

**Growing a Large-Scale Social Enterprise:
How Goodwill Industries[®] Succeeds as a Hybrid Organization**

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Abstract

Distributed social enterprises with national or international footprints face unique management challenges. To cast a lens on these challenges, we analyze the case of the USA-based social enterprise Goodwill Industries International, Inc. (GII), a century old, hybrid not-for-profit organization with business related revenue of over \$5.1B. The benefits that accrue from its business support Goodwill's social mission which is to enhance the dignity and quality of life of individuals and families through learning and the power of work. We compare its organizing structure with new forms of organizing that are emerging today and suggest management imperatives for large-scale hybrid organizations that may help facilitate long-term success.

Introduction

There has been increasing interest in creative organizing approaches that combine margin producing operations with activities designed to further social ends. These "hybrid organizing forms," as they are called, integrate sound business practices with social mission to operate under the general banner of "social entrepreneurship" (cf. Kickul & Lyons, 2012; Nicholls, 2006; Dees, Emerson, & Economy, 2002; Gundry & Kickul, 2007). This article contributes to the field by describing the success factors that have enabled the USA-based social enterprise Goodwill Industries[®] to operate as a highly successful hybrid that is formed as a not-for-profit and operates what we believe is a distinct, complex organizing form that we are calling the "distributed social enterprise." By this we mean that although Goodwill[®]

is one brand, it has no command and control structure, and its assets, capabilities, authority and governance infrastructure are distributed in local communities. Although Goodwill is probably familiar to many readers, fewer might be aware of exactly how Goodwill Industries succeeds at creating social value and how its distributed structure has enabled it to serve the unique needs of local communities for over 112 years.

Integrating Business Effectiveness with Social Mission

A critical question posed in the literature is the relationship between an organization's structure and its capacity to operate efficiently while simultaneously performing a social mission (cf. Dees, 1998; Dees, Emerson & Economy, 2001). This is crucial because the absence of market mechanisms in the not-for-profit sector would seem to make social services organizations inefficient while, at the same time, in the for-profit sector the clarion call for maximizing shareholder profits would seem to delimit concerns about social responsibility to a business school calculus of return-on-investment (cf. Barnett & Salomon, 2012).

David Colander of Middlebury College argues in an unpublished essay that the hybrid forms that are emerging share two characteristics: the "pursuit of social and environmental aims and the use of business methods" (Colander, 2012). Although seemingly simple, the blending of what are traditionally incommensurate "institutional logics" that collectively express an organization's identity creates leadership and measurement challenges (Battilana & Dorado, 2010).

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Typologies of Hybrid Forms in the Literature

To understand the hybrid form, current research places considerable emphasis on establishing the legitimacy of the social enterprise as an organizing form (Dart, 2004) and the classification of social enterprises into various types (Colander, 2013; Goldstein, Hazy & Silberstang, 2009). Although legal forms of organizing, such as new for-benefit organizations, are sometimes used to classify hybrids, typologies typically focus on balancing the relative importance of profit margin versus social service delivery (Nicholls & Pharoh, 2008). Since Goodwill is legally structured as a non-profit, typologies that relate to business operations and mission services integration (Alter, 2007) are most relevant to our study.

Although there are several useful analyses that speak to the challenges of balancing efficient operations with social good (Zahra et al., 2009; Young & Lecy, 2012) herein we rely on the 2007 *Social Enterprise Typology*, developed by K. Alter of Virtue Ventures LLC, which describes a continuum of business/mission integration, identifying illustrative points along it. At one extreme is a fully integrated or embedded business model where social programs and business operations are fully integrated. At the other end of the continuum are fully separated activities where mission is external to the business, but where some or all of the returns from business operations are used to subsidize distinct social programs that are managed independently. Between these extremes are various levels of integration.

Although researchers such as Alter describe approaches like franchising to grow a national or international footprint (Kickul & Lyons, 2012; Wei-Skillern et al., 2007; Tracy and Jarvis; 2007; Combs, Michael &Castrogiovanni, 2004), our review of the literature found

that typology discussions are largely silent with regard to the complexity of managing hybrid organizations once they reach national or international scale as is the case with Goodwill Industries. This is particularly true with regard to the various categories of assets used to accumulate value as well as how, once accumulated, this value is distributed in local communities to support a social mission.

This study contributes to the literature by describing the understudied, large-scale, complex organizing form that we are calling “distributed social enterprise” (DSE), with Goodwill as an example. Because of their size, DSEs are able to exploit economies of scale but are also characterized by locally delivered mission that varies according to local needs and distributed assets and resources.

Business Logic and Identity Over Time

To be self-sustaining, social enterprises must adapt to change over time. Typically, this is the realm of business strategy and strategic leadership and is managed through a centralized authority structure. However, in a DSE, this challenge applies to both the value creation engine of the business and its value distribution approach, and both of these are often uniquely local, including the authority to decide what to do. The distinction between value accumulation and value distribution makes social enterprises qualitatively different from traditional for-profit enterprises. This is true since the latter continually provide returns to shareholders as their sole value distribution imperative. In the for-profit sector, value creation strategies might change, but value distribution does not.

This conundrum highlights an active area of current research about the hybrid organizing form — the issues of conflicting institutional logics (or business logics) and

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organizational identities (Battilana & Dorado, 2010). In commercial microfinance in South America, for example, Julie Battilana and her colleagues identified deep behavior and priority differences between employees trained in the institutional logic of the banking industry and those trained in the logic of social services. These employees effectively coexisted in subgroups while holding two distinct and incommensurable identities within the firm. These deep differences led to internal conflicts and difficult work relationships with respect to the allocation and flow of resources and the appropriateness of various operational practices. These conflicts appear to have impacted the sustainability of the enterprises that they studied, leading to “mission creep” where one logical framing dominated the organization thus changing its mission over time.

Social Enterprises Differ in the Type of Capital They Create and Where They Create It

In a separate study, Battilana and her colleagues identify four types of capital which can be accumulated and distributed to the beneficiaries of social enterprises: political, human, economic and social capital (Mair, Battilana & Cardenas, 2012). The authors suggest that social enterprises create value through activities in each of these different areas. They further argue that social enterprises can be classified according to which of these areas is its primary focus. For example, some other US-based organizations like the National Organization for Women (NOW) are organized to campaign for political change. The United Way, which is organized to accumulate and provide economic assistance to participating charities, is another example. The Goodwill DSE, in contrast, has evolved to accumulate, deploy and distribute capital in all of these areas.

Managing Complexity in Value Creation and Value Distribution

The above conversations about today's changing business environment have led to calls to consider social enterprise from the complexity perspective (Goldstein et al., 2009; Colander, 2013). Competing organizational logics, distributed authority, and the deployment of types of capital to both create value and distribute it in response to social needs are not easily reduced to traditional command and control models of leadership. Organizations like Goodwill are not command and control systems generating value for shareholders that can be simplified and run from the top. They are complex, community-led organizations, in which much action occurs locally, and innovation, adaptation and execution are diffused across the enterprise.

