



## Definitions

A standardized set of definitions that provide a common basis for communications among practitioners, funders, management assistance providers and scholars.

[Social Enterprise Alliance](#) announced a new definition of Social Enterprise: "A social entrepreneur is any person, in any sector, who uses earned income strategies to pursue a social objective."

## Common Terms

**Double Bottom Line:** The definitive benchmark for a social purpose business venture – the simultaneous creation of both a financial and social return on investment.

**Earned Income:** Payments received in direct exchange for a product, service or privilege. [Earned income for a not-for-profit includes such elements as tuition and fees for service, commercial products or services, government contracts, consulting fees, membership dues (when dues purchase tangible benefits), sale of intellectual property, agreement to use the not-for-profit's identity, property rentals, etc. Earned income does not include such sources as corporate, foundation or government grants or subsidies, contributions from individuals or in-kind donation of products or services.]

**Earned Income Strategies:** Attempts to capitalize on the earned income potential of a program or other organizational asset (property, intellectual capital, reputation, etc.) in order to cover part or all of the program's costs or to offset a portion of the organization's overall expenses.

**Financial Return on Investment:** ROI – an index of financial profitability that measures the net result of operations as a percentage of funds invested; an indicator of business success.

**Financial Sustainability:** The extent to which a not-for-profit is able to pursue its mission indefinitely through any or all of the following: earned income, charitable contributions and public sector subsidies.

**Self-sufficiency:** The extent to which a not-for-profit is able to pursue its mission indefinitely through earned income alone without relying in whole or in part on charitable contributions or

public sector subsidies.

**Social Enterprise:** Any earned-income business or strategy undertaken by a not-for-profit for the purpose of generating revenue in support of the not-for-profit's social mission.

**Social Entrepreneurship:** The art of persistently and creatively leveraging resources to capitalize upon marketplace opportunities in order to achieve sustainable social change.

**Social Purpose Business:** A discrete division, subsidiary or related corporation of a not-for-profit or a for-profit company that deliberately pursues financial and social returns within a specific industry segment in the commercial marketplace.

**Social Return on Investment:** SROI – the non-financial outcomes created by a Social Enterprise, measured in terms of the not-for-profit's mission, e.g. people served or jobs created, average salaries paid, amount of transfer payments eliminated, etc.

**Triple Bottom Line:** A business venture's simultaneous pursuit of beneficial outcomes along three dimensions: economic, social and environmental.

**Unrelated Business Income:** Earned income derived from the sale of products or services that are not directly related to the charitable purpose of a not-for-profit organization. Such revenues may be subject to federal tax and, at significant levels in proportion to total not-for-profit income, may jeopardize the tax-exempt status of a not-for-profit corporation.

**Venture (or "Engaged") Philanthropy:** The application by donors of principles traditionally associated with venture capitalists to improve the capacity or performance of a not-for-profit organization. Engaged philanthropy practices typically involve a combination of funding and expert, more direct engagement with leadership, long-term funding relationships (three to six years), performance monitoring and an exit strategy.

## **Other Definitions**

**Tax Information:** Unrelated Business Income Tax – General Rules -- a brief overview on the [IRS website](#). [Tax on Unrelated Business Income of Exempt Organizations](#) - a comprehensive publication from the IRS that covers the rules for the tax on unrelated business income of exempt organizations. Although dated 2000, it is the most recent revision of the document.

**What is a Social Entrepreneur?:** Just as entrepreneurs change the face of business, social entrepreneurs act as the change agents for society, seizing opportunities others miss and improving systems, inventing new approaches and creating sustainable solutions to change society for the better. However, unlike business entrepreneurs who are motivated by profits, social entrepreneurs are motivated to improve society. Despite this difference, social entrepreneurs are just as innovative and change-oriented as their business counterparts, searching for new and better ways to solve the problems that plague society.

