Social Entrepreneurship Workshop

Social Entrepreneurship
An Introductory Workshop For Nonprofit Leaders

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Bill Strickland, CEO of the Manchester Craftsmen’s Guild (MCG) and the Bidwell Training Center Inc. (BTC)

“Nonprofits have to recognize that they’re businesses, not just causes. There’s a way to combine the very best of the not-for-profit, philanthropic world with the very best of the for-profit, enterprising world. This hybrid is the wave of the future for both profit and nonprofit companies.”

Introductions

- Your presenter: Andrew (Andy) Horsnell
- His firm: Authenticity Consulting, LLC (www.np-org-dev.com)
- Today’s session...

Andy Horsnell

- 9 years as assistant director of the (nonprofit) Acadia University Centre for Small Business & Entrepreneurship
- 4 years as nonprofit business development consultant
- Previously, a senior associate with the National Center for Social Entrepreneurs

Andy Horsnell

- Close working relationship with MAP for Nonprofits (St. Paul, MN)
- Currently a partner in Authenticity Consulting, LLC
- Degree in business, advanced training in adult education, counselling, and program evaluation
- andy@authenticityconsulting.com

Authenticity Consulting, LLC

- Action-focused approaches to professional and organizational development
- Carter McNamara & Andy Horsnell
- www.np-org-dev.com
- www.managementhelp.org
- In Canada, 416-690-6044 (Toronto)
- In the US, 763-971-8990 (Minneapolis)
Objectives for Today’s Session

Morning:
- Gain a framework understanding of the field of social entrepreneurship, and
- Explore your organization’s entrepreneurial options

Afternoon:
- Determine your organization’s readiness to pursue its entrepreneurial options, and
- Identify next actions

Morning Agenda

- Social entrepreneurship overview
- Exploring your entrepreneurial options
- What you can do right now to become more entrepreneurial

Social Entrepreneurship Overview
A Whirlwind Tour of an Expanding Field

- The changing nonprofit landscape
- What is social entrepreneurship and why should you care?
- What’s the catch?

The Changing Nonprofit Landscape

- Emerging trends
- How nonprofit leaders are responding

Emerging Trends Are Encouraging Nonprofit Leaders to Consider New, More Business-like Approaches…

- Heightened concerns about the effectiveness of traditional governmental and charitable approaches to meeting social needs
- A search for more innovative solutions that lead to sustainable improvements

More Trends…

- An increased openness to experimentation with market-based approaches and businesslike methods in the social sector
- Significant reductions in traditional government funding
- A growing shift toward the privatization of public services, leading to government contracting with both for-profit and nonprofit providers

Source: J. Gregory Dees and Peter Economy in Enterprising Nonprofits – A Toolkit for Social Entrepreneurs, 2001
More Trends...

- A parallel shift toward outcomes-based (rather than needs-based) approaches to funding on the part of both private philanthropies and government agencies
- A new, more engaged and strategic approach to corporate involvement in social and community issues.

Source: J. Gregory Dees and Peter Economy in Enterprising Nonprofits - A Toolkit for Social Entrepreneurs. 2001

How Are Nonprofit Leaders Responding to These Trends? Social Entrepreneurship

- Exploring more businesslike approaches to the planning and delivery of their services and products
- Starting mission-related businesses
- Forming mutually-beneficial partnerships with corporations

Who Pays?

- Intended beneficiaries of your products and services (examples: user fees)
- Third parties with a vested interest (examples: vouchers, contracts)
- Others (examples: licensing, advertising, cause-related marketing)

Benefits of Being More Entrepreneurial

- Mission and social impact
- Organizational
- Financial

Mission Benefits

- Higher quality service by focusing on what you do best
- Expanded impact
- No longer do what people don't want
- Increased relevance
- Keep up with the changing needs of your community

Organizational Benefits

- Sharpened organizational focus
- Professional development for board and staff
- Move from culture of scarcity to culture of possibility
- Development of organizational systems and infrastructure
More Organizational Benefits

- Enhanced coordination between board and staff
- Better, more independent decision-making
- Increased organizational freedom
- Strengthen old and create new external relationships
- Enhanced competitiveness

More Financial Benefits

- Enhanced ability to do traditional fundraising, but less reliance on traditional fundraising
- Better investment of resources
- Earned income is unrestricted

Financial Benefits

- Increased efficiencies
- Increased sales and profit
- Enhanced sustainability and growth

"Sounds good. But how do you ‘do’ social entrepreneurship?"