These kinds of organizations are the subject of the relatively new field of research called complexity leadership theory (Marion & Uhl-Bien, 2001; Goldstein et al., 2010; Hazy & Uhl-Bien, 2014, 2015). Beginning in 2001 with a call for systemic models of leadership from Marion and Uhl-Bien in *The Leadership Quarterly*, complexity leadership theory (CLT) has emerged as a useful vehicle for managing complex organizations in fields as diverse as business, healthcare, social entrepreneurship, the military and public policy -- in short, anywhere that complexity characterizes the organizing environment (Molleman et al., 2010; Hannah, Jennings, & Nobel, 2010; Morrison, 2010; Goldstein et al., 2010). In the CLT view, leadership is not a person or persons. It is a pattern of interactions among individuals to form a system of action (Uhl-Bien, Marion & McKelvey, 2008; Hazy, Goldstein & Lichtenstein, 2007).

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CLT studies have found that leadership activities arise locally to perform certain requisite system organizing functions that cannot be performed by other more routine processes. Although often performed by the nominal “leader,” they can be performed by others when the need calls for it. Hazy and Uhl-Bien (2015) reviewed more than 20 studies—eight were social enterprises—and identified the leadership activities that were being performed by various individuals. Inspired by the five functions of organizational leadership identified by Katz and Kahn in their seminal 1966 work, *The Social Psychology of Organizations*, Hazy and Uhl-Bien (2014) organized leadership activities into five categories:

1. Enacting community-building to recruit, select, motivate and unify individuals
2. Structuring activities, resources and people for efficacious decision-making and action
3. Administrating plans and programs to acquire, maintain and defend resources
4. Gathering and synthesizing information for situational awareness across the ecosystem
5. Generating options through experimentation and entrepreneurial risk taking.

Many researchers have argued that hybrid organizations must operate in complex ecosystems. As such, social enterprises must perform all of these functions effectively.

Metrics for Hybrid Forms of Organizing

Performance measurement in hybrid organizations is especially challenging. Based upon a survey of the social enterprise sector, Ebrahim and Rangan deduce that an appropriate measurement strategy depends upon the complexity of the firm’s operational

strategy on the one hand, and its espoused “theory of change,” or how the firm’s actions will bring about the hoped-for change, on the other (Ebrahim & Rangan, 2010). Depending upon whether each of these two dimensions is focused or more complex, there are thus four possible measurement approaches that might be appropriate.

Due to the size and scope of Goodwill, its operation is quite complex and not focused except with regard to the general mission. Thus the measurement scheme suggested by Ebrahim and Rangan would depend upon the “theory of change” that Goodwill espouses as it promotes change in the community. For example, if its theory of change is concerned only with the delivery of employment and employment-specific services, then Ebrahim and Rangan would say that “integrated results” composed of aggregate outputs or outcomes, and sometimes impacts, should be measured. However, if its theory of change is complex, promoting long term change within entire communities, then “ecosystem results” involving long term metrics about their communities would be necessary. As we will see, both of these perspectives are relevant in the Goodwill case.

Management Challenges in the Distributed Social Enterprise Context

Battilana and her colleagues summarized all of the challenges that face social enterprises as follows: the choice of legal structure, the sources of financing, the customers and other beneficiaries of the social enterprise, the organizational culture, and the unique challenges of talent development in the social enterprise context (Battilana et al., 2012). The analysis of the Goodwill case that follows is organized around our observation that complex DSE organizing structures have four distinct characteristics that exacerbate these challenges.

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First, DSE organizing structures lack the centralized authority and command and control structure that is common in both business and philanthropic organizations. As a result, directing activities across the organization requires a management approach akin to orchestrating and facilitating. Second, resources and capital do not flow back and forth from the field offices to the center. Rather, resources are gathered and distributed within local communities, often without any visibility or controls by those at the center. Third, executive talent requires local knowledge and the Fortune 500 skills to both create value and then to distribute it as needed by the local communities that they serve. This implies the need for leadership at all levels of the organization, even as it is difficult to find and recruit personnel in competitive employment markets. Fourth and finally, social value is difficult to measure, particularly when it is delivered locally and the value can only be measured locally.

The Case Study Method for Goodwill Industries®

This project represents a single case study of the very large distributed social enterprise, Goodwill Industries. Qualitative researchers have long pointed out that a single case has research value, particularly when that organization is unique or noteworthy (Eisenhardt, 1989). Goodwill fits this requirement. Not only is it perhaps the largest self-sustaining social enterprise of its kind, it has survived and evolved for 112 years with a footprint that spans North America and serves millions of people each year.

The case is based on three data types. First, one of the authors was embedded at Goodwill Industries International (GII) for over five years and during that time conducted interviews and informal discussions with most of the local Goodwill executive and volunteer leadership as well as the entire senior management team and board of directors at GII.

Second, the researchers had unrestricted access to internal archival information including details about operation and mission services. In addition, many senior managers were made available to answer questions and clarify what was observed in the data. Third, embedded in this analysis are 11 distinct case studies that were compiled in the context of Goodwill's internal leadership development program. These data were analyzed in the context of the theoretical approaches described in the previous section.

The Evolving Logic of Goodwill's Distributed Social Enterprise

Originally formed by Reverend Edgar Helms in 1902 as a local community movement in Boston, Massachusetts as described in Table 1 the Goodwill organizational structure has evolved over the last century into an international *value creation engine* and *social value distribution system* that sustains a not-for-profit social enterprise with overall revenue of \$5.1B in 2013, large enough to be in the Fortune 500 if it were a for-profit firm. This formidable economic engine is distributed widely across North America and to a lesser extent the world, but at the same time, it does not service shareholders to make them wealthy. Rather, it is aimed directly at the Goodwill mission: *helping individuals and families achieve career and family success through learning and the power of work.*

Why Study Goodwill?

Goodwill is worthy of study for three key reasons. First, it is large in scale, scope and geographic reach in both the economic sense and in terms of its social impact. Second, it is successful and self-sustaining in terms of its capital accumulation through business operation and its capacity for service delivery. Finally, these complexities have been

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addressed within Goodwill in the context of an understudied organizing structure, the DSE hybrid form.

Goodwill is unique in firms of its scale in that all of the various kinds of capital that are created by its business operation are directed at serving its mission. It serves its mission in two distinct ways: It provides direct support of over 122,000 employees across North America (as well as several other countries). Many are “opportunity workers,” the disadvantaged populations targeted through Goodwill’s mission. Most are employees in retail stores, but many are employees in support of service contracts to business and government agencies and other Goodwill industrial businesses. In addition to serving its own employees, Goodwill also provides services for residents in the communities it serves. Services such as career counseling, job-related transportation services, job-skills training, and job-seeking skills training are supplied to over 9.8 million non-employee clients annually.

