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## **Terrorism: The Dark Side of Social Entrepreneurship**

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*The view of terrorists as entrepreneurs is not new. Yet, unlike traditional entrepreneurs, they are not motivated by profits. This article argues that terrorists are social entrepreneurs. They are motivated primarily by social returns. Furthermore, their main output is a public good due to its non-rival and non-excludable properties. Using social entrepreneurship theories, this article presents an alternative view of the incentives behind the formation of terrorist organizations. It concludes with a discussion of policy implications of this framework for combating terrorism.*

The field of terrorism studies has explored many different aspects of terrorist organizations. Various studies have employed strategic, organizational, and psychological frameworks to understand the motivation behind the formation and decision making of the terrorist groups.<sup>1</sup> Yet, no single theory has emerged as dominant in the field, and many aspects of terrorist activities and even the very definition of terrorism are still subject to debate.<sup>2</sup>

This article focuses on terrorist groups within the framework of entrepreneurship. Similar to traditional entrepreneurs, terrorist leaders devise an organizational structure, attract both human and financial capital, design and implement a strategy, and so on.<sup>3</sup> They seek out new opportunities, take risks and innovate, if only to ensure organizational survival. Yet, unlike traditional entrepreneurs, terrorist leaders are not motivated by profits. Their goals are ultimately ideological. Consequently, their decision-making process differs from that of traditional entrepreneurs.

This article argues that terrorists are social entrepreneurs. Thus, in the first section the article demonstrates that terrorists exhibit entrepreneurial behavior in pursuit of social returns. The second section uses social entrepreneurship theories to explore the process of emergence of terrorist organizations. The third section describes the decision-making process of terrorist organizations as social enterprises. Finally, in the fourth section the article explores the policy implications of the social entrepreneurship framework for combating terrorism.

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## Terrorists as Social Entrepreneurs

Definition of social entrepreneurship consists of two components. The first component is entrepreneurship.<sup>4</sup> The fact that its goal is to serve social needs rather than maximize profit may obscure its entrepreneurial nature. Yet, it is the entrepreneurial spirit that drives the creation of social enterprises. Without it, social enterprises would not exist. Thus, in order to claim that terrorists, specifically terrorist leaders, are social entrepreneurs, one must first demonstrate their entrepreneurial orientation.

One might be tempted to assume that terrorist leaders are entrepreneurs given that they start terrorist enterprises. Yet, not all enterprise owners are entrepreneurs. Literature on entrepreneurship differentiates between entrepreneurs and so-called shopkeepers based on their rationale for opening a business.<sup>5</sup> Shopkeepers start businesses primarily due to lack of other choices. They might prefer employment in another business to owning their own but for various reasons have no access to it. Consequently, their businesses rarely grow beyond one or two employees. Entrepreneurs, on the other hand, are motivated by the desire to seize an opportunity and capture profits. They often have access to other employment. Therefore, starting a business is clearly a matter of choice for them. They are also motivated to grow their businesses both in size and revenues.

Entrepreneurs are further characterized by alertness to opportunities, risk-taking, and innovation.<sup>6</sup> They discover previously unrecognized profit opportunities and act to capture these profits. Such opportunities may involve bringing something new to the market or exploiting existing inefficiencies. Thus, entrepreneurial process leads to a more efficient allocation of resources and, consequently, economic growth.

Terrorist leadership clearly exhibits entrepreneurial characteristics. Leaders of terrorist organizations in most cases come from a well off segment of society. For example, most of the leadership of Al Qaeda's network came from middle- to upper-class families and had higher education.<sup>7</sup> They normally have highly favorable career prospects compared to the rest of the population. Consequently, for them starting a terrorist organization is a matter of choice. Intensive recruitment drives of most terrorist organizations further point to their desire for growth.

As classic entrepreneurs, terrorist leaders "provide innovation in warfare, leverage sources of moral cohesion to grow the group through fictive kinship, find new sources of income through integration with transnational criminality."<sup>8</sup> They routinely change their tactics and targets. They constantly innovate and adapt to the changing environment. Coincidentally, the very environment they operate in forces them to be entrepreneurial. As governments adapt and close off the existing opportunities, terrorists have no other choice but to find new ones.<sup>9</sup> The use of commercial airplanes, first for hostage-taking and then as weapons, is but one example.

The second component of social entrepreneurship requires that it serve social needs. While many scholars have suggested that terrorist organizations operate in a manner quite similar to nonprofit organizations,<sup>10</sup> the answer to this part is not straightforward. There are two ways to determine whether terrorist groups constitute social enterprises. The first strategy examines their organizational structure. The second strategy focuses on their output.

