

Non-profit social enterprises

Main features of non-profit social enterprises

As with a for-profit social enterprise, a non-profit social enterprise works to improve social or environmental outcomes. To qualify for non-profit status, organisations typically need to prove their social or environmental purpose to the government. They may receive all funding through grants and donations, or they may be involved in additional revenue-generating activities such as selling goods or services. Any surplus generated is required by law to be reinvested into the business to increase its impact. Most non-profits are run by a board of directors. The board is responsible for hiring senior staff to carry out the organisation's mission. The board is also accountable to third parties, such as the community in which the enterprise operates.

Non-profits are generally classified according to their primary purpose. In addition to universities, many private schools, hospitals and cultural institutions are organised as non-profits, as are religious organisations, political parties, labour unions, professional organisations and some interest groups. Many non-profits exist to help those in need, who may be underserved by government social safety nets or who are marginalised in society.



Figure 1. Organisations helping the homeless would be organised as non-profit social enterprises.

Credit: Ariel Skelley, Getty Images

Evaluation of non-profit social enterprises

In addition to the general benefits and challenges of social enterprises discussed in [Section 1.2.3 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/forprofit-commercial-enterprises-id-36840\)](#), there are a number of benefits specific to the legal structure of non-profit status. Firstly, like corporations, non-profit social enterprises typically have limited liability. This means that the business is a separate legal entity. Secondly, non-profit status requires that all surpluses are reinvested in the enterprise, as opposed to for-profit social enterprises where some of the profits can be paid to owners or shareholders. Because non-profits have to reinvest all surplus, they pay no tax on them. Thirdly, non-profits may be able to rely on volunteers to help with the cause. This can help keep costs low. And finally, non-profits may receive grants and donations, which may not be available to for-profit social enterprises. This increases the range of funding available to non-profit organisations.

Think back to the university example in [Section 1.2.0 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/the-big-picture-id-36838\)](#). You might remember that some universities are organised as non-profit organisations. They can charge tuition fees, accept research grants, and receive donations. All these funds are used to run the institution and invest for the future. Any surplus left after paying

expenses is reinvested in the institution. In the case of universities, the accumulated surplus is known as an endowment. Large endowments can earn huge sums in interest every year, contributing to the running of the institution.

However, there are some challenges associated with non-profit status. As with for-profit social enterprises, non-profits can face funding difficulties. And because the non-profit is less likely to be involved in market-based activities, its funding problems may persist over time. Many non-profits have to spend time and energy raising funds from donors or applying for grants; this is time and energy that could be spent on their core purpose. Competition for grants and donations is intense, and these forms of income may be under continuous threat. Because of these persistent funding issues, employee salaries may also be limited, making it difficult to recruit and retain talent. Despite the low pay, however, it is often the case that the motivation and commitment of employees in non-profits is high. Finally, there can be significant paperwork involved in setting up a non-profit organisation. Exemption from tax means that governments need to be very careful about which organisations they grant non-profit status to, and those organisations need to prove that they are meeting social and/or environmental objectives and the legal requirements for reinvesting surpluses.



Figure 2. Non-profits may have to spend a lot of time and energy to fundraise.

Credit: kali9, Getty Images

Theory of Knowledge

Many wealthy individuals have set up non-profit foundations to use their financial assets to improve social and environmental outcomes. This is called philanthropy. A few large or well-known foundations include:

- The Bill and Melinda Gates Foundation (<https://www.gatesfoundation.org/>), from income connected to Microsoft
- The Azim Premji Foundation (<https://azimpremjifoundation.org/>), from income generated from Wipro
- The Chan Zuckerberg Initiative (<https://chanzuckerberg.com/>), from income connected to Facebook
- The Bezos Family Foundation (<https://www.bezosfamilyfoundation.org/>), from income connected to Amazon
- The Li Ka Shing Foundation (<https://lksf.org/>), from income connected to CK Hutchison Holdings

There is no doubt that these foundations have done enormous good in the world. However, there are critics who claim that these well-funded institutions can undermine society and political institutions, creating ethical issues that need to be addressed.

Read this interview (<https://news.stanford.edu/2018/12/03/the-problems-with-philanthropy/>) with Stanford University scholar Rob Reich, who has written extensively about this topic.

- Which ethical issues associated with philanthropy does Reich highlight?
- How might those ethical issues be amplified if the money used to fund the foundation is earned through a business that has used aggressive tax avoidance measures in the countries where it operates?

Non-governmental organisations (NGOs)

Non-governmental organisations (NGOs) are a sub-category of non-profit social enterprises that have a purpose or mission to benefit society or the environment. As the name implies, NGOs are not controlled by governments however they can receive government funding. Although the term NGO is used loosely around the world, it often refers to groups whose work has a broad scale, usually national or international, and where the work may overlap with activities in which governments engage. That is why there is a need to distinguish them from government activities, through the label 'NGO'.

NGOs are involved in a wide range of activities, as shown in **Table 1**.

Table 1. Examples of non-governmental organisations and their area of focus.

Organisation	Area of focus	Global / National
<u>Amnesty International</u> (https://www.amnesty.org/en/)	Human rights	Global
<u>Wikimedia Foundation</u> (https://wikimediafoundation.org/)	Open information	Global
<u>Médecins Sans Frontières</u> (https://www.msf.org/)	Medical care in conflict zones and low-income countries	Global
<u>Acumen Fund</u> (https://acumen.org/)	Impact investments	Global
<u>Goonj</u> (https://goonj.org/)	Disaster relief, humanitarian aid, community development	National (India)
<u>Rioterra</u> (http://rioterra.org.br/pt/)	Amazon reforestation	National (Brazil)
<u>ANTaR</u> (https://antar.org.au/)	Justice, rights and respect for Australia’s First Peoples	National (Australia)

Activity

Learner profile: Thinkers
Approaches to learning: Thinking skills (critical thinking, transfer)

The Bill and Melinda Gates Foundation was set up in 1997 to fight poverty, disease and inequality. The foundation was set up by Microsoft founder Bill Gates. Warren Buffet, another of the most wealthy people in the world, is also a major contributor

to the foundation, which had an endowment of about 50 billion USD in 2021.

Watch the video below to learn more about the foundation and its activities.

What does the Bill and Melinda Gates Foundation do?



Video 1. How the Bill and Melinda Gates Foundation started and the work that it has done.

Consider the benefits and challenges of social enterprises generally, discussed in [Section 1.2.3 \(/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/forprofit-social-enterprises-id-36841\)](/study/app/y12-business-management-a-sl-may-2024/sid-352-cid-174703/book/forprofit-social-enterprises-id-36841), and specifically of non-profit social enterprises in this section.

To what extent do those benefits and challenges apply to the Bill and Melinda Gates Foundation, a very large, very well-endowed non-profit social enterprise?