The Goodwill DSE organizational structure has evolved and expanded over the last century as local communities across the United States and Canada joined the Goodwill movement to develop a network of independent, locally-led organizations. In parallel, the National Association of Goodwill Industries evolved into the current central organization -- Goodwill Industries International. Through the course of this evolution, what began as a social movement became a large, self-sustaining, distributed social enterprise employing 122,000 team members who each year serve 9.8 million people with career and financial wellness services while connecting more than 261,000 people with jobs in local communities.

Table 1 - Goodwill® : historical context

| |
|---|
| Beginnings at the Turn of the 20th Century |
| In 1902, Reverend Edgar Helms, a young minister in Boston's South End, was appalled at the conditions faced by immigrants who found themselves in a new country without jobs and sometimes desperate for food, clothing and shelter. Using burlap bags, Helms went door-to-door in Boston's wealthiest districts asking for donations of clothing and household goods to give to the immigrants. |
| Early Challenges Led to the Initial Goodwill Business Model |
| Helms recognized two problems very early on in his mission: some of the recipients of his gifts did not fully utilize or appreciate his gifts and even worse, the pile of articles that were unsuitable for use was growing exponentially. Helms decided to sell the usable donated goods for a small profit and use that money to pay workers to help refurbish the others. Helms hired people in need — many who at the time were considered unemployable — to do this repair work. And thus, the Goodwill model of providing work opportunities to people with barriers to employment was born. |
| Rapid Growth through Religious Affiliation through the 1920s |
| Helms' idea caught on quickly, and organizations in other cities began to study and adopt this industrial phase of work as a part of their missionary activities. It became necessary to organize a national society for mutual help and protection. The National Cooperative Industrial Relief Association, Inc. was chartered in 1910 and later coined the term "Goodwill Industries" in 1915. With the help of Methodist Church funding, Helms went on to help establish Goodwill Industries organizations across the United States, and by 1920, there were 15, including the Morgan Memorial Goodwill in Boston. |
| The Move to Secular Management and Governance in the 1930s |
| In the early years, Helms served as the executive of this loosely knit association functioning within the Methodist Church. However, as the Goodwill movement spread, Helms felt that Goodwill needed an umbrella organization to embody the local units, both inside and outside the Methodist Church, and to support Goodwill's leadership and growth. In 1934, the National Association of Goodwill Industries became a reality. As Goodwill evolved from a religious movement to a secular backbone organization, it expanded its leadership expertise on both local and national boards of directors to better serve the broader community. Despite this new organizational structure, through the 1970s the Methodist Church continued to invest in Goodwill's work, providing seed money to open new Goodwills and establishing leadership training programs to ensure the organization's continued success. |
| Expanding the Mission to Include Client Services Evolves the Business Model |
| Helms' model initially focused on creating "opportunity worker" positions to help people in poverty secure employment. However, in a 1933 governance meeting at the onset of Goodwill's establishment as a separate organization, the leadership made a noteworthy strategic decision that changed the trajectory of Goodwill's role in human services: Goodwill expanded its service offerings to provide programming for opportunity workers <i>and</i> clients, a new classification for individuals who were not employed by a Goodwill organization. |
| Institutionalization – 1935 and Beyond |
| In 1935, Goodwill further solidified its structure by developing and implementing its first local-national relationship agreement and publishing its first Standard Operating Procedures Manual to implement uniform business processes across the country. Goodwill also began to share information across its growing network on emerging best practices to refine its model and accelerate growth. In the 1950s Goodwill hosted its first professional conferences to foster peer learning; within just a few years, innovative strategies were expanded nationally, such as donation collection boxes, job analysis systems for persons with disabilities, and industrial contracts to expand business lines. |
| Goodwill at the End of the 20st Century |
| When President Clinton took office in the early 1990s and placed a spotlight on welfare reform, Goodwill recognized the opportunity to expand its well-developed service delivery model, which is in practice today. Goodwill's approach could be characterized as "more than a job" by building upon the strengths of an individual, and developing comprehensive, holistic goals related to employment and financial wellness. Goodwill leveraged these political changes to augment its own funding mechanisms, primarily through the donated goods retail social enterprise, to expand its services and dramatically increase the number of people served by Goodwill. |

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Goodwill Basics

The Goodwill core social enterprise, characterized as the “donated goods retail” model, is comprised of over 4,000 donation centers across the United States and Canada, where community members donate their used goods. More than 87 million donation instances resulted in more than 4 billion pounds of goods donated in 2013. Goodwill team members sort, organize, and sell those goods in over 2,900 retail stores, resulting in \$3.79B revenue in 2013. These retail stores are managed by 165 local Goodwill organizations, each led and governed by its own CEO and board of directors, and each with an exclusive well-defined territory.

Leveraging its business infrastructure as a mission delivery vehicle, each local Goodwill entity operates as a community resource providing job training, first-time job opportunities, and transitional employment for people with barriers to employment. Each Goodwill entity is able to maintain its exclusive use of the brand in its territory as long as it continues to meet member standards and comply with the bylaws of the overall Goodwill enterprise. Bylaws and member standards, including the rate for payment of dues, are set by a majority vote of all members at the annual “Delegate Assembly,” a formal business meeting convened by Goodwill Industries International. National board members and board officers responsible for governance are also approved at this meeting.

The Goodwill DSE evolved through the self-sustaining potential of its organizing model, which clearly distinguishes its value creation activities such as running donated goods retail stores, from its value distribution imperatives, such as using social capital to find job opportunities for clients. The Goodwill governance and operating structure evolved

through success -- by simultaneously meeting the operating demands of value creation in Goodwill businesses and the mission demands of clients and opportunity workers thus distributing the value being created in its businesses within the same communities. The average of net assets in a local Goodwill across the network is \$19M, with a median of \$12 million. Less than one percent of total net assets reside at the national level.

The effectiveness of the Goodwill DSE stems from its history of community-based governance with the core principle that local investments beget local impact. Each local Goodwill organization operates with an autonomous board of directors to ensure that each local community's needs are understood and that the return on investment generated in a particular community is disbursed in a manner that is meaningful to that community. As such, there is no typical Goodwill: though each is unique in the details, all present a common theme of mission. Table 2 provides examples of local Goodwill organizations.

Goodwill's DSE Hybrid Business Model

Goodwill Industries is an example of a successful, mature, multinational, and adaptable distributed social enterprise. Although it operates with a not-for-profit legal structure, it does not depend heavily upon fundraising or government funding. Rather, its financial engine is its disciplined business operations, primarily in the donated goods retail thrift sector, but also in other areas as illustrated in Table 2. Goodwill's business practices maximize sustainable mission impact by optimizing financial margins which generates positive cash flow that can fund mission services. This is accomplished through efficient management methods and effective business leadership across the organization.