The earliest works on social entrepreneurship focused primarily on nonprofits, which constitute the majority of social enterprises. There is a variety of definitions of nonprofit organizations that differ based on the context (e.g., legal definitions, definitions used in academic research or civil society).<sup>11</sup> Some definitions concentrate on profits and ownership; others emphasize the type of products and services provided by the organizations; yet, others point to the source of income and the structure of incentives in these organizations.

Furthermore, definitions can be prescriptive (e.g., stating that the actions of nonprofits should serve the common good) or proscriptive (e.g., prohibiting nonprofits from directly engaging in political activities). Yet, not all definitions are applicable to terrorist groups. In particular, legal definitions are of little use in categorizing essentially a criminal organization. Therefore, in order to classify terrorist groups, one has to consider their characteristics.

The most distinctive characteristic of nonprofits is that they operate under the constraint of non-distribution of profits.<sup>12</sup> This means that no party can claim any portion of profits generated by the organization. Yet, some scholars argue that this is not the case for all nonprofits. While they are legally barred from redistributing profits, managers of nonprofits can implicitly do so through higher salaries and better amenities.<sup>13</sup> However, even in this case redistribution of profits is limited to the staff of the organization. No profits accrue to the founders or donors. Thus, it is fair to say that the individuals who participate in the establishment of a nonprofit organization do not do so with the explicit purpose of earning a profit.

The non-distribution constraint does not mean that nonprofits do not engage in profitable activities. On the contrary, many of them do.<sup>14</sup> They differ from firms in the way they distribute the profits. Part of the profits may be used for salaries and amenities as mentioned before. The rest is normally used to cross-subsidize other activities that do not generate profit. In fact, these unprofitable activities are often the main focus of nonprofit organizations.

Terrorist entrepreneurs and their supporters are generally not motivated by profits. While terrorist organizations often engage in criminal activities that generate considerable profits (e.g., drug and human trafficking), these are not their main activities. These profitable activities are used to subsidize their *raison d'être*, symbolic violence.<sup>15</sup> Yet, none of the profit is normally distributed to the donors and founders of the organization beyond the equivalent of salary and amenities. Thus, terrorist organizations operate under the non-distribution constraint.

While the non-distribution constraint of terrorist groups suggests that they are nonprofit organizations, it is insufficient to classify them as social enterprises. The fact that nonprofits do not distribute their profits does not mean that they serve common good. Various clubs and associations, while registered as nonprofits, serve exclusively the interests of their own members. These organizations produce what is known as club goods (i.e., goods and services available only to the members of the organization). They lack both the entrepreneurial spirit and social orientation to be classified as social enterprises.

On the other hand, recent studies indicate that social entrepreneurship encompasses a broader category of entities, which is not limited by profit status.<sup>16</sup> Its defining characteristic is the use of innovative strategies to create social value. Thus, while social enterprises act like commercial enterprises, they are not purely profit-driven. At least one of their goals is increasing social value.

The second strategy of determining whether terrorist groups constitute social enterprises is examining their output. Social enterprises focus primarily on public and quasi-public goods. The two key concepts that differentiate the types of goods are excludability and rivalry. Excludability refers to the ability of owners of a good to prevent others from consuming it, while rivalry indicates that the use of a good by an individual reduces the potential use of the good by others.

Private goods are both excludable and rival (see Figure 1). It is possible to assign property rights to private goods. Thus, they are normally supplied by markets. On the other end of the spectrum are public goods. They are both non-excludable and non-rival. Due to free-riding issues and difficulty in assigning clear property rights, they are normally

	RIVAL	NON-RIVAL
EXCLUDABLE	<p><b>PRIVATE GOODS</b></p> <p><i>Markets</i></p>	<p><b>CLUB GOODS</b></p> <p><i>Governments</i> <i>Markets</i> <i>Nonprofits</i></p>
NON-EXCLUDABLE	<p><b>COMMON GOODS</b></p> <p><i>Governments</i> <i>Markets</i> <i>Nonprofits</i></p>	<p><b>PUBLIC GOODS</b></p> <p><i>Governments</i> <i>Nonprofits</i></p>

**Figure 1.** Public and private goods.

supplied by governments and to a lesser degree by nonprofits. Between these two types of goods are quasi-public goods. Non-rival but excludable goods are referred to as club goods. Rival but non-excludable goods are referred to as common goods. Depending on the context, they can be supplied by markets, governments, or nonprofits.