3 Perspectives

“Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value),
- Recognizing and relentlessly pursuing new opportunities to serve that mission,
- Engaging in a process of continuous innovation, adaptation, and learning

Continued…

“Social entrepreneurs play the role of change agents in the social sector, by:

- Acting boldly without being limited by resources currently in hand, and
- Exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.”

Source: J. Gregory Dees in Enterprising Nonprofits. 1998
“Social Entrepreneurs Have These Characteristics...

- They are constantly looking for new ways to serve their constituencies and to add value to existing services.
- They are willing to take reasonable risk on behalf of the people that their organization serves.
- They understand the difference between needs and wants.
- They understand that all resource allocations are really stewardship investments.
- They weigh the social and financial return of each of these investments.
- They always keep mission first, but know that without money, there is no mission output.”

Source: Social Entrepreneurship, 2000

“By adopting entrepreneurial strategies, social entrepreneurs are able to:

- Identify and expand their most effective and needed programs
- ‘Productively’ dispose of their more peripheral programs
- Selectively identify new programs where there is an identified need and revenue to support them
- To actually start new business ventures that are rooted in the core competencies of their organizations
- And become increasingly self-sufficient financially – less dependent on government and charity.”


Common Themes

- Driven ultimately by mission and social purpose
- Identifying opportunities to create social impact and enhance sustainability
- Taking responsibility and assuming risk
- Continuous learning and improvement

More Common Themes

- Use of so-called ‘for-profit’ strategies and techniques
- Mobilizing resources and making investments
- Taking action to create and/or grow a commercial enterprise
- Heightened accountability – to funders and the community
“How Is This Different Than What We Are Doing Now?”

- You may do much of this already, and it’s a question of just doing it more consistently.
- If you’re not, you can always start experimenting with it. Every nonprofit can be more entrepreneurial.

“Okay – What’s the Catch?”

- Risks of failure and success
- Critical success factors
- Implications for your organization

“Are You Already a Social Entrepreneur?”

- Take a few minutes to review the three definitions.
- You’ll likely find that you’re already there in many ways.
- If so, then the question may be, “How do you become more entrepreneurial?”

“Risks of Failure”

- If we fail, we’ll...
  - Lose money
  - Damage our reputation
  - Hurt our morale
  - Besides...
    - We lack the skills, resources, & credibility to succeed.

Six Stages of Entrepreneurial Development

1. Clarify your situation
2. Inventory your assets and capabilities
3. Brainstorm, Screen, & Select a short list of opportunities
4. Research your short list for feasibility and select the most appropriate opportunities
5. Strategize & Plan to implement your selected opportunities
6. Implement your plan & Adjust to reality

Source: Authenticity Consulting, LLC
Managing the Risks of Failure

- Strategies
- Critical success factors
- Organizational issues
- Scale, scope, & timing

Minimize the Risk of Failure...

- Build on what you know: products, services, markets
- Consider many options before committing to one
- Involve your board (and build it if necessary)
- Identify the strategic fit for any opportunities you consider - with your organization and with the marketplace

Critical Success Factors

- Candor
- Passion
- Clarity
- Commitment
- Courage
- Core values
- Always start with ‘them’ (your customers)
- A willingness to plan
- Think like a business at all times
- Do something
- Be flexible


Create an Organizational Climate that Supports Innovation

- Clear visions & strategies
- Focus on customers
- Valuing experiments and risk taking
- Discretionary resources at lowest levels
- Discretionary time
- Empowered project teams

Create an Organizational Climate that Supports Innovation

- Intrapreneurs
- Sponsors
- Choice
- Boundary crossing & organizational community
- Measurement

Source: Gifford Pinchot, www.pinchot.com
For a Free Organizational Climate Self-Assessment...

www.intrapreneur.com/MainPages/SurveyIntro.html

Scale, Scope, and Timing – You know best...

- How widely you should implement entrepreneurial strategies (scope),
- The size you should start out at (scale), &
- How quickly you want to grow (timing).

This said, may I suggest...

...Start Small and Grow As You're Able

“Start as small as possible: To achieve 100% success, you need to grow organically. Pass up outside financing until you know that you can run the company. Starting with limited financing forces you to learn every single aspect of a business: how to balance a ledger, how to collect receivables, how to draw up contracts. If you don't understand all aspects of your business, you've set yourself up to fail.”