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Table 2 - Local Goodwill® examples

| Goodwill Agency | Headquarters City | Counties Served | Total Earned Revenue | Number of Persons Served | Number of Persons Placed in Employment | Total Employees | Key Mission Activities |
|--|-------------------|-----------------|----------------------|--------------------------|--|-----------------|---|
| Goodwill Industries of Greater Cleveland and East Central Ohio | Canton, OH | 10 | \$25.8 million | 28,118 | 275 | 618 | <ul style="list-style-type: none"> • Mission services integrated into donated goods retail social enterprise • Array of job readiness and placement services • Community campus with collocated partners to provide integrated career and other services |
| Goodwill Industries of Lane and South Coast Counties | Eugene, OR | 5 | \$17.5 million | 5,957 | 990 | 439 | <ul style="list-style-type: none"> • Mission services integrated into donated goods retail social enterprise • Array of job readiness and placement services • Prosperity Center operated with partners to support financial wellness |
| Goodwill Industries of South Florida | Miami, FL | 3 | \$94.1 million | 4,938 | 1,254 | 2,673 | <ul style="list-style-type: none"> • Mission services integrated into donated goods retail social enterprise • Array of job readiness and placement services • Mission services integrated into production and building maintenance contract services |
| Goodwill of Orange County | Santa Ana, CA | 1 | \$79.1 million | 15,133 | 948 | 1,769 | <ul style="list-style-type: none"> • Mission integrated into donated goods retail social enterprise • Array of job readiness and placement services • E-commerce site for Goodwills to market goods and create jobs |

In its business operations, Goodwill engages in activities all along the continuum described in the Alter (2007) typology. Goodwill integrates its mission into its donated goods retail model through an intentional blending of mission-focused activities, services and programs. For example, Goodwill frequently uses “opportunity hiring” by employing its job training program participants to build its human capital. The organization recognizes

that many of its 122,000 employees struggle with some of the same challenges faced by the people they serve. Through Goodwill's "Begin at Home" philosophy, the organization has identified and developed a wide range of resources, benefits, and options to support employees' ability to maintain employment, develop skills and earn career advancement. To enhance this approach, Goodwill often co-locates community resources at Goodwill retail stores.

Although economic profit is not necessarily maximized when integrating mission into business operations, Goodwill continues to drive positive operating margin (gross profit less operating expenses) and thus operating profit from its business operations thus yielding a positive contribution to support additional mission services for clients who do not work in Goodwill businesses. The key accounting distinction is that Goodwill's positive margin is not distributed to owners (or shareholders), or any central authority. Local results are not even consolidated into national financial statements. Rather, positive margin is redirected locally to support services that are key aspects of Goodwill's social mission. This is done within the same local community where the positive contribution was generated through local donations and community support. Thus, Goodwill's overall mission impact is a combination of mission services delivered through opportunity hiring within its business infrastructure plus incremental mission services delivered in the same community in which the positive contribution margin was generated by optimizing operations efficiency through sound management and business practices.

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A Closer Look at Governance at Goodwill

The Goodwill movement, as it is sometimes called, is often described as a membership organization of 165 like-minded community and regional Goodwill organizations in the U.S. and Canada that have agreed to operate under a single “Goodwill” banner. The agreements that hold Goodwill together, such as bylaws and membership standards regarding elements like ethical practices and results reporting, are approved by the membership body at the annual Delegate Assembly wherein local Goodwill CEOs and their local private sector board chairs cast their votes.

One of these agreements is to pay dues to the central organization, Goodwill Industries International (GII). These dues are paid in return for services to the members and the overall stewardship for the Goodwill movement, for example, the brand. Conceptually, this structure is somewhat analogous to the franchise model in which the “dues” are similar to the franchise fee, but there are critical differences. For example, at Goodwill, the dues structure is established by the members rather than the “franchisor.” Rates are set at a graduated level based upon local Goodwill revenue and include limitations on how much can be spent by GII on certain national and international initiatives.

One of the most obvious differences from franchising is in the area of governance. Each member organization, or “local” Goodwill, is governed by its own local board which includes private sector directors. GII likewise has its own board of directors which includes a balance of local Goodwill CEOs and directors from the private sector. Board responsibilities include selecting CEOs, both locally and centrally, as well as setting the direction for both business and mission services activities. Local board members are volunteers from the

community who donate their own human, social and political capital to Goodwill. Local boards thus help situate their agencies solidly into the political and social fabrics of the communities they serve.

A Community-Based Approach for Distributing Social Value

A key point to emphasize is that Goodwill has learned over the years to clearly separate the *value creation and asset accumulation* aspects of the enterprise from the ways that it allocates this value and deploys its assets to serve its various constituencies -- the *value distribution* (Hazy, Moskalev & Torras, 2010; Hazy et al., 2011). With regard to the process of value creation and capital deployment, Goodwill takes advantage of economic market mechanisms as well as scale and scope economies to acquire and use resources as a means to accumulate additional political, human, economic, and social capital (Mair, Battilana & Cardenas 2012). For example, Goodwill of Miami and Dade Counties in Florida grew its military uniform manufacturing business to support the US war efforts in the years following the terrorist attacks on September 11, 2001. The value creation process includes implementing technology and business process innovations, instilling sound management practices, and developing a broad and deep leadership culture in order to create and aggregate value for the benefit of all of its constituents.

Unlike for-profit businesses which operate primarily to deliver (or distribute) this value to shareholders, however, Goodwill distributes the value it creates within the local community where the value was accumulated according to an institutional logic (Trexler, 2009) that has evolved over more than one hundred years, often adapting unique services in response to evolving local needs. The logic is this: the benefactors (or contributors of

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“capital” in the form of donated goods inventory, volunteer time and governance, and public and private funding) do not receive excess financial returns, although presumably they do receive intrinsic returns. Rather, benefactors are able to transfer the value they bring to Goodwill directly to beneficiaries in the communities. Most of those who benefit from the value created are those targeted by the Goodwill mission, including, but not limited to youth, seniors, veterans and military families, immigrants, and people with disabilities, criminal backgrounds, and others having difficulty connecting to employment opportunities.

At the same time, Goodwill provides normal business returns on the financial resources it uses to open new stores, finance daily operations, and so forth, and it pays fair wages for human resources and other inputs. Thus Goodwill uses market mechanisms to drive effective resource allocation and operating efficiency. However, all of the excess value created through operations — the putative “profit” — is distributed to those in the local community that Goodwill is committed to serve by its mission.

