely to have access to the requested data.

The purpose of this study is to compare financial and operational performance measures between traditional nonprofit behavioral healthcare providers and nonprofit behavioral healthcare providers who have earned income activities or engage in social enterprise. This research is conducted towards fulfillment of a dissertation for Wendy Pardee and will be completed in conjunction with the Indiana University of Pennsylvania. Participation in this research will involve your completion of a survey either online at http://studentvoice.com/iup/health08 or by completing the attached hard copy and returning it in the enclosed envelope.

There are no known risks or discomforts associated with this research.

The information gained from this study may help us to better understand the effects of social enterprise within behavioral healthcare organizations.

Your participation in this study is voluntary. You are free to decide not to participate in this study or to withdraw at any time without adversely affecting your relationship with the investigators or IUP. Your decision will not result in any loss of benefits to which you are otherwise entitled. If you choose to participate, you may withdraw at any time by notifying the Project Director or informing the person administering the test. Upon your request to withdraw, all information pertaining to you will be destroyed. If you choose to participate, all information will be held in strict confidence. Your response will be considered only in combination with those from other participants. The information obtained in the study may be published in scientific journals or presented at scientific meetings but your identity will be kept strictly confidential.

Project Director:
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Indiana, PA 15705
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Investigator/Researcher:
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This project has been approved by the Indiana University of Pennsylvania Institutional Review Board for the Protection of Human Subjects (Phone: 724/357-7730).

_____

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