White Paper #4: ARE YOU READY FOR SOCIAL ENTERPRISE?

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"Risk is a constant, yet quiet, partner to innovation."

Defining the Concept

The first step in having a conversation with someone about social enterprise/social entrepreneurship is defining what you mean. Otherwise, at the end of the conversation, you are likely to find out that you haven't been talking about the same thing at all. Want proof? Google social enterprise; you will get over 100 million results. Do the same for "nonprofit social enterprise" and you get just less than 30 million results. Yet, these millions of pages aren't all talking about the same thing, as social enterprise means too many different things to different people.

For some, a social enterprise is a for-profit business that has an innovative approach for addressing a social and/or environmental problem. For others, it is a company "doing good" in exchange for a lower level of profit and return on investment to its investors. And variations on this theme are many. For The Nonprofit Center, a social enterprise is an endeavor that a nonprofit creates for the purpose of generating unrestricted funds; the endeavor may or may not be mission-related. It may run as a program of the nonprofit or as a subsidiary of the organization or as a separate entity. Regardless of what it is and how it operates, its primary reason for being created is to create a pipeline of unrestricted income for the nonprofit.

The French economist Jean-Baptiste Say is credited with bringing the concept of an entrepreneur to light back in the early 19th century. He defined an entrepreneur as a person who "shifts economic resources out of an area of lower and into an area of higher productivity and greater yield." Today, reference volumes, both generic and specific, define an entrepreneur as "a person who organizes and manages a business undertaking, assuming the risk for the sake of profit." Each definition has an important message for any nonprofit considering becoming a social entrepreneur.

First, the nonprofit must understand that social enterprise is done to maximize resources for the sole goal of "greater yield." For a nonprofit, that greater yield is a steady stream of unrestricted dollars that can go to support those areas of a nonprofit that produce the greatest yield of mission promise delivery. This may sound odd, at first, but it isn't. The sources of money that are available to seed a social enterprise—from program related investment funds to venture firms to specific loan programs, to mention a few—are likely not available to fund program related costs. This is not an area of lower productivity, but no productivity. These funds, however, are available to support a "business" that is intended to earn a profit that will, in turn, be invested in the nonprofit to do a better job of achieving mission—the "greater yield."

Second, social enterprises involve risk—there is absolutely no question about that. Sometimes they fail. Firm numbers seem hard to come by, but the various figures suggest that about half of startups survive four or more years, and 2/3 of all startups break even or eventually turn a profit. Definite risk, but a risk taken in exchange for the value of the return, which is deemed to be worth it. Nonprofits tend to be risk averse, at least with money, making this a hard hurdle to overcome. Yet risk is a constant, yet quiet taken in exchange for the value of the return, which is deemed to be worth it. Nonprofits tend to be risk partner to innovation. Every *new* therapy, school curriculum, approach to preventing homelessness, recidivism, school drop outs, etc. is a risk. Will it do what we think? Will we reach our goals? But we stick our necks out—take that risk--not randomly, but *allowing research to tell us where and when* to do so, so that the risk is calculated and prudent; and we do it for a greater yield—a greater return on mission. And so it is with social enterprise.

First Considerations

Social enterprise is not right for every nonprofit; or, perhaps it is best put the other way: not every nonprofit is right for social enterprise. Nor should social enterprise be looked at as a silver bullet or the antidote to a board that hates to fundraise or a quick fix to financial woes. Social enterprise must be considered as one of the many parts that comprise an organization's overall, diversified fund development strategy. It is a supplement, not a replacement part; it must coexist.

Coexistence takes prep work. People don't (normally) marry or move in together after a first date; they spend a lot of time thinking and doing a lot of work before they are ready to make that investment and feel confident in the ability to succeed. So it is with social enterprise. And the first step is looking at the organizational culture to determine if it is "social enterprise ready"—ready for the actuality, not simply the idea. A large part of this question is very specific: are we a culture that embraces change and doing things differently? (Contrary to the "in" word of the period, this is not innovation; it is simply doing some things in other ways than most nonprofits currently practice.) If the answer is no, you can stop right then and there; social enterprise isn't for you. For the vast majority of nonprofits, what is needed to run a successful for-profit business is antithetical to how they run their nonprofits, because they aren't running them like what they truly are: a mission-driven business. Thus, the introduction of a social enterprise is going to introduce a myriad of differences.