Although there are many challenges associated with successfully implementing the DSE model, the unifying thesis of our argument is that the fundamental difference between a traditional large-scale business and a DSE relates not to the business engine, and not even to the social mission. The primary factor distinguishing successful DSEs is how they have evolved to create value and accumulate assets through effective business practices using scale economies *and at the same time* have remained close to and relevant in the communities that they serve.

When designing a social enterprise for sustainability and change over the long term, the critical logic in the operating model relates to adapting *value distribution* in the context of all the capital that the DSE accumulates, whether in the form of political, human, economic or social benefit. By their nature, for-profit firms centralize the aggregation of value for the benefit of shareholders. For them, this imperative does not change.

In the case of the social enterprise, however, not only must the value creation engine adapt, so must the ways that value is distributed to constituents so that mission services are delivered where they are most needed. Just as a continuous focus on maintaining returns to shareholders signals a sustainable for-profit enterprise, continuous attention to evolving and adapting an effective *value distribution model* sustains a DSE. Successful DSEs like Goodwill have learned that an unwavering focus on effectively distributing value to locally relevant, mission-defined constituents affords long-term resistance to what has been called mission creep (Battilana & Dorado, 2010).

As the Goodwill case demonstrates, although a complex organizing form, the DSE model is able to leverage the advantages of scale as it creates valuable capital while also retaining specific unique knowledge about the needs of the local community so as to remain relevant. Thus, researchers and practitioners should look at the DSE hybrid form as one way to solve pressing social problems in local communities around the world.

Discussion: Managerial Imperatives and Recommendations

In this section, we describe what can be learned from the Goodwill case data about the successful management of large-scale DSEs. If the DSE is to be considered a viable hybrid option for organizing social enterprises, it is important to understand what the

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Goodwill case tells us about managing these complex organizations effectively. The analysis will describe how the Goodwill model addresses the four attributes that makes DSEs so complex and difficult to manage as summarized in Table 3.

Table 3 - Management imperatives in Distributed Social Enterprises

| Challenge | Management Imperative |
|--|--|
| Lack of top-down command and control hierarchy | Instill a common identity, business logic and purpose to guide and reinforce activities toward the hybrid mission |
| Resources and capital do not flow to the center for redistribution | Establish, evolve and sustain assets and infrastructure at all levels. such as governance and operating structures, as well as political, social, human, and financial capital |
| Executive leadership requires both world-class skills and deeply nuanced local knowledge | Instill a culture of leadership across the enterprise at all levels and locations |
| Social value is difficult to measure, particularly when it is locally responsive and locally-defined | Define a common language for social impact metrics appropriate to various aspects of the social mission |

Create a Common Mission, Brand Identity and Collective Strategic Intent

The absence of command and control leadership does not eliminate the necessity for a cohesive and enabling common identity; it just makes reinforcing, maintaining and evolving it more challenging. Throughout Goodwill's history, linkage to a common mission has been widely adopted by its members because it reinforces their collective sense of purpose. Embracing this common mission eventually became a requirement for membership in the Goodwill movement.

Within Goodwill, adopting the mission is not transactional. It is neither a type of franchising nor is it a simple affiliation process (Kickul, & Lyons, 2012; Wei-Skillern et al., 2007; Tracy & Jarvis, 2007; Combs, Michael & Castrogiovanni, 2004). It involves joining-in, accepting a common belief system, becoming part of a “movement.” Thus, an important enabler of value creation and value distribution across Goodwill derives from living the common mission of, “...helping people in need reach their full potential through learning and the power of work.” Coupled with other more transactional membership standards, infection with this mission has created a foundation for a shared identity that unites Goodwill activities across the enterprise, even absent command and control leadership.

A formalized brand platform also unites Goodwills and their presence in their communities under a common banner. This market identity includes Goodwill’s brand promise, “Uniting caring and enterprise to empower people and build communities that work.” Goodwill’s brand marketing is working. Internal research shows that community stakeholders assign both the Goodwill social mission and the social enterprise model to its brand. Further demonstrating the public perception of the brand as a hybrid organization, a 2009 AdCouncil study showed that people tend to use warm words to describe Goodwill, such as “caring, compassionate, helpful, a blessing, and a Godsend,” and also business terminology, such as “leader, entrepreneurial, effective, and efficient.”

At the same time, Goodwill’s organizational structure recognizes the value of the autonomous nature of independent local Goodwill organizations. Local board members and leadership accrue considerable social capital through connections within their communities and have a unique ability to capitalize on Goodwill’s strong brand identity as it applies to

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understanding and identifying the particular needs of their communities while distributing social value to individuals and families who are most in need. Linkage to a common mission and brand identity thus promotes innovative problem solving and community collaborations.

For example, Goodwill Industries of Lane and South Coast Counties in Eugene, Oregon, leveraged its local reputation and political capital to work with partners to launch the Prosperity Center, a one-stop location where low-income individuals access resources to increase their earnings, reduce financial costs and build skills to move up in the labor market. Through partnerships with the local United Way and other community-based organizations, the Goodwill provides space and personnel to convene community resources and provide training programs, financial coaching, housing programs, and work supports referrals.

Provide Adequate Infrastructure

With regard to the strategic imperative of providing adequate infrastructure, an organizational backbone to support mission is critical. That backbone comprises strong governance at all levels and an information infrastructure that is adequate to support a complex organization of scale. To achieve a self-sustaining distributed infrastructure, sound management and business practices include processes of internal investment in governance policies and internal communications channels. This will ensure continuing capital formation (of all types) to sustain and adapt the delivery of social mission over the medium and long term.

Within the Goodwill structure, the distribution of value to opportunity workers and in the context of mission services is supported and evolved through a multi-tiered governance structure. This tiered structure guarantees that locally-autonomous, community-based Goodwills are solidly governed by a board of directors that is comprised of experienced, socially-connected community leaders. Not only does this support good governance, it also ensures a locally- relevant organizational strategy based on a deep understanding of current and future community needs and assets. Board-level participation with the management team provides a powerful human capital platform that brings knowledge and experience to the table, and ensures that economic capital and mission services will be utilized effectively and delivered efficiently. The social capital that arises from this structure ensures services will be delivered effectively to those who need them. Each Goodwill is positioned to utilize its local infrastructure and resources and to leverage centralized infrastructure and resources which, together with its community reputation and national brand awareness, serve as the backbone of important community initiatives. This substantial and sustained infrastructure thus builds the political influence that is essential for furthering their programmatic capabilities and reach.

The broader Goodwill network has core elements relating to membership oversight, membership standards, territory policy, organizational bylaws, and ratification of the GII board of directors. These elements are overseen by a “delegate assembly” comprised of local Goodwill board and executive leadership. GII serves as a backbone organization governed by representatives from the enterprise as well as the broader community and provides organizational and brand leadership as well as operational support to local

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Goodwills. These services involve knowledge transfer, sharing of effective practices, leadership development and education programs, and research and development, in order to replicate proven practices, scale what works across the network, and ensure sustainability of effective programming and initiatives.

