Social Enterprise 101

Advancing Your Mission through Enterprising Business

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Did You Know?

Economically disadvantaged teens are more likely to be un- or under-employed in the summer job market.

Early work experience improves prospects for employability and real wages in the later teens and early 20s.

Work experience in high school also increases the likelihood of graduation and lowers teen pregnancy and delinquency.
Juma Ventures develops and operates concessions at stadiums for the purpose of providing job opportunities to economically disadvantaged teens.

Source: Social Enterprise Alliance
Did You Know?

In 2007, 20.9 million U.S. women lived below the federal poverty threshold.
The Women’s Bean Project in Denver, CO employs women from backgrounds of chronic unemployment and poverty to manufacture gourmet foods.

Source: Social Enterprise Alliance
The Women's Bean Project does not hire women to make and sell bean products.

It makes and sells bean products to hire women.
What do all these solutions have in common?

They are using business methods to solve a social problem.
Social enterprise enables organizations to harness the power of the marketplace to solve critical social or environmental problems.
Workshop Objectives

• Learn about the field of social enterprise through examples from around the country

• Understand the characteristics of successful social enterprises

• Discuss both the benefits and possible roadblocks when pursuing social enterprise

• Identify legal issues and tax implications associated with social enterprise
Workshop Objectives, cntd.

• Discover and evaluate your organization’s leverageable strengths through an organization audit

• Learn how to decide which promising opportunities have the most potential

• Provide an overview of a feasibility assessment and business plan
Agenda

9:00 am  Introduction
9:10 am  Defining Social Enterprise
9:20 am  Process for Exploring Social Enterprise
9:40 am  Organizational Audit to Identify Strengths
10:00 am Evaluation of Strengths
10:10 am Opportunity Assessment
10:20 am Feasibility Assessments and Business Plans
10:25 am Discuss Next Steps
Defining Social Enterprise
How is Social Enterprise Defined?

**Social Enterprise Alliance**

“...An organization or venture that achieves its primary social or environmental mission using business methods...applying market-based strategies to today's social problems.”

**The Roberts Enterprise Development Fund (REDF)**

“A revenue-generating venture founded by a nonprofit to create jobs or training opportunities for very low-income individuals, while simultaneously operating with reference to the financial bottom-line.”

**Greg Dees, Center for the Advancement of Social Entrepreneurship (CASE)**

“....a mixture of the social purpose we typically associate with nonprofits and the kind of entrepreneurial orientation we associate with business, particularly with the most creative and dynamic aspect of business.”
A Social Enterprise is a Hybrid Organization

<table>
<thead>
<tr>
<th></th>
<th>Purely Philanthropic Organization</th>
<th>Hybrid Organization</th>
<th>Purely Commercial Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Motives</strong></td>
<td>Appeal to goodwill</td>
<td>Mixed motives</td>
<td>Appeal to self-interest</td>
</tr>
<tr>
<td><strong>Methods</strong></td>
<td>Mission-driven</td>
<td>Balance of mission and market</td>
<td>Market-driven</td>
</tr>
<tr>
<td><strong>Goals</strong></td>
<td>Social value creation</td>
<td>Social and economic value creation</td>
<td>Economic value creation</td>
</tr>
<tr>
<td><strong>Destination of Income/Profit</strong></td>
<td>Directed toward mission activities of nonprofit organization</td>
<td>Reinvested in mission activities or operational expenses, and/or retained for business growth and development</td>
<td>Distributed to shareholders and owners</td>
</tr>
</tbody>
</table>

Source: Virtue Ventures Consulting
Social enterprise is not a new fad. Some of the largest and most well-known nonprofit organizations have long engaged in income generation and businesses either to supplement or complement their mission activities.
Beginning in the 1960’s, a greater number of U.S. nonprofits began to experiment with enterprises to create jobs for disadvantaged populations.

Source: Virtue Ventures Consulting
Recent Growth in the Field

• It has been only in the past 15-20 years that academics, practitioners, and donors have begun to study nonprofits adopting market-based approaches to achieve their missions.

• Today, it is estimated that over 50% of social service organizations operate a social enterprise.

Source: Virtual Ventures Consulting; Center for the Advancement of Social Entrepreneurship
The growth of the field has been fueled by nonprofit organizations’ quest for sustainability, particularly in current times when support from traditional, philanthropic, and government sources is declining and competition for available funds is increasing.
Process for Exploring Social Enterprise
What Leads an Organization to Pursue Social Enterprise?