Richard Foos, President, Rhino Records

'Risks of Success'

- Mission drift
- The UBIT and losing charitable status
- Losing the support of funders
- Being accused by for-profits of competing unfairly

Avoiding Mission Drift

- The ultimate goal: to serve your community better, more, and longer.
- Doing this just to save your job? You will be tempted to drift.
- Job #1 – Clarify and use your strategic framework – your vision, mission, & core values.

The Unrelated Business Income Tax (UBIT)

“If your organization makes a profit from activities not included in your mission statement – unrelated activities – your organization, like any other, should pay a tax on those profits.”

Source: Social Entrepreneurship, Brinckerhoff. 2000
What Paying UBIT Does Not Mean…

- It does not tax all your earned income, not even all your unrelated income, just your unrelated net profit.
- Your organization will not lose its 501(c)(3) status if it pays UBIT
- Paying it does not mean that you cannot accept donations, grants, or government contracts.

Source: Social Entrepreneurship, Brinckerhoff. 2000

What Paying UBIT Can Mean

- Over $1,500 net profit from unrelated activity? File a separate tax return.
- Unrelated activity approaching 25% of sales or staff time? Time to consider creating a for-profit subsidiary.
- Regardless of the amount of your unrelated activity, you will need to be able to account for it accurately.

Source: Social Entrepreneurship, Brinckerhoff. 2000

A Related (Nontaxable) Activity…

makes important contributions to the charitable purpose of your organization, regardless of how large or small the business venture is.

Source: Social Entrepreneurship, Brinckerhoff. 2000

A Related Activity…

- Significantly contributes to your mission
- Operates inside the geographic boundaries stated in your bylaws
- Directly benefits the people your mission statement says you serve

Source: Social Entrepreneurship, Brinckerhoff. 2000

UBIT Strategies

- If necessary, update your mission statement to more accurately reflect your related activities and file with the IRS
- Give priority to activities related to your mission
- Account for unrelated activity
- Talk to your CPA and/or lawyer for advice

UBIT Resources

- Chapter 10 of Brinckerhoff’s “Social Entrepreneurship”
- Gerald Zack’s “The Unrelated Business Income Tax”
- Bruce Hopkins’ “Starting and Managing a Nonprofit Organization: A Legal Guide”
Facing Charges of Unfair Competition…

- Some charge that nonprofits use “tax advantages and subsidies” to unfairly compete with for-profit small businesses.
- Rebuttals include:
  - Nonprofits are taxed, at the same rate as for-profits, on profits from unrelated activities
  - Nonprofits have costs and limitations that are not shared by for-profits

Minimize the Risk of Charges of Unfair Competition

- Look for non-competitive opportunities
- Don’t compete on price
- Collaborate with potential rivals
- Focus on activities that directly contribute to your mission
- Pay tax (UBIT) on profit from activities that do not contribute directly to your mission


Why Funders Should (& Probably Do) Support Social Entrepreneurship

It can result in:

- More mission, of more quality, to more people
- Stronger, more independent, innovative, and accountable nonprofits
- More clearly-defined, accountable, professional relationships
- A more wise use of contributed funds, with more mission outcome per dollar.

Source: Social Entrepreneurship, Brinckerhoff. 2000

How Funders Can Encourage Social Entrepreneurship

- Encourage innovation
- Understand not all ideas work out
- Provide funding for entrepreneurial activities
- Encourage lifelong learning
- Go to contract for services

“Continued…”

Continued…

- End matching funds
- Don’t worry about what’s not in the contract
- Don’t punish efficiency and good management
- Fund overhead
- Encourage competition, not just collaboration

Source: Social Entrepreneurship, Brinckerhoff. 2000

“What will be required of my organization?”
Facing Some Facts...

BOARD – accept the fact that mistakes will be made, and be prepared to provide direction, expertise, contacts, and time to review and plan.

Continued...

Facing Some Facts...

STAFF – for those that participate, this will mean additional work to plan and implement, and will require that you develop new skills.

Continued...

Facing Some Facts...

INFRASTRUCTURE – what’s worked up until now – systems (especially accounting) and facilities – may need some upgrading.

Continued...

Social Entrepreneurship vs. ‘Regular’ Entrepreneurship...

While there are important differences, social entrepreneurship and ‘for-profit’ entrepreneurship are really quite similar, especially in terms of the skills & knowledge needed and the processes & techniques used.

Continued...

Benefiting From the Similarities...

- Use the huge amount of excellent for-profit resources and expertise that are available
- Learn from for-profits’ mistakes

Continued...