Build and Grow a Culture of Leadership that Embraces Complexity

The unique challenges of the value distribution model within Goodwill require a leadership culture that reaches deeper than the C-suite of the organization. To optimize value creation and distribution to mission services, effective leadership has to permeate the organization and throughout the communities that are served. Further, Goodwill must effectively deal with an exceedingly complex, rapidly evolving and distributed social, political, human and economic ecosystem.

As mentioned in an earlier section, complexity thinking argues that “*leadership*” is not an individual (a person or persons, *i.e.*, “leaders”). Rather, it is a pattern of organizing performed by individuals as they form a system of action (Hazy and Uhl-Bien, 2015). When individuals within an organization feel empowered to answer the call to lead as the situation requires, and when those individuals have the skills and capabilities to do so effectively, the organization has a “culture of leadership.” Goodwill represents an example of the conscious implementation of this culture-of-leadership philosophy.

Often leadership and management training are separated because it is assumed that each serves a different function. At Goodwill, however, a culture of leadership is espoused and integrated at all levels of the organization, crossing both the value creation activities (business operations) and the value distribution efforts (mission services) across the

network. The functions described in complexity leadership — community-building to bring people together, structuring activities to engage people and use resources effectively, administering disciplined execution plans and programs, gathering intelligence and information about opportunities and needs, and experimenting with new ideas to explore and develop options — are all represented within the Goodwill leadership culture in an effort to achieve optimal social impact while simultaneously ensuring economic sustainability. Table 4 summarizes ways that Goodwill’s leadership culture supports the management system required by its operating complexity.

As described in Table 4, community-building leadership activities in Goodwill’s complex environments engender a sense of belonging and mission as a shared identity across the organization. To succeed over the long-term, however, Goodwill organizations must also determine how to institutionalize change into their complex and evolving DSE organizing structure. The organization, through its leadership, must resist the temptation to slip back into an old way of doing things or to shift into something that is easier to do when the problems that need to be addressed are difficult to resolve. Administrative leadership at Goodwill focuses on the disciplines of management, such as implementing management plans, programs, policies and procedures that operate efficiently while and holding people accountable.

Table 4 -The Goodwill® leadership culture

| <p>Community-Building Leadership – Engendering commitment, purpose and community</p> |
|--|
| <p>To sustain cohesion and mutual benefit, complex environments require a sense of belonging and shared identity across the organization. This activity involves creating strong common mission and shared identity. This function is expressed at multiple levels throughout Goodwill — at the retail store level, in communities that form around aspects of mission, in local Goodwill communities, and within the national Goodwill movement. Goodwills do this informally in active community engagement and formally in regular community needs assessments and asset mapping, collaborations, partnerships, and investments.</p> <p>Goodwill Industries of Greater Cleveland and East Central Ohio, Inc., operates a Community Campus at the Goodwill location that houses 19 non-profit partners working together to better serve their community. Ken Weber, president and chief executive officer of the Goodwill, said, “It is really a solution about what to do for a community with shrinking resources and growing demands for services.... The groups that have already come in and those that are moving in have already expressed a willingness to trust and truly collaborate and work with each other (Sautters, 2009).”</p> |
| <p>Information-Using Leadership — Structuring for the future, not the past</p> |
| <p>To succeed over the long-term, organizations must institutionalize positive adaptation and make permanent the organizing structures that are transformative. This requires decisive leadership that chooses the right direction, creates structures that ensure the chosen path is followed, and takes steps to pave the way forward so that it becomes “the way things are done.” This leadership enables the organization to transform, build, sustain, and evolve a lasting structure that effectively incorporates what works, and discards what does not. This ensures that the organization resists the temptation to slip back into old ways or to shift into something that is easier when the problems to be addressed are complex and difficult. This is accomplished at a variety of levels at Goodwill and drives continuous improvement in operating policies, practices, and processes at the local level as well as across the Goodwill network.</p> <p>Goodwill’s Community College/Career Collaboration initiative demonstrates this across the enterprise by leveraging and institutionalizing relationships between Goodwills and community colleges to increase the number of adults earning market-valued credentials. At the national level, Goodwill Industries International (GII) conceptualized the project, surveyed its members, documented a national platform of effective models that could be customized to meet local needs, and established a website that makes replication resources available to all local Goodwills, community colleges and other partners. As new intelligence is gathered and practices are documented, both national and local Goodwill resources can shift to support proven strategies in skills attainment.</p> |

| |
|---|
| <p>Administrative Leadership – The disciplines of focused execution, follow-up and accountability</p> <p>Leadership across the enterprise must efficiently take advantage of institutional forces and business logic to effectively optimize return on the organization’s various asset types. Administrative leadership focuses on the management disciplines of implementation, measurement and incentives while executing plans, programs, policies and procedures that instill operating efficiency and hold people accountable.</p> <p>At Goodwill, these functions are driven first by adherence to a set of membership standards that apply to all Goodwills. These include: upholding an independent 501(c)(3) status, operating in the public interest absent private inurement, including the term “Goodwill” or “Goodwill Industries” in its legal name, maintaining a local voluntary board of directors, and submitting key financial and programmatic data to GII on a monthly and annual basis. Given the autonomous nature of local Goodwills, a culture which shares effective practices across the network creates a core base of standard disciplines, and at the same time does not require bureaucratic operational standards that must be followed by each local organization. This creates an environment of local customization in response to community needs while a strong leadership culture minimizes the need for a self-perpetuating bureaucracy.</p> |
| <p>Information-Gathering Leadership – Gathering intelligence, sharing and processing information</p> <p>Leadership organizes activities that explore the environment, observe and share what is uncovered, and maintain a diversity of perspectives in the organization. Goodwill drives the acquisition and sharing of information nationally and locally. This requires leadership at all levels to build and deploy social capital effectively and then use it to gather, synthesize and process information. This infrastructure, coupled with leadership/staff engagement, and community-based boards of directors, come together to facilitate information gathering and synthesis at multiple levels in furtherance of the Goodwill mission, even in rapidly changing environments and turbulent times.</p> <p>GII utilizes a variety of tools to glean and share information from its U.S., Canadian and global members. Through standard reporting, formal community needs assessment and asset mapping tools, surveys, focus groups, and conferences, information about local needs is gathered to determine goals and strategies for the network of Goodwills. Local Goodwills reach deeply into their social networks, utilizing their retail footprint of 2,900 stores, as well as their community outreach programs, allowing an array of data collection mechanisms to inform both mission and business strategy for all parts of the organization.</p> |
| <p>Generative Leadership – Trying new things, learning from experience, reinforcing what works</p> <p>Generative leadership promotes experimentation to help firms identify local problems, assimilate information about community needs and assets, formulate solutions, and implement trials across the organization. At the national level, GII facilitates the emergence of processes and capabilities that have applicability elsewhere in its network. Each autonomous local organization is protected by its membership and centrally-assigned territory rights. This creates opportunities for the entrepreneurial leaders at local Goodwills to allocate and deploy economic and human capital to innovate and share successes with the entire network.</p> <p>An example of this is <i>shopgoodwill.com</i>, the first internet auction site owned and operated by a not-for-profit. This site was the brainchild of Goodwill Industries of Orange County in Santa Ana, CA, and opened for business on August 31, 1999. Today, 146 Goodwill agencies are registered to sell items on <i>shopgoodwill.com</i>, leveraging this local innovation to create hundreds of e-commerce jobs in their communities across North America. The site generated sales of \$46.9M in 2013 and has more than 1.2 million registered users from all 50 states and many other countries.</p> |