While economic definitions of goods are useful, in many cases the ultimate distinction is a political one.<sup>17</sup> Thus, classification of some quasi-public goods depends on public perception. If a good is perceived to generate substantial positive externalities for the public at large, it is normally considered to be a public good. If, on the other hand, the good is perceived to accrue benefits primarily to the consuming individual, it is normally perceived as a private good. Education and health care are common examples of such goods.

In order to determine whether terrorist groups generate social returns, one must first determine the nature of their output (i.e., whether their main output is a public or private good). The immediate output of terrorist organizations is symbolic violence.<sup>18</sup> Yet, violence is rarely their ultimate product—terrorist organizations commit violence not for the sake of violence but rather to achieve a political goal. It is the outcome (or intended outcome) of violence that they produce. What complicates the classification of the output of terrorist organizations is the fact that violence is committed by a variety of organizations for a variety of purposes. Thus, in order to classify the outcome of terrorist violence, one needs to consider the intent behind the use of violence and its main beneficiaries.

When violence is used by criminal gangs to eliminate competition, the outcome of violence, personal enrichment of the gangs, is a private good. The choice of targets ensures that only a narrow, easily identifiable group of individuals benefits from such violence.<sup>19</sup> When in some cases the outcome of criminal violence does benefit the public, such benefits are unintended. On the other hand, the outcome of violence that benefits the public at large (e.g., actions of the military or police in defense of the population), is generally a public good. Defense, in fact, is a classic example of public good. In some cases, outcome of collective political violence, such as revolutions, can also be viewed as a public good, as it liberates the population from either the oppressive ruling elites or foreign invaders.<sup>20</sup> Thus, classification of the outcome of violence as public or private good depends on whether it is intended to benefit its perpetrators or the public at large. For simplicity, this article will not discuss the issues of legitimacy of the use of violence.

Some scholars view terrorism as criminal.<sup>21</sup> Yet, this view ignores the moralistic component of terrorism.<sup>22</sup> Unlike criminal gangs, terrorist organizations are not formed with the explicit goal of making profit. Generally, they claim to defend the interests of their constituency or to serve a good cause. They focus on the grievances of the community they claim to represent in order to legitimize the violence they commit. While some terrorist organizations do engage in profit making activities, they are not created for this purpose. Generally, the profit-making activities are used to cross-subsidize their other activities.<sup>23</sup>

The view of terrorism as simply criminal also ignores the collective nature of the terrorist violence. Unlike the criminal violence that targets particular individuals, terrorism applies the logic of collective liability. As Black points out, “terrorists represent an aggrieved collectivity (such as an ethnicity or religion) and attack civilians associated with another collectivity.”<sup>24</sup> Violence applies to all members of the collectivity regarded as deviant by the terrorists. It serves as an alternative method of social control where the law is weak, biased or non-existent.

The benefits of the terrorist violence are intended for a larger community. The very framing of terrorist activities as defense indicates that terrorists claim to perform functions that normally fall under the jurisdiction of government. They believe themselves to be soldiers, much like their government counterparts.<sup>25</sup> They often invoke images of freedom and liberation, military structures, self-defense movements or righteous vengeance.<sup>26</sup> While defending the community they represent is by no means the only aim of the terrorist organizations, it is the most common justification for their actions. Consequently, the outcome of the terrorist violence should be classified as a public good.

The assertion that terrorist organizations produce public goods is not meant to be a moral judgment. In economics, the definition of public goods refers only to its qualities of non-excludability and non-rivalry. Whether in fact this good is considered beneficial by the public depends on the definition of the public and its interests. What is perceived as public good by one community may be perceived as public bad by another. This only underscores the contested nature of the definition of terrorism.

It is important to note that this article does not suggest that terrorist organizations are nonprofits that simply espouse extreme ideologies. One can easily find nonprofits that support extreme ideologies, but that alone does not make them terrorist. The nonprofit community, which includes most social enterprises, strongly opposes equating nonprofits with terrorists for legitimate reasons. The definition of nonprofits explicitly rejects any use of violence.<sup>27</sup> And this is not just a semantic distinction. Literature on entrepreneurship distinguishes three types of entrepreneurship: formal, informal, and criminal.<sup>28</sup> Formal entrepreneurship involves production of licit product using licit processes. Informal entrepreneurship may use illicit processes (most commonly tax evasion) but still outputs licit products. In contrast, criminal entrepreneurship produces illicit products regardless of what type of processes it utilizes.

Terrorist violence, the output of terrorist organizations, is explicitly criminal. Thus, much the same way criminal gangs are not equated with legitimate firms, terrorist organizations should not be equated with nonprofits. That said, functionally terrorist organizations do operate as social enterprises. Thus, one can apply the same theoretical framework to gain insights about terrorist organizations.