Most Small Businesses Fail Because of Bad Management

- Lack of financial planning
- Absence of business records
- No understanding or use of business records
- Poor cash flow management

Continued...
Most Small Businesses Fail Because of Bad Management
- Poor debtor management
- Poor inventory management
- Poor costing and/or pricing
- Poor market research, &
- Overborrowing


Exploring Your Entrepreneurial Strategy Options
- A review of the options
- Key considerations

“The Challenge…

is to find a financial structure that reinforces the organization’s mission, uses scarce resources efficiently, is responsive to changes, and is practically achievable.”

Source: J. Gregory Dees in Enterprising Nonprofits, 1998

Social Entrepreneurship Strategies
- Enhancing the profit from product and service sales
- Starting/acquiring free-standing businesses
- Forming mutually-beneficial partnerships with corporations

Product and Service Sales

Providing your own services or products
- Selling others’ products or services

Examples:
- Increasing the profit from medical consults in a community clinic
- Selling a line of vitamins at the same clinic

Pros:
You can start small, start now, and grow as you’re able

Cons:
- May have limited impact
- May cause internal culture clash

Product and Service Sales
Free-Standing Businesses

- Start your own or acquire an existing one
- Examples:
  - A sheltered workshop opens a café to provide job skill training for mentally-challenged adults
  - The same workshop buys a coffee shop franchise.

Pros:
- Can create significant positive opportunities and impact
- Less likelihood of culture clash

Cons:
- Requires higher investment of time and resources
- Can involve significantly higher risk, both in terms of likelihood and consequences of failure

Partnerships with Corporations

Examples:
- Licensing
  - A folk museum licenses a furniture manufacturer to use its name on their replica line
  - Newman's Own contributes all its profits to charity

- Cause-related marketing

Pros:
- Access to resources and expertise
- Potential for lower risk

Cons:
- Less flexibility
- Not an option for all nonprofits

Regardless of the Strategy You Choose, You Will Need To Consider...

- What product or service are you going to provide?
- To whom are you going to provide it?
- How are you going to get paid?
Other Important Considerations

- Mission-related or unrelated?
- In-house activities or external?
- Separate legal entity?
- For-profit or nonprofit?

Continued...

Other Important Considerations

- Use existing staff or hire new?
- Employ the people you benefit?
- Organization-wide or program-specific?

What You Can Do Right Now to Become More Entrepreneurial

- Work through the afternoon session
- Reflect, discuss, and clarify - priorities, resources, opportunities, goals, strategy
- Organize yourself for action - engage your board, pick a champion, form a team
- Gather information and talk to other social entrepreneurs (see “Resources” handout)

Preview of the Afternoon Agenda

- Six stages of entrepreneurial development
- Individual self-assessment
- Small-group discussion
- Large-group forum
- Next actions and evaluation

Entrepreneurial Self-Assessment Afternoon Agenda

- Six stages of entrepreneurial development
- Individual self-assessment
- Small-group discussion
- Large-group forum
- Next actions and evaluation

Lunch
Six Stages of Entrepreneurial Development

1. Clarify your situation
2. Inventory your assets and capabilities
3. Brainstorm, Screen, & Select a short list of opportunities

Continued...

Six Stages of Entrepreneurial Development

4. Research your short list for feasibility and select the most appropriate opportunities
5. Strategize & Plan to implement your selected opportunities
6. Implement your plan & Adjust to reality

Source: Authenticity Consulting, LLC

1. Clarify Your Situation

Driving forces
Goals & objectives
Vision, mission, & core values
Internal climate factors
External climate factors

1. Clarify Your Situation

Goals & Objectives

What do you hope to gain by becoming more entrepreneurial? By when?
Go back and review the “Benefits” section of this presentation for ideas.

1. Clarify Your Situation

Vision, Mission, & Core Values

Vision, mission, and core values clearly defined and understood?
Do you have a good, recent strategic plan to guide you?
What implications do these things have for you becoming more entrepreneurial?
1. Clarify Your Situation
The Internal Climate
- Tolerate risk, mistakes, & failure?
- Support initiative?
- Do staff from different areas work well together?
- Is there a clear focus on your clients, customers, & payers?

Continued…

1. Clarify Your Situation
The Internal Climate
- Encourage incremental gains?
- Is there support for being more entrepreneurial?
- Are you relatively free of major commitments that might distract your attention and resources?

1. Clarify Your Situation
The External Climate
- Supportive funders?
- Qualified staff and volunteers available?
- Political support for your organization?