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The Goodwill DSE structure drives the acquisition and sharing of information and intelligence gathering nationally and locally. Information gathering leadership involves organized activities that explore, observe and share what one uncovers while maintaining diversity in the organization. Generative leadership promotes experimentation to help firms tackle local problems proactively. It does this by enabling the organization to assimilate information about community needs and assets, identify emerging issues, formulate solutions, and implement and evaluate trials across the organization.

Goodwill's DSE form implies continuing leadership challenges. Operational inconsistencies that arise can create identity confusion or brand risk if the overarching mission, strong brand identity and shared strategic intent do not remain alive, healthy and relevant. In this way, the culture of leadership comes full circle, reaching back to emphasize the importance of a strong identity based upon deep emotional commitment to the Goodwill mission.

Focus Strategic Energy on the Thoughtful Measurement of Social Impact

Leadership requires monitoring and feedback. To this end, Goodwill collects annual data from local Goodwills, survey results, and external research to measure their outputs and impacts in the context of what Ebrahim and Rangan would categorize as "Integrated Results" for service delivery. In addition to integrated results, Goodwill's Theory of Change, shown in Figure 1, also targets changes to communities and organizations. These outcomes are reflected in the Ecosystem Results, and thus should be measured as well. In this section, we describe some of the outcomes measured by Goodwill management.

Goodwill Industries International, Inc. Theory of Change

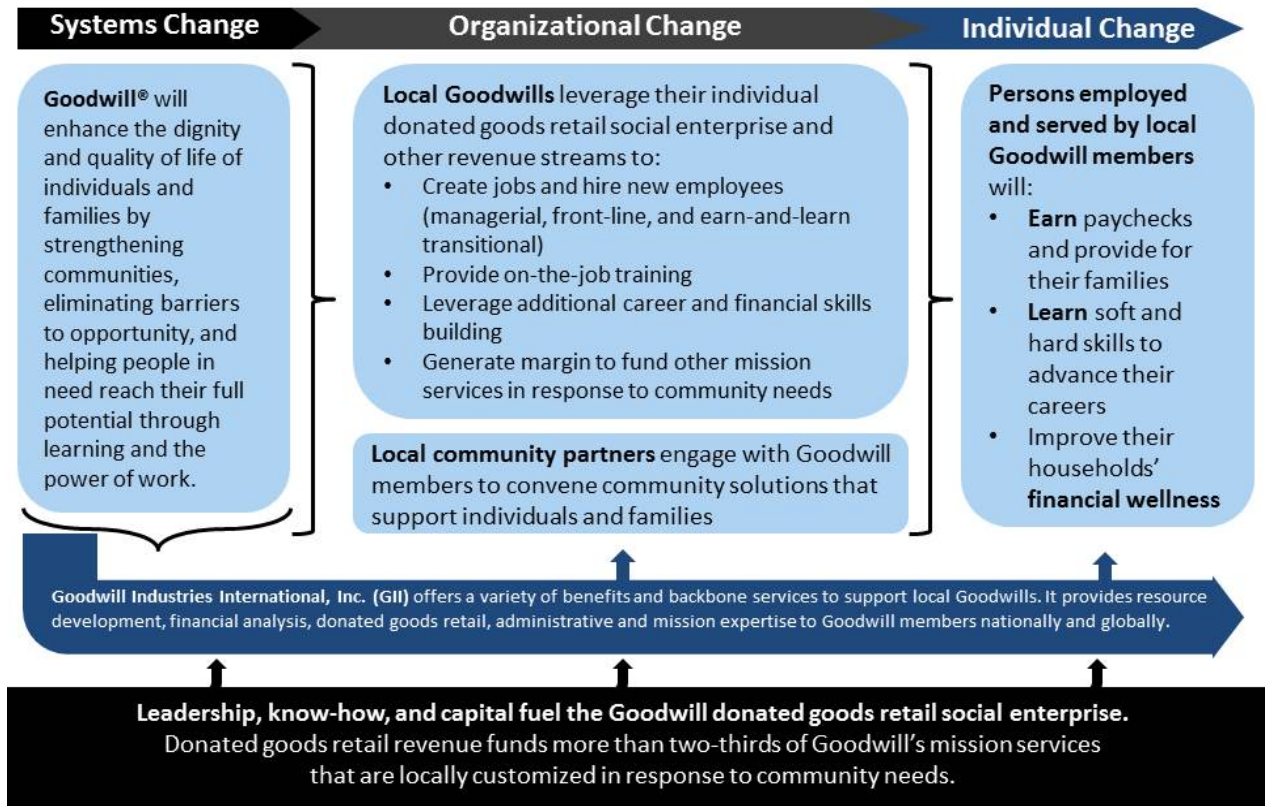


Figure 1. An internal Goodwill depiction of its Theory of Change

In 2013, Goodwill served more than 9.8 million people, demonstrating how a donated used goods operation enables the creation of economic value which is then distributed as enhanced human capital value among those Goodwill serves. This growth in services was also enabled by the increased use of Internet technology for the online delivery of training and other mission services. The effective use and efficient sharing of online delivery methods demonstrate how an embedded culture of leadership accumulates human, social, and political capital, and distributes the returns on this capital as value to mission beneficiaries.

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In the same year, Goodwill equipped 261,000 individuals to earn employment, a direct return on the distributed economic capital which was realized as the increased human capital of its target beneficiaries rather than returns to shareholders. These new employees, the beneficiaries of Goodwill's value, earned an estimated \$4.4 billion in annual wages, translating accumulated human capital into economic capital distributed beyond Goodwill's boundaries to their families and communities. Increasing job placements is a testament to the agencies' accumulation of social capital within local communities as they build relationships with local employers. These two strategies leverage Goodwill to equip people with the skills and relationships that they need to earn employment opportunities while connecting business needs with training that strengthens economies in local communities.