### **Theories of Social Entrepreneurship**

The wide variety of forms and types of social enterprises gave rise to competing theories for the reasons of their existence. These theories are generally divided into two categories:

demand-side and supply-side. Demand-side theories analyze social enterprises within the framework of nonprofit organizations. They focus on the unsatisfied demand for public goods as the main reason for the formation of nonprofits. Public goods theory claims that nonprofits are formed due to heterogeneity of the demand for public goods.<sup>29</sup> The amount of public goods provided by the government is generally determined by the preferences of the median voter. Yet, if a segment of population prefers a higher level of public goods, there will be a significant demand that is not covered by the government. Thus, nonprofits step in to fill the gap.

Alternatively, nonprofits may be a preferred method of providing public goods. Thus, interdependency theory points to the high level of dependency of the nonprofit sector on direct or indirect government funding.<sup>30</sup> It argues that nonprofits are not the result of government failure. Rather they are the outcome of the population's preference for the private provision of some public goods. Critics of public goods and interdependency theories point out that they fail to explain why the demand is filled by nonprofits rather than firms.<sup>31</sup>

Trust theory addresses this issue by pointing to asymmetries of information as the main reason for nonprofits.<sup>32</sup> Asymmetries of information arise if the nature of goods is such that consumers cannot easily evaluate their quantity or quality. In such cases, consumers turn to nonprofits. Since nonprofits are constrained by a non-distribution requirement, they are less likely to engage in profiteering and are more trustworthy. Trust theory explains why public goods are not provided by firms; however, it fails to explain why nonprofits rather than the government or government regulated private sector are the alternative.

Another flaw of demand-side theories is that they posit a deterministic view of markets. They assume that the existence of structural conditions favoring nonprofits is sufficient for the nonprofit sector to arise. Thus, nonprofits are formed without any single individual taking time to discover opportunities and putting effort into exploiting them.

Supply-side theory addresses this issue by focusing on social entrepreneurs. Instead of focusing on the failure of any particular party to meet the demand for public goods, it examines the motives that drive individuals to create social enterprises.<sup>33</sup> Central to this theory is the argument that social entrepreneurs are interested in creating social value rather than profit.<sup>34</sup> Consequently, they create enterprises with social returns as one of the explicit goals. Beyond creation, social enterprises require determined stakeholders that would actively monitor the process and ensure that it is in line with the preferences of beneficiaries rather than managers.<sup>35</sup> Alternatively, provision of public goods may not be an end goal but rather means to achieve other goals (e.g., increase faith or promote particular values).<sup>36</sup>

The theories outlined earlier are not mutually exclusive. Two or more incentives may be at play in the formation of social enterprises. Furthermore, depending on the nature of social enterprises, one or the other theory may be more relevant. The same applies to terrorist organizations. Reasons for the formation of terrorist groups differ from case to case. Thus, applicability of each theory varies.

This article draws on the typology by Post, Ruby, and Shaw in dividing terrorist organizations into national-separatists, social revolutionaries, religious fundamentalists, religious extremists, and right-wing groups.<sup>37</sup> National-separatists fight to establish a separate state based on ethnic lines. Social revolutionaries struggle to overthrow the existing socio-economic order. Religious fundamentalists aim to advance a particular view of religion. Religious extremists promote extreme ideologies or cults. Finally, right-wing groups espouse reactionary ideologies aspiring to return to an idealized period that favored an ethnic or racial majority.

Terrorist organizations often do not fall neatly into a specific category. Many terrorist groups belong to two or more categories. For example, Hezbollah and Hamas fall into both religious fundamentalist and national-separatist categories. Furthermore, the same ideologies may be used in different categories. Ethnic terrorism can be national-separatist or right-wing depending on the status of the ethnic group that is represented by the terrorists. Terrorist groups representing ethnic minorities are normally separatist; groups representing majorities are more likely to be right-wing. Sri Lanka provides an example of both. Liberation Tigers of Tamil Eelam (LTTE), a national-separatist terrorist organization, struggles for the independence of Tamil minority. On the other hand, Janatha Vimukthi Peramuna (JVP) tapped into the nationalist anti-Tamil sentiment of the majority Sinhalese population during its violent insurrection in 1980s.<sup>38</sup>

As virtually all terrorist organizations claim to defend interests of a larger community, public goods theory appears to be the most relevant in explaining the formation of terrorist organizations. Defense is a classic public good that is normally provided by governments. Yet, if terrorist organizations are formed to provide the same good, this may be the result of the government failure to satisfy the demand.

