Front&Centre
VOICE OF CANADA'S CHARITABLE, VOLUNTARY COMMUNITY
July 2002 ▪ Vol. 9, No. 4

Title: Social entrepreneurship basics

Type: article

Description: How your nonprofit can enhance capacity, impact and sustainability.

Publication date: July 2002

Author(s): Horsnell, Andy and Pepin, John

Source: Front & Centre, Vol. 9, No. 4; pg. 1,6,7,8

Publisher/Distributor: Canadian Centre for Philanthropy

Several years ago, the Toronto-based childcare and family counselling charity that John Pepin administered faced a number of serious challenges:

- Its clients needed higher-quality services, higher than government funding supported;
- Waiting lists for services continued to grow;
- Government policies and funding decisions were not effective at addressing its clients' problems; and
- Innovation and creativity were difficult.

After considering a range of options, John and his board decided to address these challenges by doing what many organizations are now considering. With the financial support of a local corporation, they created a new employee assistance plan business that in turn helped the organization to diversify its revenue base and create resources that allowed for the growth of a dynamic and relevant organization.

Like John's organization, you may be feeling the pinch of having to address increased community needs with decreased funding and increased competition from a growing number of charities. In certain sectors, competition from business is yet another threat. You may be considering a range of options to help address these challenges. One of the most compelling and least understood of these options is what John's organization ultimately chose: social entrepreneurship.

Social entrepreneurship is about starting and growing business ventures that simultaneously contribute to your organizational capacity, mission impact and financial bottom line. Using social entrepreneurship, John's charity grew eight times in size over a ten-year period, adding new sources of revenue while reducing its dependence on government. Its influence over government and the corporate sector grew beyond what normally would have been achieved by an organization of its size. High-quality, influential volunteers were attracted to the board. Innovation flourished, giving rise to new services to meet the needs of children and their families.

While charities have been engaged in business for decades, social entrepreneurship as a broadly based practice has only come into its own in the last fifteen years. For this reason, it possesses apparent contradictions, differing definitions and opposing views. It also involves inherent but normal business risks. For many, it can be hard to know how or even if to pursue it further. But it doesn't need to be that way.

In this article, we'll help you make an informed decision about if and how you should explore social entrepreneurship as a strategy to enhance your organizational capacity, mission impact and financial sustainability. We'll accomplish this by:

- Describing the basis for any entrepreneurial strategy - a sound opportunity,
- Presenting a range of specific entrepreneurial strategies and practical considerations, and

- Exploring how you can reduce the risks and maximize the impact of your chosen strategy.

IT ALL STARTS WITH A SOUND BUSINESS OPPORTUNITY.
Whether growing an existing business or starting a new one, social entrepreneurship should begin with an opportunity that:

1. **Aligns with your organization's mission and core values**
   A sound opportunity should at least support your mission and core values. Ideally it should help you enact them.
2. **Leverages an asset or capability that you already possess**
   Whether it's a customer relationship, a program, a piece of equipment or an identifiable brand name, a sound opportunity should leverage what you already have or can easily gain access to.
3. **Addresses a defined but unsatisfied need and want in the community**
   A sound opportunity should respond to an identifiable group of customers that possesses both a specific need *and* a desire to have that need addressed.
4. **Will generate a financial surplus (or be financially sustainable)**
   This last consideration comes in two parts:
   - *If your opportunity does not have a programmatic element that helps you enact your mission*, then it should most certainly demonstrate an ability to generate a financial surplus, from earned income, that will go toward supporting your charitable purpose.
   - *If your opportunity will help you enact your mission*, then it should be able to demonstrate that it will be financially sustainable, based upon *all* its revenue sources, including government grants and payments, private giving and earned income.

These four key considerations can be used to identify new business opportunities and assess the relative worth of each.