Running a social enterprise and running a mission-driven business start out with two very different goals, which, in turn, set up additional differences. The former's focus is on making profit, after all, that is its *raison d'etre*; the latter's focus is on fulfilling mission, albeit within the confines of the bottom line. We know that the cultures that sustain success in each of those two different arenas have things in common and, sadly, things that clash. The question that every nonprofit considering social enterprise must ask itself is: can we withstand those differences and the clashes they most likely will engender? Can we appreciate both nonprofit and for-profit practices and values that may, at times, offend the other, and respect each for what it brings to the organization's overall success?

For example, are we okay having two separate pay scales, each being market competitive but in two different markets? And this leads to corollary: are we okay with the possibility that not everyone will totally embrace the organization's core values? [1] Do we understand how having a non-mission driven

1 Jim Collins has written extensively about defining core values in Built to Last and other publications, as have I in various blogs and course materials.

enterprise “under the roof” (sometimes literally, other times figuratively) of a mission driven people who will be working alongside of the “outsiders.”

The next step is assuring that there truly is mission clarity across the organization. Mission clarity involves both a commonly shared understanding of mission *and* an alignment of *all* programs with mission. One of the first indicators of an organization that lacks mission clarity, that is unable to—or fearful of—defining what it is, is a “kitchen sink” mission statement that allows it to be any and all things to anyone and everyone. Such a mission statement truly serves no organization well, and it actually can harm an organization with a social enterprise. Organizations that view their missions as elastic rather than as a firm guide are organizations that confound employees, as well as the public. There is a free-floating angst for many nonprofits that running a social enterprise will confuse the public and dilute its ability to be an effective nonprofit (assuming it was effective before the start of the social enterprise). There is no evidence to support this thinking, one way or the other; we do, however, know that organizations with an unclear or diluted brand fare worse (in terms of attracting supporters and dollars) than those with a strong, clear brand. In the case of nonprofits, clarity of mission is such a central part in building a strong brand that to proceed to a social enterprise without such clarity is a fool’s errand.

Step three is understanding fully *why* the organization needs and/or wants a social enterprise. There are actually two parts to this question: why and for what? In considering the why, it is important that organizations understand that a social enterprise is not the equivalent of an angel donor; it is not the savior to all the financial woes that ail an organization. Social enterprises, as has been noted before, are risks; there are no guarantees of success. And, as previously, noted, its value rests in *one part of a totally diversified income strategy*. An organization that believes social enterprise will be its sole ticket for future sustainability does not understand social enterprise and, therefore, should not be undertaking it.

Next comes the “for what:” for what do we want the funds that we will receive through our social enterprise? Will those funds support a staff position and, if so, which? Will those funds support X% of a program? Be our capital improvement funds? Pay our mortgage? Knowing the purpose for the social enterprise helps organizations scale the size of the social enterprise to their *real* needs. Without a clear “what for,” nonprofits risk building an idea that is beyond their capacity to run successfully. And as with everything nonprofit, there is no value in attempting things for which the organization lacks the capacity to do and do well.

If an organization has gotten this far, the fourth step is asking and answering the big question: will our social enterprise be mission related or not? To a very great extent, this is the key fork in the road for an organization. Depending upon which fork is taken, some different questions appear. There is for many organizations greater comfort in creating a social enterprise that is mission related[2]. Perhaps it feels less

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[2] **the IRS makes the determination of whether something is mission related**

divergent; perhaps, the thinking goes, it will lead to less change; perhaps, it will just be easier. But its purpose is still, first and foremost, to make money to bring in unrestricted dollars; so, it is different.

The choice to pursue something that is not related to mission opens up as many options as a "regular" entrepreneur has: anything! And there is no perhaps here: it will definitely introduce change. Can some of it be contained by having the for-profit business operate at a different site, as a separate entity or subsidiary or other options? Absolutely. But there are other things that may not be as easily contained and which must be considered as part of the decision to go mission related or not: do the organization's internal stakeholders think doing something outside the mission assails their credibility and commitment to the mission? Will it have an impact on the public's perception of the organization and funders' continued support? Will it make the organization easy fodder for the media and those who always suspect nonprofits of "trying to get away with something?" The choice is neither easy nor insignificant.

Regardless of whether the decision is mission related, the new enterprise *must* be consistent with the organization's core values. There is no choice here. If your core values are as they should be[1]—truly core values and not restatements of your mission in individual components—your core values will be equally applicable to the mission-driven business as the profit-driven business. Remember: your core values are part of your brand, and you cannot have operations under the brand that do not adhere to those most important principles. Thus, as an easy example, if an organization has a core value of healthy living, its social enterprise cannot be a vending machine business that stocks machines with sodas, overly salty snacks and sweet treats.