In the example of Sri Lanka, insufficient provision of public goods played a central role in the formation of LTTE. The rise of Tamil secessionism after Sri Lanka's independence was prompted by marginalization of Tamils by the Sinhalese-dominated government. In several acts, the government has deprived nearly a million Tamils of citizenship rights and established Sinhalese as the only official language of Sri Lanka.<sup>39</sup> As the interests of Tamil minority were not fully represented by the government, a number of private organizations, both violent and peaceful, arose to fill in the gap. LTTE emerged as the leading militant group among them.<sup>40</sup>

However, one can argue that violence by JVP was also prompted by insufficient provision of public goods by the government. Even though Sinhalese-dominated governments have enacted a number of policies that favored ethnic Sinhalese over Tamils, they did not go far enough for some on the extreme nationalist spectrum.<sup>41</sup> The governments' policies, therefore, corresponded to the preferences of median voter, whereas segments of population represented by JVP preferred a higher level of nationalist policies. Even though JVP for the most part stayed within the political spectrum, it did resort to violence in several period of the country's history.

Trust theory explains why a sympathetic community chooses to support terrorist organizations, which are ideologically driven, as opposed to hiring a private military force to defend its interests. Since terrorist activities are explicitly criminal, the community has no formal contractual mechanisms of controlling the delivery of goods. Thus, the nonprofit nature of terrorist organizations increases the community's trust in them.

While hiring mercenaries is not common in modern times, a larger community on which terrorists depend for financial and logistical support can withdraw that support if it feels that a terrorist group is no longer defending its interests. The Revolutionary Armed Forces of Colombia (FARC) and Philippine Abu Sayyaf have seen their popular support slip as they started to rely increasingly on criminal activities for financing.<sup>42</sup> They came to be perceived as more interested in profits than their original mission. In other words, they were viewed more as profit seeking firms than nonprofits, which decreased popular trust in these organizations.

Supply-side theory concentrates on the motivation of the individuals in founding terrorist organizations. In particular, it examines the characteristics of individuals that drive them to form a separate terrorist organization rather join an existing one. Some of these characteristics include risk-taking, need for achievement, and independence.<sup>43</sup> This theory

offers a partial explanation for the proliferation of terrorist groups with seemingly identical missions. Thus, more than thirty five terrorist groups, all with similar ideology, sprung up in 1970s in Sri Lanka in response to the government repression.<sup>44</sup> While public goods theory would explain the demand for terrorist activity, it can hardly explain the proliferation of autonomous terrorist groups. Unfortunately, this aspect has received little attention in the literature on terrorism to date.

Finally, interdependency theory addresses the issue of the relations between nonprofits and the state. Given the criminal nature of terrorist activities, most governments are constrained in their relations with terrorist groups. Yet, state-sponsored terrorism is not uncommon. In particular, when governments are constrained by the international community in promoting their interests directly, they may prefer to achieve their goals by sponsoring private groups.

Islamic regime of Iran, for example, has supported a range of radical Shi'a groups in Afghanistan, Pakistan, Iraq, Lebanon, and Saudi Arabia in order to destabilize its neighbors and project its power.<sup>45</sup> Iraq under Saddam Hussein, in turn, has supported Mujahedin-e Khalq (MEK), a terrorist organization committed to overthrowing the Iranian regime. Iraq's primary purpose was to weaken its neighbor, as Saddam's Ba'athist regime had little sympathy for MEK's mix of Marxist and Islamist ideology.

### What Do They Maximize?

A typical entrepreneur is defined by the desire to maximize profits. It is the main rationale driving an entrepreneur's actions. Yet, the same rationale cannot be applied to social entrepreneurs. While they are not precluded from generating profits, profits cannot serve as their only motivation. In order to qualify as social entrepreneurs, they have to create social value. A number of scholars argue that social enterprises lie along a continuum.<sup>46</sup> On one side of the continuum are the enterprises devoted exclusively to creating social value. On the other side are the enterprises that are exclusively profit driven. Most social enterprises lie somewhere in between. Consequently, what social enterprises maximize is a mix of profit and social returns. The proportion of each component is chosen by social entrepreneurs and is specific to each enterprise.

Social value is an abstract, hard to measure concept. Thus, it is unclear what exactly social enterprises maximize in order to increase social value. According to supply-side theory, social entrepreneurs are interested in increasing social value through their activities. They maximize the social value created by the organization via maximizing its output. Public goods and interdependency theories claim that social enterprises are created to supplement the government in providing public goods. Consequently, they aim to maximize the overall market output rather than their own. Trust theory is more concerned with the quality of the products than quantity. Note that output refers only to the public goods produced by social enterprises, as these are the goods that create social value.