SPECIFIC STRATEGIES
For simplicity, we've grouped the diverse array of social entrepreneurship strategies into two main categories:

- Enhancing your current business activities
- Creating a new business activity

START HERE - ENHANCING YOUR CURRENT BUSINESS ACTIVITIES
We have learned from experience that a social entrepreneur's first priority is to strengthen and, where appropriate, grow their current business activities. For example, The Flower Cart's (www.nsnet.org/theflowercart) current business activities include a bakery, a used clothing service, and the production and sale of wooden furniture, arts and crafts. If, like The Flower Cart, you're already in business (even with something as simple as one product or service that you offer for a fee), now is the time to take a hard look at:

1. **The relative potential of your various business activities**
   If, like the Flower Cart, you have a variety of business activities, you may want to use the 'sound opportunity' criteria (from the previous section) to identify and focus on those activities that have the highest potential.
2. **How you do your marketing**
   Enhancing your marketing involves deciding upon who your best customers are, and then tailoring your product or service, pricing, payment methods and terms, promotion, and method of distribution to meet **their unique needs and wants.**
3. **How you produce your product or deliver your service**
   Improving your production practices can include: changing your production process, using different equipment, using different facilities, employing different people in new ways, trying different materials.
4. **How you manage your staff and volunteers**
   Enhancing your human resource practices can involve changing how you define your job requirements, how you recruit and select your staff and volunteers, how you orient and train them, how you lead, organize and evaluate them, and how much you pay them.
5. **How you manage your money**
   Financial enhancements can involve upgrading your accounting system and procedures and improving how you budget and manage your costs and cash flow.

The key benefits of this strategy are:

- **You can start now**
  Because this strategy involves fine-tuning what you're already doing, you can start

sooner and for less than it might cost to start a new business.

- **Less risk**
  Improving an existing business activity is inherently less risky than starting something new, because you're dealing with a few changes (in, for example, your pricing, staff training, or budgeting) to an otherwise familiar situation.

- **Quicker results**
  A well thought-out change to your pricing will result in short-term benefits - increased customer satisfaction, sales and profit - whereas a new venture will take time to produce results.

- **It builds your capacity to succeed in a new business**
  Much of what you learn by enhancing your current business activities, and the capacity you build, can be applied directly to any new business you might choose to start.

The benefits of this strategy notwithstanding, it does require that you have at least some current business activities. And, because you're not creating an entirely new enterprise, your potential for growth may be limited. Finally, focusing solely on this strategy might cause you to overlook some very new, very viable business opportunities.

CREATING NEW BUSINESS ACTIVITIES - KEY CONSIDERATIONS

With this strategy, you get to choose and make the big decisions. That's the good news. The bad news is that, with this strategy, you have to choose and make the big decisions (and all the small ones too). Five of these 'big decisions' are outlined below. Considering each will help you to start forming your own unique new business strategy.

1. Products & markets

A very basic consideration is, "To whom do you want to sell (your market) and what are you going to provide them (your products or services)?" You have several options, each with its own set of risks and efforts. The option with the least amount of risk and effort is providing more of your current markets with more of your current products and services. Conversely, the option with the greatest risk and effort involves providing new products and services to new markets.

STARTING SMALL:
IN-HOUSE BUSINESS ACTIVITIES

This common business strategy involves activities that are based out of your existing facilities, and can take a variety of forms:

- **Providing your own product or service within a current program**
  For example, a sheltered workshop that employs mentally challenged adults to produce wooden chairs and benches
- **Re-selling another's products or services**
  The same workshop markets a line of wood stains and polishes.
- **Marketing a product, service or capacity outside of a program**
  Where the workshop rents out an extra office space to local small business.

Within any of these activities, you may market your product or service to your mission-related clients or to another, unrelated group of customers.

This strategy is so common because:

- It often involves simply enhancing or re-packaging what you're already doing or already have;
- Building upon what you're already doing allows you to start smaller and sooner than with an entirely new venture; and
- Starting smaller in turn can translate into lower required investment and risk.

Potential downsides of this strategy are threefold:

- Because of its commonly smaller scale of operations, this strategy can have limited impact, especially in the short term, and may take time to grow.
- A culture clash can result from developing new entrepreneurial opportunities – that will require special attention and may result in special recognition – alongside existing activities.
- The additional duties that result from the resulting business activities usually fall to staff who are already working at or near capacity.