Management exhibits entrepreneurial spirit and drive

External opportunities emerge

The performance and results of the organization can be enhanced through the use of business methods

Financial assistance is available from a trusted stakeholder

Management/Board believes that mission fulfillment can be achieved through social enterprise
Three Readiness Factors

- Organizational commitment and readiness for social enterprise
- Organizational strengths that translate into opportunities
- Sufficient base of customers willing and able to pay for your services/goods
Four-Phase Process

**Phase 1**: Secure interest and commitment from leadership. Begin to learn about successful social enterprises.

**Phase 2**: Conduct organizational audit of strengths. Evaluate opportunities to determine which have the most potential.

**Phase 3**: Conduct a feasibility assessment to analyze the viability of the opportunity.

**Phase 4**: Develop a business plan to turn the opportunity into reality.

**Design and Development**
- 2 months
- 4 months
- 6 months
- 12 months

**Planning**
- 2 months
- 4 months
- 6 months
- 12 months
Critical Success Factors

- Alignment with mission and assets
- Business mindset
- Balance between focus and flexibility

Source: Grant Makers in Health
## Financial Benefits and Risks

<table>
<thead>
<tr>
<th>Potential Benefits</th>
<th>Potential Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sustainable source of income</td>
<td>• Financial loss</td>
</tr>
<tr>
<td>• Diversified revenue streams</td>
<td>• Increased start-up costs</td>
</tr>
<tr>
<td>• Reduced donor dependency</td>
<td>• Decreased support from traditional nonprofit funders</td>
</tr>
<tr>
<td>• Existing assets leveraged</td>
<td>• Opportunity cost (earned income vs. fundraising)</td>
</tr>
<tr>
<td>• Unrestricted funds</td>
<td></td>
</tr>
<tr>
<td>• Cost savings in shared services</td>
<td></td>
</tr>
<tr>
<td>• Increased credibility with funders</td>
<td></td>
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</tbody>
</table>

*Source: Virtue Ventures*
## Mission Benefits and Risks

<table>
<thead>
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<th>Potential Benefits</th>
<th>Potential Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Sustainable programming vehicle</td>
<td>• Mission and reputation could be compromised</td>
</tr>
<tr>
<td>• Accountability for achieving social objectives</td>
<td>• Organization could have difficulty balancing mission and money, causing</td>
</tr>
<tr>
<td>• Mission activities and core strengths leveraged</td>
<td>mission drift from core social activities to enterprise</td>
</tr>
<tr>
<td></td>
<td>• Enterprise could have negative impact on clients</td>
</tr>
</tbody>
</table>

*Source: Virtue Ventures*
## Operating Benefits and Risks

<table>
<thead>
<tr>
<th>Potential Benefits</th>
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<tbody>
<tr>
<td>• Business tools incorporated throughout organization</td>
</tr>
<tr>
<td>• Double bottom line context for management</td>
</tr>
<tr>
<td>• Organizations would be required to manage social interest, assets, and investment</td>
</tr>
<tr>
<td>• Enhanced strategic thinking</td>
</tr>
<tr>
<td>• Increased efficiency and cost-effectiveness</td>
</tr>
<tr>
<td>• Improved market responsiveness</td>
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<table>
<thead>
<tr>
<th>Potential Risks</th>
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</thead>
<tbody>
<tr>
<td>• Management and staff attention diverted by enterprise</td>
</tr>
<tr>
<td>• Increased organizational complexity</td>
</tr>
<tr>
<td>• New systems required to support added costs due to enterprise</td>
</tr>
<tr>
<td>• Business skills needed for enterprise may necessitate hiring new staff</td>
</tr>
</tbody>
</table>

Source: Virtue Ventures
## Culture Benefits and Risks

<table>
<thead>
<tr>
<th>Potential Benefits</th>
<th>Potential Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Increased innovation and spirit of trying new ideas</td>
<td>• Cultural differences in social programs and enterprise may cause tension</td>
</tr>
<tr>
<td>• Better understanding of costs and needs due to market orientation</td>
<td>• Staff may leave due to &quot;business culture&quot;</td>
</tr>
<tr>
<td>• Increased organizational focus on results</td>
<td>• Board and staff may feel sold out to business culture</td>
</tr>
<tr>
<td></td>
<td>• Resistance to change</td>
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Source: Virtue Ventures
Social Enterprise is Legal

Nonprofits can launch and operate a social enterprise and maintain 501(c)(3) tax status

- **Income Related to Exempt Purposes**
  - Must be substantially related to exempt purposes
  - No limit on amount of revenue

- **Income from Unrelated Activities**
  - Not substantially related to exempt purposes
  - Produces unrelated business taxable income (UBTI)
  - If less than 10-15% of budget, okay
  - If more, consider moving activity outside of nonprofit entity

Source: Gray Plant Mooty
No Standard Legal Structure

A social enterprise can be operated as a department or division within the parent nonprofit organization

OR

A social enterprise can be a separate legal entity from the parent nonprofit organization

Source: Gray Plant Mooty
Characteristics of Successful Social Enterprises

- Defined goals
- Operated independently
- Led by a dedicated champion
- Supported by the entire organization and board
- Sufficiently capitalized
- Staffed appropriately

Source: Community Wealth Ventures – Powering Social Change
Conducting an Organizational Audit
The most commonly used tool to conduct an organizational audit is the SWOT analysis, which is often used during the strategic planning process.