Social enterprises can then be conceptualized as maximizing a mix of profits and output of public goods. The profits in social enterprises come from two sources: donations and profit-making activities. A portion of these funds is then used to produce public goods. The ratio of profits and public goods output of the enterprises is determined by the individual preferences of social entrepreneurs (i.e., their social orientation). Thus, enterprises committed exclusively to social goals will maximize the output of public goods. Purely commercial enterprises will maximize the profits. Other social enterprises will maximize some mix of the two.

Terrorist organizations lie on a continuum of criminal organizations ranging from profit-oriented criminal gangs to highly ideological terrorist groups.<sup>47</sup> While both types of organizations may engage in the same types of criminal activities, they differ in the way they deal with profits. Criminal gangs utilize the profits for personal benefit. Terrorist organizations use the profits to finance terrorist activities. Yet, there are many examples of terrorist leaders siphoning off considerable amounts of organizational funds for personal use.<sup>48</sup> Thus, the level to which the profits are used to finance the main terrorist activity is a function of the social orientation of the leadership.

Not all of the activities of terrorist organizations are explicitly criminal. As mentioned before, this article differentiates between informal and criminal sectors based on their output. While businesses in informal sector may engage in illegal activities, their products are generally legal. The output of criminal organizations is criminal regardless of the legality of the production process. While many terrorist groups operate legitimate businesses, they do so only to raise funds to finance their criminal terrorist activities. Consequently, the ultimate output of such business operations is still criminal. In contrast, some terrorist groups also manage extensive networks of social services, which often supplement or even substitute for services provided by the government. While the provision of social services bolsters the terrorist claim of representing a given community, it does not directly feed into their terrorist operations. Consequently, such activities can be viewed as non-criminal. The ratio of criminal to legitimate activities of the organization defines its criminal orientation.

Among completely criminal organizations, some are fully for profit (e.g., drug cartels), others have a varying degree of commitment to social goals. Colombian FARC started out as a revolutionary Marxist organization. Over time, however, its reliance on drug trafficking and kidnappings to finance its activities overshadowed its original goals.<sup>49</sup> Today, its lip service to Marxist rhetoric serves only as a cover for an essentially for-profit criminal organization (see Figure 2).

Abu Sayyaf presents an even more interesting example of a terrorist organization's slide along the social orientation scale. Formed in 1991 as a radical Islamist group with strong ties to Al Qaeda, it originally followed a strict ideological line. Its activities were primarily

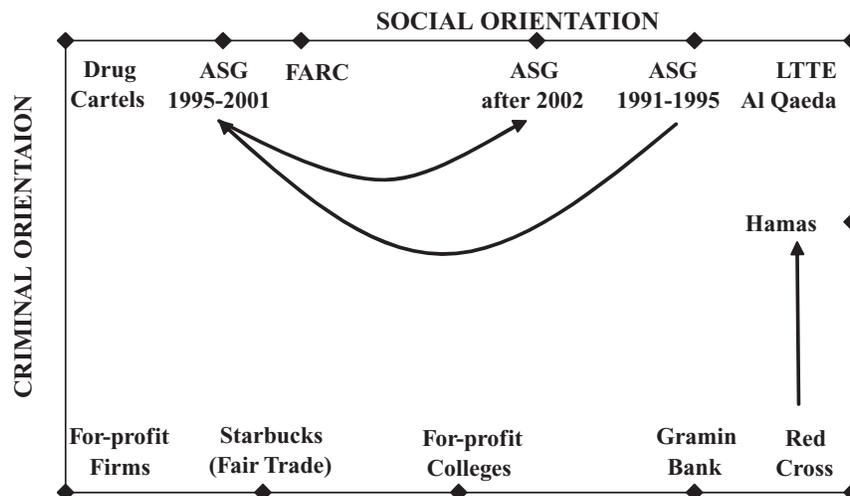


Figure 2. Criminal and social orientation of enterprises.

aimed at establishing an Islamic state in predominantly Muslim areas of Philippines. Yet, after losing its source of funding from Al Qaeda in 1995 and particularly after the death of its founder Abdurajak Janjalani in 1998, Abu Sayyaf had quickly degenerated into a criminal gang engaged primarily in kidnappings and extortion.<sup>50</sup> However, a massive operation by the Philippine military against Abu Sayyaf in 2002 had the effect of hardening the organization.<sup>51</sup> The commanders most responsible for the spate of kidnappings were killed or captured, and Khadaffi Janjalani, the younger brother of the founder of Abu Sayyaf, emerged as a new leader of the group. He has since returned the group to its terrorist roots.