These challenges notwithstanding, many organizations have been successfully employing this strategy for several years. For them, an opportunity exists to do more of what they're doing, and do it better, for enhanced impact and financial sustainability.

2. How should it relate to your mission?
Alan Fowler's research[1] suggests that there are three different types of social entrepreneurship opportunities:

- *Integrated* opportunities that simultaneously produce social and financial outcomes. These are also known as mission-related opportunities. Food Share (www.foodshare.net) is a nonprofit food security organization based in Toronto that has developed a variety of integrated opportunities. Their *Field to Table Catering* service is a financially sustainable enterprise that directly supports their core mission.
- *Re-interpretive* opportunities that involve utilizing your products, services and other capacities in new ways to either reduce costs or generate revenue. Examples include a library that leases one of its extra offices to a local small business, or any charity that markets its products or services to new customers who are unrelated to their mission.
- *Complementary* opportunities that involve buying or starting a separate for-profit enterprise for the sole purpose of financially supporting the charity's mission-related activities.

3. Part of your charity or a separately incorporated enterprise?
A practical consideration is whether you want to (or can) operate your new venture within the legal structure of your charity, or if you should set it up as a separate, for-profit business that is owned (in whole or in part) by your charity. If you have identified an *integrated* opportunity (see item 2 above) that relates directly to your charitable purpose or mission, there's little regulatory incentive to set up a separate business. However, for opportunities that don't directly relate to your mission - especially those that may represent a significant percentage of your total budget - it may make sense from a regulatory perspective to incorporate a separate, for-profit business. Even for integrated opportunities, there may be a strong case for setting up a separate, for-profit business - access to financing, freedom of operation, etc. You should be aware of Canada Customs and Revenue Agency's (CCRA) restrictions relating to charities in business. Under current CCRA guidelines, charitable organizations and public foundations, but not private foundations, can carry on related businesses that accomplish or promote their charitable objects. They can carry on any other business activities if substantially all (i.e., at least 90 per cent) of the staff involved in these activities are volunteers. (See Registered Charities and the Income Tax Act, RC 4108(E) 1204, available on the CCRA Web site at www.ccra-adrc.gc.ca.)

YOU DON'T HAVE TO DO IT ALONE – CORPORATE PARTNERSHIPS & VENTURE PHILANTHROPY

For-profit businesses can contribute in a variety of ways toward the success of a charity's current and new business activities, including:

- **Cause-related marketing** – agreeing to contribute a percentage of its profits to a defined charity
- **Cause-related purchasing** – contracting with a charity to buy its products or services
- **Licensing** – paying a charity to associate the business' products with the charity's brand identity
- **Joint ventures** – entering jointly into a business with a charity

In each case, both the charity and the business benefit. Not only is this good business – it's good *for* business.

Another new but compelling opportunity for charity-run businesses is venture philanthropy. Social Venture Partners Calgary, a venture philanthropy organization, describes itself as "a philanthropic organization, which applies the venture capital model to philanthropy. Partners invest in innovation and then actively nurture their financial investment with guidance and resources... Organizations in need not only get the commitment of money and resources over a number of years, but the professional advice that points to more successful endeavours."

4. Scale, complexity and timing
A smaller, simpler opportunity (e.g., providing a new product or service to one of your current customers) will likely involve less investment and risk and be quicker to implement than a larger, more complex opportunity (e.g., launching an entirely new business that will serve a new market). Not surprisingly, our mantra is, "start small, start now, and grow as you're able." This said, you might be at a point where you're willing and able to pursue that big opportunity that will transform your capacity, impact and sustainability. Just be aware of the investment, risk and time it will involve.

5. Employ your clients?
If your mission includes training, or helping people to rehabilitate or integrate into society, you might consider a business strategy that actively engages them in your business. For example, the Ontario Council of Alternative Businesses

[1] Fowler, Alan. "NGDOs as a moment in history: beyond aid to social entrepreneurship or civic innovation?" in *Third World Quarterly* , Vol. 21, No. 4, pp. 637-654.

(www.icomm.ca/ocab) is an association of businesses that employ over 600 psychiatric survivors in various initiatives across the province. Other notable examples include Pioneer Human Services (www.pioneerhumanserv.com) in Seattle and the Roberts Enterprise Development Fund (www.redf.org) in San Francisco.

