Earned Income: is social enterprise right for your organization?

Montana Association of Nonprofits

Presented by:
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September 22, 2008
Welcome

- Kirsten Gagnaire, Principal, Social Enterprise Group
- Introductions
  - name
  - Organization
  - Experience with social enterprise
  - what you’d like to walk away with today
- Interactive conversation, flexible to meet your needs
Objectives

- Clarify the differences between:
  - social enterprise
  - earned income
  - social entrepreneurship
  - sustainability
- Learn from mistakes others have made
- Understand entrepreneurship & the differences between entrepreneurs and managers
- Discuss how to balance mission, money and culture
- Provide resources for taking the next step
WHAT IS SOCIAL ENTERPRISE?
Social Enterprise

- **social enterprise (n.)** - An organization or venture that advances its social mission through entrepreneurial, earned income strategies. (Social Enterprise Alliance)

- Earned income – revenue generated through nonprofit entrepreneurial ventures

- **Examples**
  - Goodwill
  - Youth Barista Training Program
  - Rubicon
Social Entrepreneurship

- **Social entrepreneur (n.)** – society’s change agents. Pioneer of innovations that benefit humanity. (Skoll Foundation)

- “The social entrepreneur aims for value in the form of transformational change that will benefit disadvantaged communities and ultimately society at large.” (Skoll Foundation)

- **Examples**
  - Teach For America
  - Grameen Bank
Sustainability

- Sustainability is your organization’s assurance to the community that they will always be able to count on your work to make life better for them. It is about reliability and dependability for the services they count on and the change they want to see. (Center for Nonprofit Excellence)

- Social enterprise and social entrepreneurship are strategies to help organizations achieve sustainability.
Goals for Social Enterprise

- Expand mission
- Provide job skills & training for clients
- Generate unrestricted revenue
- Integrate social, environmental and financial bottom lines
- Build awareness
Model SE Process

- Transitions for Women
  - Stable, well-respected organization
  - Seeking to add social enterprise to expand mission and provide job skills to clients
  - Conducted internal and external assessment
  - Found a business that fit their goals
  - Developed business plan
  - Created café/bakery training program
When not to do SE

- Brain injury education organization
  - Loosing a large part of their funding base
  - Unstable board, mission in flux
  - Looked to se as a way to “save a sinking ship”
  - Entered into it too late
  - Process helped them successfully close
Social Enterprise Checklist

**Pros**
- Stable leadership
- Education & understanding of SE at management & board levels
- Clear goals
- Capacity to generate planning & start-up funds
- Resources that can be leveraged

**Cons**
- Other major transitions occurring
- Board or management unsupportive or not understanding the concepts
- Unclear goals
- Unable to generate funds for planning & start-up
- Looking for a quick fix
Things to Consider

- Develop process with clear decision making points and a realistic timeframe that also takes other organizational activities into consideration

- Determine what resources will be needed – staff, money, board, other

- Determine who your stakeholders are and how they can contribute to the development of a venture

- Create a phased approach that provides clarity in what the next steps entail

- Create opportunities for input and two-way communication between all stakeholders
LESSONS FROM THE FIELD
Three Organizations; Many lessons

- Café
  - Model planning
  - Implementation errors

- Curriculum
  - Solid product and market
  - Difficult planning

- Kiosk
  - Solid community support
  - Complex model
Café: Overview

- Large, well-established nonprofit
- $8m annual budget
- Experienced CEO and board
- Interested in social enterprise as a way to:
  - Generate new friends and donors
  - Produce some revenue
  - Employ clients as appropriate
Café: Planning Process

- Phased planning process
- Deliberate decision making points
- Leveraged assets: space in newly renovated building
- Agreed on goals
- Conducted creative market research
- Enlisted local businesses as partners
- Thoroughly examined relationship between business and parent nonprofit
Café: Implementation

- Hired the wrong manager
  - Wasn’t interested in leveraging catering opportunities
  - Did not control costs
- Opened at the start of major capital campaign drive within the organization
- Major construction projects nearby did not open as anticipated
- Questionable alignment with mission
Café: Exit strategy

- During planning phase, board outlined exit strategies
- ED and board kept close tabs on financials
- Sale opportunity arose
- Were able to tie in the sale of café to close of the capital campaign
- Successful closure from community, organization and board perspective
Café: Lessons

- Deliberate planning pays off, even if the venture fails
- Mission alignment is critical
- Alignment with other major projects and initiatives important
- First manager is important; early successes set the stage
- Exiting is as important as entering
Curriculum: Strengths