From Philosophical to Tangible

Steps one through four are, to a great extent, philosophical in nature. The remaining readiness steps are very tangible, beginning with the clarity and strength of the organization's mission. One of the concerns that many have about starting a social enterprise, particularly one not related to mission, is possible confusion it may cause stakeholders, both internal and external. The chance for such confusion is drastically reduced for those organizations with a clear and strong brand, an unwavering grasp of their core competencies and a highly successful record of delivery and performance. This begins with clarity of mission that provides definitive guidance and direction that is embraced by all.

Next, attention must be given to the board where all of these philosophical, readiness conversations are ultimately decided. One of the classic mistakes that nonprofits make, in general, is not recognizing that the configuration of their boards of directors should never be stagnant or static, but must ebb and flow in alignment with the organization's strategic priorities. What is needed on a board of directors for an organization that has decided to embrace a social enterprise are some strong (meaning understanding d their roles and responsibilities—and those limitations—and are actively involved and engaged in those roles and responsibilities, not) board members with a successful entrepreneurial track record and some who have successfully run small businesses, preferably, but not necessarily, in an arena akin to that of understand finances and how to do them: for example, how to judge the reality and validity of the contemplated social enterprise. Also needed on the board is a member or two who deeply projections, determine realistic growth and when it is time to expand or pull the plug. This is, of course, in addition to the other areas of expertise that you want for the on-going work of the organization.

Practical Considerations

It is also true that an organization needs different staff to run the social enterprise, regardless of whether it is mission related. Far too often, nonprofits do not have staff with the experience and skills to run a business. Remembering that the primary purpose of a social enterprise is to make profits, it is important that the people working the business have the relevant expertise. Thus, thrift shops that hire experienced retailers to run the shops have much greater annual incomes and year-end profits than thrift shops run by nonprofit staff or volunteers lacking such knowledge and expertise.

That same approach must be taken with a social enterprise. This is true even if the enterprise is mission related. While mission experts may design the content of the program, and mission experts may be needed to implement the program, the director of the program *must* be someone with the skills to focus on, push and develop the *business* element of the program. In this scenario, the mission work is serendipity; generating profit is the goal. This is easily seen—and understood—by looking at the traditional leadership structure of performing arts organizations where there is both an artistic director (the mission expert) and a managing director (the business expert). Each has her/his own domain, with the goal of protecting it well; but protecting one sphere does, quite often, mean harming (real or perceived) the other. While the resolution of those sometimes "warring" goals is less easy to resolve in a performing arts organization, in a social enterprise the priorities are indisputable: profit. Thus, the mission impact may need to be scaled back or delivered through a different model or any other possibilities that will not functionally harm the outcomes while absolutely protecting the needed profits. Because profit, after all, is the name of the game for a social enterprise.

Another staff specialty that will be needed is marketing. To stand any chance of running a successful social enterprise, a nonprofit will need to ensure it has the necessary marketing and communications expertise on staff. This involves far more than a staff member who loves doing social media and so takes care of the Facebook page and Twitter account in her/his "spare" time, and more than sharing an upcoming workshop in an email blast. It involves having a dedicated staff with the needed expertise to develop a comprehensive marketing strategy for a for-profit business and the know-how to implement it. It also involves, and this goes back to the earlier points, above, a culture change and having a marketing budget of the necessary size that will support the plan's implementation. This is a huge tactical change for the vast majority of nonprofits that don't have a dedicated marketing position (forget a department!) and have nothing or next to nothing in a marketing *line* in their budget. And it is a huge philosophical shift, as well, that says, not only can we not wait and hope people find us (as nonprofits so often do with their mission programs and services) or simply network to find clients, but we must be proactive and, yes, even aggressive, in letting people know of our product/service. It is exceptionally unlikely that the people who have the expertise and experience to get this job done correctly and well are currently on staff.

It is with the bringing on of "new" people that an organization preparing to undertake a social enterprise will really see just how ready it is. Up until that point, everything has been "what we really would like ourselves to be" as opposed to "what we really are." "What we really are" hits road with the addition of those new board members who are all about making profit, the new staff members who are driven by bottom lines and market shares and not so much about "did we help." In many respects, designing and launching the actual social enterprise is the easy part; it is the making sure the organization is ready that is the struggle. Sadly, this is the step that far too many organizations neglect, or skim lightly over, and then are surprised when the endeavor fails.