MANAGING THE RISKS OF DOING BUSINESS - A SYSTEMATIC APPROACH

(© John Pepin and Associates)

Risk is a function of two things: the likelihood of failure and the consequences of failure. By taking a systematic approach to your business development, you can reduce (but never eliminate) both. Undertaking the following steps will help reduce your risk and ensure a thorough, disciplined process is in place for the generation, selection and implementation of your business ventures:

1. **Determine organizational need & purpose**
   Starting at the highest level, your organization must agree to the need for social entrepreneurship (e.g., increase the number or quality of services, enhance profile and influencing reach, etc.) and agree to the purpose - to make a profit, to increase profile, to support education and advocacy activities, to train clients, etc.
2. **Determine organizational readiness & commitment, barriers & inhibitors**
   What will get in the way? What does your organization have to do to ready itself (e.g., everything from preparing policies to streamlining decision-making processes to establishing comprehensive data and financial systems)?
3. **Search for opportunities**
   Look at your organization's capacity and ties to potential markets.
4. **Create new products & commercial ideas**
   Involve staff and volunteers in brainstorming potential products, creating dozens or even hundreds of potential ideas that you can then screen and possibly develop.
5. **Screen products & ideas including product business plans**
   Do an initial screening to test the feasibility of ideas generated by brainstorming. Select several to take to the preliminary business feasibility analysis stage and, from there, one or two to take to a business planning stage.
6. **Research**
   Product research and development.
7. **Design & test**
   Work out and pilot how the product will be delivered. Take your business model and design and implement a test - consult with potential clients, test the product or service with a sample market, etc. - that will allow you to evaluate your assumptions.
8. **Launch**
   Prepare launch plans and implement.
9. **Review & revise (ongoing)**
   Constantly evaluate outcomes and assumptions against the business plan, and create and revise approaches as necessary.

It is imperative that through the business development process, a business plan is developed for each opportunity as well as for the whole portfolio of opportunities.

APPROACHES TO MANAGING LEGAL LIABILITY & RISKS

John Wilkinson, a lawyer with Toronto's WeirFoulds LLP, suggests seven methods to reduce legal liability exposure and to manage risk, namely:

Structural organization
This fundamental risk management technique involves considering all stakeholders and relationships, and choosing the appropriate organizational structure, both internally and externally.

Contracts
Contracts are critical to identify responsibilities and to allocate risk.

Policies & procedures
These must be established, understandable, appropriately distributed, and followed. Compliance should be monitored.

Appropriate use of insurance
Brokers should be consulted and requests for coverage made in writing. Policies should be reviewed carefully.

Understanding the legal environment
It is crucial to understand the legal environment, community standards and the expectations in your sector.

Tax
Tax issues range from GST to charities' disbursement quotas and must be managed.

Communication
Effective internal and external reduces exposure to risk.

CONCLUSION

Many of you may question how or even if charities should become more entrepreneurial and run their own business ventures. This article begins to address these questions:

- **What do we have to sell?**
  As seen, you have a lot to sell.
- **Doing a business is different. Do we have the skills?**
  You are right, running a business is different, but you are already running a small- to medium-sized enterprise - your skills are there. It is a matter of applying them to

different ends.

- **What about resources?**
  This can be a problem. However, size does not matter. Perhaps you have to start small. Others have found 'investors' to help with start-up and therefore they can grow the business faster.
- **What impact will it have on our mission?**
  If undertaken as we've presented, social entrepreneurship can both focus and expand your mission impact.

By following the suggestions outlined in this article, and with the support of the appropriate advisors, you should be able to find the best answers for your organization. And you may find, as many other have, that social entrepreneurship can play a vital role in enhancing your organizational capacity, mission impact and financial sustainability.

FOR MORE INFORMATION AND ASSISTANCE…
Feel free to contact either one of the authors - John Pepin at john@jpa-group.com or Andy Horsnell at andy.horsnell@aperio.ca . They both have had successful experiences helping social entrepreneurs and organizations work their way through the process.