<table>
<thead>
<tr>
<th><strong>Strengths</strong></th>
<th><strong>Weaknesses</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• What do you do better than anyone else?</td>
<td>• What could you improve?</td>
</tr>
<tr>
<td>• What unique or lowest-cost resources or facilities do you have or have access to?</td>
<td>• What do others do better than you?</td>
</tr>
<tr>
<td>• What do you know you?</td>
<td>• What inhibits your ability to achieve success?</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Opportunities</strong></th>
<th><strong>Threats</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Where are the good opportunities facing you?</td>
<td>• What obstacles do you face?</td>
</tr>
<tr>
<td>• What are the interesting trends you are aware of?</td>
<td>• What are other nonprofits doing that you should be worried about?</td>
</tr>
<tr>
<td></td>
<td>• What are funders doing that you should be worried about?</td>
</tr>
</tbody>
</table>
Focus on Strengths

To determine which types of social enterprises you should consider, we will focus today on your organizational strengths.

**Resources**
- Staff/Board
- Infrastructure
- Facilities
- Publications/Manuals/Training Materials
- Products/Inputs

**Management**
- Program and process management
- Networks
- Linkages
- Knowledge of local community
- Access to information
# Examples of Strengths

<table>
<thead>
<tr>
<th>Resources</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Well-known charismatic leader</td>
<td>• Access to low cost workforce</td>
</tr>
<tr>
<td>• High quality publication</td>
<td>• Relationship with specific sector</td>
</tr>
<tr>
<td>• Training manuals</td>
<td>• Knowledge of local community</td>
</tr>
<tr>
<td>• Conference rooms/banquet facilities</td>
<td>• Easily mobilized network</td>
</tr>
<tr>
<td>• Expertise in providing a service or on specific subject matter</td>
<td>• Large membership base</td>
</tr>
<tr>
<td>• Unique method for doing something</td>
<td>• Expertise on specific subject matter</td>
</tr>
</tbody>
</table>
Be Creative!
TAKE-HOME EXERCISE A: Identify Your Organization’s Strengths

With the other members of your organization, brainstorm as many organizational strengths as possible.

• What do you do better than anyone else?
• What unique or lowest-cost resources, facilities or inputs do you have or have access to?
• What do you know?
Key Questions to Translate Strengths into Opportunities

• Is this strength different and distinct from the strengths of similar organizations in our community?

• Can this strength provide value?
  – To whom? What are their other options?
  – How valuable is it?
  – Are they willing AND able to pay for this value?

• Is this a long-term strength?

• What opportunities exist for the strength?
TAKE-HOME EXERCISE B: Evaluate Your Organizational Strengths

1. With your organizational colleagues, complete the *Evaluating Your Strengths* handout.

2. Based on the results, identify your top 5 strengths and the associated opportunity(ies).

Source: Community Wealth Ventures
### Exercise B: Evaluating Strengths

**Instructions:** Complete the table below by listing your primary strengths and evaluating their potential. Your answers should be based on information that you have available at this point in time as well as your gut instinct. Once you have answered all of the questions for each strength, rank the overall potential of the strength. A is for high potential, B is for moderate potential and C is for low potential. Remember, this is an art, not a science. Do the best that you can with what you know at this point in time.

<table>
<thead>
<tr>
<th>Strength</th>
<th>Is this different and distinct? (Yes or No)</th>
<th>Who would value this strength? (Identify)</th>
<th>How valuable is it? Do other options exist? (Low, Medium or High)</th>
<th>What is the willingness and ability to pay for the strength? (Low, Medium or High)</th>
<th>Is this a long-term strength? (Yes or No)</th>
<th>What opportunities exist for this strength?</th>
<th>Overall Rank of Strength (A, B or C)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Example: New indoor gymnasium</td>
<td>Yes</td>
<td>• Athletic leagues (youth and adult) • Parents with children • Organizations in need of a large indoor space</td>
<td>Medium</td>
<td>Low</td>
<td>Yes</td>
<td>• Facility Rental Venture • Summer Day Camp • Winter Break Day Camp</td>
<td>B</td>
</tr>
</tbody>
</table>

Source: Community Wealth Ventures
Key Questions to Screen your Opportunities

- How easy will it be for my organization to implement this opportunity?