While Goodwill has historically measured results in "number of people served" and "number of people placed," the organization has begun to collect data on credentials earned by persons served and employed by Goodwill. This additional measure of the value that was distributed recognizes that skills development and credentialing are critical when building human capital. More than 29,000 Goodwill program participants and employees worked to earn credentials in 2013.

An extrapolation of this result, based upon research published by Georgetown University about the lifetime value of credentials, implies that these individuals could collectively leverage \$15 billion in additional earnings over the course of their work lives (Strohl, 2010). Assuming this is accurate, Goodwill effectively leveraged donated clothing and other goods of limited value to donors to over \$3.7 billion of thrift store revenue. In turn,

these profits were directed to enhance human capital, which in certification earned alone will be worth over \$15 billion to the families and communities of that group of credential earners over their lifetimes. This long-term metric relates to a single program over one year. It highlights Goodwill's social impact on families and communities and is an example of what Ebrahim and Rangan call "ecosystem results." These measurements are summarized in Table 5.

Challenges of the Distributed Social Enterprise Model

We have argued that the Goodwill case demonstrates that enduring success as a distributed social enterprise is predicated on the strength of how a "culture of leadership" must continually invigorate a complex value distribution model. In keeping with its complexity management system, Goodwill's workings are much bigger than any one individual or any particular Goodwill. Goodwill's leadership culture is implemented every day, in thousands of locations, through personalized interactions that serve the specific needs of each unique local community. The autonomous nature of local Goodwills and the beneficial infrastructure of the broader Goodwill network all come together to maintain mission focus and further their collective strategic intent.

Of course, as summarized in Table 6, challenges surface even for successfully integrated hybrid organizations like Goodwill. These relate to the same attributes that enable success: a healthy common brand identity, strong and distributed infrastructure, an embedded culture of leadership and thoughtful measurement. A widely-recognized brand identity creates greater market prominence both locally and nationally. This visibility invites competition. Still, marketplace competition in business activities can have positive

implications since it encourages local Goodwills to operate with a continuous improvement mindset.

Table 5 -The following are representative measurements taken at the national level to reflect the impact of Goodwill in 2013. Each Goodwill member also measures its impact locally.

| Integrated Impacts | Ecosystem Impacts |
|--|---|
| 9.8 million served, a 45% increase over 2012. | Implementation of online service delivery mechanisms reached previously inaccessible users. |
| Helped 261,000 people secure employment, a 21% increase over 2012. | These people earned \$4.4 billion of wages that circulated in their communities. |
| Goodwill directly employs 122,000 individuals. | Many opportunity workers were previously considered unemployable due to various individual circumstances. |
| 29,000 individuals earned credentials (such as an Associate Degree) through Goodwill and its partners. | Newly credentialed individuals are expected to earn an additional \$15.8 billion over their work lives. |
| Over 87 million donation instances at 4,400 donation centers. | Diverted 4 billion pounds of material from landfills as used goods were donated rather than discarded. |

Although it is expected that other social enterprises will challenge Goodwill in the thrift market, success breeds competition, and competition also comes from the for-profit thrift industry, sometimes in unexpected guises. For example, some for-profit thrift entities utilize partnerships with credible not-for-profits as a means to drive the creation of traditional shareholder value for their investors. Donations of used goods are made by members of the community who are not fully informed and think their donations benefit a

favorite charity. However, although a small portion of this value goes to the charity for use of its name, the goods themselves are fed into the for-profit thrift environment, whereby the bulk of the value that is created is distributed to the for-profit's owners or shareholders. Thus, an emerging for-profit thrift business strategy is to actively create a charitable veneer as a means to create shareholder value for their investors. One might expect this for-profit strategy of mimicry to follow other social enterprises as they reach scale.

Table 6 - Challenges facing the successful Distributed Social Enterprise

- Competing with firms that feign a social mission or confuse the social service marketplace solely for the purpose of enhancing owner and/or shareholder value
- Navigating complex resource allocation decision environments where multiple stakeholders must be satisfied
- Maintaining continuous improvement disciplines in both business practice and social mission environments
- Attracting and retaining management talent while competing in a for-profit compensation environment
- Developing meaningful measurement and reporting processes that accurately model social value creation for the short, medium and long-term

The emerging trend toward hybrid organizations also creates challenges with regard to striking the appropriate balance with respect to political, economic, human, and social capital. In contrast to hybrids, the for-profit economic model which distributes all accumulated value to shareholders provides strategic clarity and simplicity in the value distribution equation. In a hybrid model, however, the tensions between business practices and social impact are continually balanced. Economic capital must be allocated between new investments that sustain mission services and business operations in response to evolving community needs. As a result, the cost structure in a community-based value

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distribution model will likely remain at a disadvantage when competing against the more single-minded shareholder distribution mechanism.

Going forward, hybrid organizations like Goodwill must continually innovate in their value creation mechanisms to ensure continuing access to capital. To compete, hybrid organizations must operate effectively as a business, continually refining their business models and lowering costs while simultaneously recognizing that there are higher costs inherent in integrating mission into their business operations. They do this while evolving the value distribution model that remains in the best interest of their communities.

Relative to human capital and the pursuit of a culture of leadership, hybrid organizations like Goodwill need to compete for the “best of the best” across sectors. Attracting and retaining management talent with the capacity to compete in business while simultaneously responding to the most challenging and sometimes newly emerging social problems that exist within a community will be a core challenge for hybrid organizations.

Ultimately, evolving community capacity to measure the effectiveness of organizations focused on creating social impact is key. Identifying, tracking and reporting key performance indicators and developing integrated results to measure the social impact of each organization’s role within the broader ecosystem are critical to sustainable social change. Further development of common social impact measurement language across many enterprises and communities will play a significant role in the evolution of policies, especially those that ensure organizations focused on addressing society’s most challenging problems are treated equitably with respect to legal structure and taxation (Hazy et al., 2010).

Concluding Thoughts

Strategic focus on value distribution as distinct from value creation has implications beyond the social enterprise. What we can learn from Goodwill may offer valuable insights to organizations that are increasingly required to operate in hyper-aware, exposed environments fueled by digital media in which reputation can change very quickly. Global corporations that are too strictly focused on investor returns have a greater probability than ever of lessening their efficacy in terms of shareholder value if other stakeholders and social responsibility are not taken into consideration. These concerns become particularly salient when boards of directors focus too narrowly on the distribution of value to shareholders alone, at the expense of other stakeholders.

The escalating call to make social responsibility an explicit corporate value for prominent global businesses highlights the growing sensitivity to the social impact of business activity. A clear focus on the ethical distribution of value created to *all* stakeholders, and not just to shareholders, is likely to be an important agenda item which will dominate—rightly we think—board-level governance discussions well into the 21st century.

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