Note that while motivation for the leaders of the terrorist organizations may be purely ideological, many rank-and-file members may be less fervent in their adherence to an organization's ideology. Personal profit or access to resources play a significant role in the decision to join the organization for some members.<sup>52</sup> Profit motivation in recruitment is especially pertinent in areas where few other channels of accessing resources are available to ordinary citizens. Furthermore, the death of a group's founder can sometimes lead to the group's transition into a primarily for-profit organization, as was the case with Abu Sayyaf.

Regardless of their social orientation, operations of the vast majority of terrorist organizations are completely criminal. Hamas is a rare exception. While most of its time and resources are devoted to terrorist violence, a substantial part is spent on running hospitals, educational programs, and other social welfare programs for ordinary Palestinians in Gaza. This may be less surprising when one considers the organization's origins. Islamic Center (al-Mujamma al-Islami), a precursor to Hamas, was founded as a nonprofit in 1973.<sup>53</sup> Its mission from the inception has been to provide social services to the Palestinians in Gaza. It was only during the First Intifada of 1989 that the organization has radicalized and established Hamas as its military wing—all while continuing to provide social services.

The dual nature of the goals of the social enterprises raises a question whether such enterprises possess characteristics distinguishing them from regular enterprises. Given that the research on social entrepreneurship is still in its infancy, the debate over this issue is far from settled. Some scholars claim that social entrepreneurship occupies a separate domain,<sup>54</sup> while others believe it should be analyzed within the general framework of entrepreneurship.<sup>55</sup> The debate is further complicated by the broad spectrum of organizations that fall into the social entrepreneurship category.<sup>56</sup> Dual bottom-line enterprises, maximizing both profit and social value, may behave in ways quite similar to commercial enterprises. The lower the importance of social returns in the enterprise's mission statement, the less distinguishable it will be from regular firms.

On the other hand, social enterprises with high social orientation may operate under a different set of constraints. As they are more dependent on fundraising than revenues from their operations, social enterprises may not be subject to the same market discipline as firms.<sup>57</sup> Complexity of measuring and attributing social value generated by a social enterprise makes it difficult for the donors to judge the efficiency of their investments. Thus, the willingness of donors to contribute to a social enterprise depends more on the strength of personal relations with its managers than its performance characteristics.<sup>58</sup> Finally, consumers of the products that social enterprises produce have little impact on the strategic decisions of these enterprises.

Being in its early stages, the social entrepreneurship literature is yet to indicate whether the differences in constraints between commercial and social enterprises lead to the differences in governance structures and overall behavior or what factors impact the enterprise's choice of funding model (donations vs. profit-generating activities). Substantial theoretical and empirical research is required to advance our understanding of the organizational

specifics of social enterprises. To date, the literature's ability to shed light on terrorist groups in this regard is rather limited.

### **Can Governments Crowd Out Terrorist Organizations?**

Theories of social entrepreneurship cover only a few aspects of the operation of terrorist organizations. Yet, even within this framework some policy implications can be derived, specifically with regard to the role of government in the incentives to form terrorist groups. Both governments and social enterprises provide public goods. If they provide the same public goods, they constitute competition for each other. In fact, according to public goods theory, social enterprises arise due to insufficient provision of public goods by the governments. Thus, it is only logical to suppose that social entrepreneurship would decrease, if governments stepped up the provision of public goods.

A number of scholars have investigated the effects of government funding and provision of public goods on the activity of social enterprises. The results are not straightforward. While government funding tends to crowd out private donations, it displaces only a portion of private funding.<sup>59</sup> There are several reasons for this finding. First, governments may not be providing the same mix of goods and services. Thus, there is still a gap between the demand and supply of goods. Second, social enterprises and their donors may be motivated by something other than the lack of public goods. Some scholars argue that in return for donations donors receive social acclaim, enhanced reputation, or what Andreoni calls "warm glow," an increased utility from the act of giving.<sup>60</sup> Finally, according to supply-side theory, public goods may not be the main goal of social entrepreneurs. Their goal may be to promote an ideology through the provision of public goods.