- Market was under-tapped
- Curriculum had many fans
- Ripe for scaling via publishing, training trainers and licensing
Curriculum: Planning Process

- Consultant-based
- Little client interaction
- “Delivered” a business plan
- Wanted a guarantee
- Revenue generation was the driver
Curriculum: Lessons

- Planning needs to be holistic and engaged
- Risks are always involved in entrepreneurial endeavors
- Assessing risk tolerance level of the organization in early stages is important
- Scaling takes time and money
Kiosk: Overview

- Instigated by city leaders involved with youth initiatives
- Willingness to be creative and try new models
- Goal to have a business that would earn money for youth programs and potentially employ youth
Kiosk: Community Support

- City government, education, small business, corporate and faith-based communities all involved
- Extensive, inclusive planning that built broad community support
- Funding from locally based corporations ok with experimenting
- Donation of a site
- Included potential customers in development of business idea
Kiosk: Complex Model

- No clear “owner”
- Required extensive work on developing a board and legal structure that would allow tax-deductible donations to be made without starting a new nonprofit
- Resulted in multiple layers of organizational structure
  - Donor advised fund
  - Nonprofit vendor
  - Oversight board
- Not enough profit potential to justify the efforts
- Key stakeholder retired
Kiosk: Lessons

- Keep it simple
- Owner/stakeholder is key
- Find ways to best ways to leverage community resources
- Effort needs to be in better alignment with profit potential
- Creativity is good, but needs to be balanced with outcomes
- Served as a positive model for cross-community collaboration
Summary

- Plan for success and failures
- If you don’t have time or energy to be engaged in planning, you don’t have time or energy to implement a venture
- Know what your level of risk tolerance is
- Be clear with funders regarding level of risk
- Allow for opportunities to stop the process
- Have clear understanding of goals
- Educate board, managers, staff
- Check in with goal progress frequently
- ALWAYS learn from your mistakes
Being an Entrepreneur
What is an Entrepreneur?

- An entrepreneur is someone who attempts to organize resources in new and more valuable ways and accepts full responsibility for the outcome.

- Entrepreneurs emerge from the population on demand, from the combination of opportunities and people well-positioned to take advantage of them. An entrepreneur may perceive that s/he is among the few to recognize or be able to solve a problem.

Wikipedia June 2008
Entrepreneurship for Nonprofits

- Earned income (social enterprise)
- Applying business practices to nonprofit work
- Considering scale of your innovation
- Encouraging innovation from stakeholders
- Allowing for mistakes to be made and learning from them
What We’ve Been Taught

GOALS → PLANNING → ACTION

Variances

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How Start-up Actually Happens

Inspiration → Goals → Inspiration

Plan → Fooling Around → Action

Mistakes → Doing → Failure

Success

Goals → Plans

Some Other Action

Plan → Goals
Keep in Mind

Faster Learning
Beats
Better Planning
Keep in Mind

The Venture Capitalists’ Maxim:

I’d rather have a Class A entrepreneur with a Class B idea than

a Class A idea with a Class B entrepreneur.
Managers vs. Entrepreneurs

<table>
<thead>
<tr>
<th>Managerial Focus</th>
<th>Entrepreneurial Focus</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predict by using existing knowledge</td>
<td>Discover by using surprises</td>
</tr>
<tr>
<td>Begins with a goal</td>
<td>Begins with resources</td>
</tr>
<tr>
<td></td>
<td>- Who I am</td>
</tr>
<tr>
<td></td>
<td>- What I know</td>
</tr>
<tr>
<td></td>
<td>- Who I know</td>
</tr>
<tr>
<td>Expected Return</td>
<td>Affordable Loss</td>
</tr>
</tbody>
</table>

Source: Saras D. Sarasvathy, PhD
### Managers vs. Entrepreneurs

<table>
<thead>
<tr>
<th>Managerial Thinking</th>
<th>Entrepreneurial Thinking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predict the future to control it</td>
<td>Cause the future; no need to predict it</td>
</tr>
<tr>
<td>Competitive analysis</td>
<td>Strategic partnerships</td>
</tr>
<tr>
<td>Uses logic to find <em>optimal</em> means to achieve the goal</td>
<td>Use action to find achievable goals</td>
</tr>
</tbody>
</table>

Source: Saras D. Sarasvathy, PhD
Entrepreneurs: Myths vs. Reality

<table>
<thead>
<tr>
<th>MYTH</th>
<th>REALITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entrepreneurs are:</td>
<td>Entrepreneurs are:</td>
</tr>
<tr>
<td>Driven by greed</td>
<td>Driven by vision</td>
</tr>
<tr>
<td>High risk takers</td>
<td>Moderate risk takers</td>
</tr>
<tr>
<td>Intuitive thinkers</td>
<td>Intuitive and analytic</td>
</tr>
<tr>
<td>Dishonest</td>
<td>Honest rule breakers</td>
</tr>
</tbody>
</table>
Worksheet:
Are you an Entrepreneur?