1. Clarify Your Situation
The External Climate
- Demonstrated willingness in the community to pay for your products and services?
- Regulations not too constraining?
- Room for more competition?

2. Inventory Your Assets & Capabilities
- Core competencies
- Staff
- Physical Assets
- Reputation & brands
- Relationships

Continued...

2. Inventory Your Assets & Capabilities
- Products & services
- Customers
- Planning capacity
- Financial resources
- Management systems & competencies
2. Assets & Capabilities

Two Primary Uses
1. They are an excellent source of ideas for new opportunities, and
2. They help you assess the likely viability of your opportunities.

2. Assets & Capabilities

Core Competencies

Definition:
Core competencies are those underlying, programmatic capabilities that enable your organization to provide quality products and services.

Core Competencies

Four Characteristics:
- Support the production of a variety of products & services
- Make a significant contribution to your customers’ perception of your products and services
- Often difficult for your competition to imitate
- Tend to be relatively stable over time

For example – American Red Cross
- Helping people who are in crisis
- Teaching people to prevent and cope with their own crises
- Teaching other teachers
- Connecting families in crisis

Core Competencies

Any opportunity you pursue should ideally be rooted in your core competencies
Do you know what your organization’s core competencies are?

Your Best Products & Services

- Profitable
- Rooted in your core competencies
- Capacity to produce more
2. Assets & Capabilities

Your Best Customers
- Currently/potentially profitable
- Potential for growth
- Fit with mission
- Needs & wants fit with capabilities

Reputation and Brands
- Can open doors to new opportunities
- Help you maintain existing ones
- Provide the basis for licensing opportunities

Relationships – Who Can Help?
- With marketing your products and services?
- With producing your products and services?
- With legal or regulatory issues?
- With financial support?

Physical Assets
- Facilities
- Vehicles
- Equipment
- Materials

Financial Resources
- How much is your organization willing and able to invest in the research, development, and implementation of its opportunities?
- What external financial resources does your organization have access to?

Willingness & Ability to Plan
- How much time?
- From which people?
- For how long?
2. Assets & Capabilities
Managerial Competency & Systems

- Remember that most small businesses fail from bad management
- How’s yours?

3. Brainstorm, Screen, & Select a Short List of Opportunities

- Types of opportunities
- Assessment criteria and pre-feasibility testing

3. Opportunities
Types of Opportunities

- Customer maximization – sell more of your current products & services to your current customers.
- Product development – sell new products & services to your current customers.

3. Opportunities
The Opportunity Matrix

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<th>New Clients</th>
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3. Opportunities

Assessment Criteria - Internal

- Alignment with...
  - Mission
  - Values & Priorities
- Capability
  - Competence
  - Capacity to grow

3. Opportunities

Assessment Criteria - External

- Market Potential
  - Size and severity of need
  - Alternative coverage
  - Competitive position
- Financial Potential
  - Demonstrated earned income potential
  - Investment required relative to funding available

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How much research & planning is enough?

- "Just do it!"
- "Quick market test"
- "Full feasibility study"

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4. Research Your Short List & Select the Best Opportunities

Key Research Issues:

- **Industry** - structure, business models, & leaders
- **Market** - beneficiaries, payers, & competitors

Continued...
4. Research Your Short List & Select the Best Opportunities

Other Key Research Issues:
- **Operational** – processes, equipment, & technology
- **Legal** – contractual concerns, liability, & the UBIT
- **Financial** – sales, profitability, & financing

5. Strategize & Plan to Implement Your Selected Opportunities

**Goals:**
- Mission-related
- Financial

**Strategy:**
- The form of the enterprise
- Scale, scope, & timing

6. Implement Your Plan & Adjust to Reality

Despite the best preparation, things rarely go exactly as planned
So...
- Execute with passion,
- Review the results,
- Make quick adjustments, &
- Execute again.

Next Actions...

- Complete your questionnaire
- Reflect, discuss, and clarify – where you are in the entrepreneurial process
- Organize yourself for action – engage your board, pick a champion, form a team
- Gather information and talk to other social entrepreneurs (see “Resources” handout)

Next Actions...

- We’ll be meeting tomorrow to discuss how best to respond to the needs you identify in your questionnaires.
- If you provide your email address, you’ll be added to our social entrepreneurship discussion group.
You **Can** Do It!

- If you do the work,
- Keep your purpose in mind, and
- Are realistic about your progress
- You can become more entrepreneurial, and
- Enhance both of your bottom lines – mission and money.