Given the variety of terrorist organizations, the record of governments on crowding them out is mixed. In case of national-separatist groups, receiving independence or high level of autonomy has often led to the abandonment of terrorist violence. Thus, National Liberation Front (FLN) discontinued its terrorist tactics after Algeria achieved its independence in 1962.<sup>61</sup> Separatist violence by Québec Liberation Front (FLQ) in Canada dropped considerably in 1980s, after political reforms allowed the region to address its grievances through legitimate political channels.<sup>62</sup>

Similarly, terrorist activities of social revolutionary groups have declined when governments shifted toward a more equitable distribution of power and resources or have addressed the groups' concerns.<sup>63</sup> Instances of racial violence in the United States have dropped significantly, as racial inequalities were addressed by government policies. Revolutionary left groups, such as the Weather Underground and its successor organizations, have abandoned terrorist methods, as the political climate changed and some of their grievances were addressed by the government. However, as Gurr points out, government policies did not affect the terrorist groups directly but rather reduced the support of the previously sympathetic public for the terrorist violence.<sup>64</sup>

On the other hand, Basque Fatherland and Liberty (ETA), the Basque separatist group in Spain, continues its activity even after the Basque region has achieved a considerable autonomy. While at times it came close to reconciliation (e.g., declaring a permanent cease fire and opening talks with the Spanish government in 2006), it consistently chose to undermine the negotiations and return to violence.<sup>65</sup> The Irish Republican Army (IRA) in Northern Ireland and the Palestine Liberation Organization (PLO) have acted in similar ways in the past. According to Post, "terrorists whose only sense of significance comes from being terrorists cannot be forced to give up terrorism."<sup>66</sup> In this case, supply-side theory is more applicable, as terrorists are motivated by things other than public goods.

With some types of terrorist organizations, crowding out may not even be an option. In case of right-wing or religious terrorism, violence may not be a means to achieve its ultimate goal but rather the goal in itself. Even if governments replace terrorist organizations as the main providers of such violence, terrorism itself will persist. Privately produced terrorism will simply be replaced by the state terrorism, as it happened in Germany under Nazis or in Afghanistan under Taliban. What these groups consider to be a public good is often so abhorrent that governments can hardly afford to crowd them out.

Interdependence theory indicates another obstacle to the ability of governments to crowd out terrorist organizations. In case of state-sponsored terrorism, governments use terrorist organizations as a preferred method of dealing with their opponents or fighting proxy wars. In such cases, even if the grievances of the terrorist organizations are addressed, the foreign state sponsors of these organizations may convince them to continue with the terrorist activities. For example, Hezbollah continues its attacks on Israel under the influence of Syria and Iran even after the withdrawal of Israel out of southern Lebanon.<sup>67</sup>

Finally, in quite a few cases organizations that started out as terrorist morph into criminal gangs. While the leadership may still pay lip service to ideological rhetoric, their actions betray mostly profit maximizing behavior, as in the case of Colombian FARC or Burma's Shan United Army.<sup>68</sup> When terrorist organizations shift to the production of private rather than public goods, they begin to compete with other criminal organizations rather than governments. In such case, they are better viewed and dealt with as criminal rather than terrorist organizations.

## Conclusions

This article argues that terrorist organizations can be viewed as social enterprises. Leaders of terrorist groups act as classic entrepreneurs. They constantly innovate and adapt to their environment. They change their tactics and targets as well as find new sources of funding and supplies. They are alert to opportunities and are willing to take risks to seize those opportunities. In fact, given the environment in which terrorist groups operate, entrepreneurial orientation is crucial to their survival.

The view of terrorist groups as enterprises, however, raises a number of questions on the nature of such enterprises, which in turn is determined by the nature of their main output. Terrorist groups pursue social returns rather than profits. They justify use of violence in terms of defending the interests of a larger community against an oppressive force (e.g., the state or another community). Such violence can be classified as a public good, as its benefits are intended for a larger community rather than the members of terrorist groups.

Theories of social entrepreneurship provide a number of insights on the motivations behind the formation of social enterprises. Public goods theory claims that social enterprises are formed as a result of insufficient provision of public goods by the government. Trust theory claims that they have a higher credibility in provision of public goods than purely commercial firms. Supply-side theory claims that the provision of public goods is often a strategy to achieve other goals or promote a certain ideology. Finally, interdependence theory asserts that governments often use social enterprises as a favored method of providing public goods.

Different theories apply to different types of terrorist organizations. Public goods theory is more applicable to national-separatist and social revolutionary groups, whereas supply-side theory is better suited for religious and right-wing terrorist organizations. Finally, interdependence theory points to the frequent involvement of governments in the support of terrorist organizations.

Implications for public policy are mixed. While governments can crowd out terrorist organizations by providing the same public goods, the crowding effect is not complete. This suggests that some of the support for terrorism is not motivated by the lack of public goods. Furthermore, it would have no effect on the terrorists motivated by aspects other than the provision of public goods, as in supply-side and interdependence theories. Yet, it may reduce the support for the terrorist organizations by the communities they claim to represent.

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