- Fill out the instrument quickly.
- Then score it using the score sheets.
- Compare your score to others on your team.
- We’ll discuss what it does and doesn’t mean.
Three Motivations

- Need for achievement
  - Setting self determined goals
  - Measuring your progress
  - Setting your own (high) standards
  - Internal locus of control

- Need for affiliation
  - Closeness and relationship

- Need for power
  - Impact on others
Stages of the Entrepreneurial Journey

- Choose an idea
- Build your team
- Create a plan
- Get funding
- Launch the enterprise
- Blunder your way to the pattern of success
- Replicate the pattern
- Bring in professional management
- Leave the business
- The next start-up
Choosing an Idea

- Fit with customer needs
- Fit with the organization
- Fit with you

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The Fit with You

Fit with your connections

YOU

Fit with your passion

Fit with your talents
Finding the Pattern of Success

It’s different than what you planned.

Persistence
Stay with your passion

Flexibility
Respond to customers, etc

BALANCE
Mission, Money & Culture
A Balancing Act

- **Mission**
  The main purpose for which an organization exists.

- **Money**
  Money received by an organization in return for the sale of a product or rendered service.

- **Culture**
  The way organizational members operate; attitudes, norms, and work practices. A set of values, beliefs, and behaviors inherent in an organization.

- **Environment**
  Environmentally sound practices incorporated in all aspects of a company including operations, service and/or product.
Can Mission, Money, Culture & Environment Co-exist Peacefully?

- These are often in conflict

- Goal is not to eliminate tension, but to learn to achieve a “dynamic tension”

- Anticipate and mitigate for culture clashes during earliest planning phases

- Demonstrate ways a focus on the environment can increase financial return
Benefits of Conflict

- Internal examination, questioning of cultural norms that may no longer be productive
- Scrutiny on business practices to ensure ethical decision making and lowered environmental impact
- Stretching and challenging board, management, staff
- Creation of innovative ideas
- Opportunity to “vet” ideas before they go live
- Chance to ask if environmental benefits matter to customer
Areas of Conflict

- Managing to values sometimes costs more money
- “Cool” factor of the social enterprise
- Risk tolerance levels
- Pace of decision making
- Funder expectations
- Investment/capital requirements of the social enterprise
- Environment perceived to be lower quality or more expensive
- Others?
Mitigating Measures

- Clear communications
- Education of board, staff, management
- Understanding of where people are at and moving at a reasonable pace
- Clear, open, informed decision making processes
- Address people’s concerns
Examples of Conflict

**Culture**
process-oriented, everyone weighs in, decision by committee

**Money**
need to react to market conditions quickly, need to make real-time decisions

**Mission**
provide safe cleaning products in environmentally friendly packaging

**Money**
highest profit vs. lower profit and meeting environmental goals
Applying the Tools

- Fill out the Mission, Money & Culture worksheet

  - Where is the venture most/least aligned with your organization?

- How can some of these conflicts be proactively addressed?
Remember

A mistake isn’t a mistake unless you fail to learn from it
Closing Questions
Resources

- Social Enterprise Alliance
  [www.se-alliance.org](http://www.se-alliance.org)
  comprehensive social enterprise resources

- Social Enterprise Group
  [www.socialenterprisegroup.com](http://www.socialenterprisegroup.com)
  [www.sustayne.com](http://www.sustayne.com)
  consulting, training and speaking

- Skoll Social Edge
  [www.socialedge.org](http://www.socialedge.org)
  global social entrepreneurship online forum

- Xigi
  [www.xigi.net](http://www.xigi.net)
  social capital networking and information
Future Workshops

- **Horror Stories from the Front Lines**
  Gain invaluable tools for keeping your venture on track.

- **Mission, Money & Culture**
  We'll offer plenty of tips for balancing these elements over the long term.

- **Pricing Strategies**
  Learn the four Ps of pricing, when to use them, and how to develop short and long term pricing strategies.

- **Customers & Competition**
  Learn to identify your customers and how competition can become one of your greatest assets.

- **Making the Sale**
  Learn valuable tools for structuring effective sales calls and develop an overall approach for selling.

- **Contact us to register or for more information:**