- How will this opportunity impact our ability to achieve our mission?

- What is the potential profit that this opportunity will generate for our organization?
EXERCISE C: Opportunity Assessment

1. With your organizational colleagues, complete the *Opportunity Assessment* handout for 5-8 opportunities.

2. Based on the results, identify your top 2-3 opportunities.
EXERCISE C: Opportunity Assessment

Instructions: List the top five-six opportunities that you identified through the evaluating your strengths exercise. Assess each component of ease of implementation, ability to achieve mission and profit generation as 3 for high, 2 for medium or 1 for low. Assign an overall score for each opportunity. Finally, identify the top 2-3 opportunities.

<table>
<thead>
<tr>
<th>Opportunity</th>
<th>Ease of Implementation</th>
<th>Ability to Achieve Mission</th>
<th>Profit Generation</th>
<th>Overall Score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Internal Expertise and Capacity</td>
<td>Operational Complexity</td>
<td>Fit with Strengths</td>
<td>Fit with Mission</td>
</tr>
<tr>
<td>Space Rental – Indoor Gymnasium</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
</tbody>
</table>
Transforming Opportunities into Action

Top 3 Opportunities

Feasibility Assessment

Business Plan
Feasibility Assessments and Business Plans
Feasibility Assessment

• An analysis of the viability of a social enterprise opportunity: does it make sense for us to proceed?

• Designed to provide an overview of the primary issues related to the opportunity: market opportunity, profitability and fit with the organization

• Identifies any “make or break” issues that would prevent the social enterprise from being successful in the marketplace

• Based on impartial market research and internal assessments
Why is it Important to Conduct a Feasibility Assessment?

• It is estimated that only 20% of business ideas are viable; why invest the time and money into an idea that is not viable?

• Serves as the precursor to the development of a business plan: the information gathered during the feasibility assessment will be leveraged for the business plan.
Key Questions Addressed in a Feasibility Assessment

**Market**
- *Size*: How large is the potential customer base?
- *Outlook*: How favorable are the trends impacting the marketplace?
- *Profitability*: What are the costs and potential revenues?

**Competition**
- *Favorable Competitive Factors*: How competitive is the market?
- *Ease of Entry into Market*: How easy will it be to launch a social enterprise? Is there a threat of competitive entry?

**Fit**
- *Mission*: Is the opportunity aligned with our mission?
- *Skills/Expertise*: Do we have the skills/expertise necessary to succeed?
- *Resources*: Do we have the necessary resources?
Answering the Questions: Market Research

• A systematic, objective collection and analysis of data about a particular target market, competition, and/or environment

• Aims to achieve an increased understanding of the subject matter

• Incorporates some form of data collection whether it be secondary research (often referred to as desk research) or primary research which is collected direct from a respondent

• Backward market research – start with the end in mind

Source: Market Research World
Market Research Resources

- Industry associations
  - American Society of Association Executive’s Search tool
- Industry reports
  - First Research
  - BizMiner
- Federal government libraries and legislative websites
  - Thomas
- Philanthropic news and research organizations:
  - Foundation Center
  - Charity Navigator
  - Chronicle of Philanthropy
Market Research Resources, cntd.

- Federal government statistics (e.g., Census data)
- Local Chambers of Commerce
- Academic library or other public information centers
- Purchased databases (e.g., Hillsearch)
- Competitor/collaborators’ websites
- Similar social enterprises/social innovators (e.g., Social Enterprise Alliance)
Business Plans

• If the feasibility study indicates that your business idea is sound, the next step is a business plan.

• The business plan:
  – Continues the analysis at a deeper and more complex level, building on the foundation created by the feasibility study
  – Outlines the actions needed to take the opportunity from an idea to reality
  – Serves as a “roadmap” for how the venture will be created and developed as well as the “blueprint” for implementation
Business Plan Outline

- Executive Summary
- Business Description and Goals
- Industry and Market Analysis
- Competitive Analysis
- Operations Plan
- Personnel and Management Plan
- Marketing and Sales Plan
- Financial Plan
- Risk and Contingency Plan
- Appendix
Resources


- **CASE (Center for the Advancement of Social Entrepreneurship):** [www.caseatduke.org](http://www.caseatduke.org)

- **Social Enterprise Alliance:** [www.se-allieance.org](http://www.se-allieance.org)
More about Suzanne

Managing Director, Social Impact Architects

**National Member**
Board Member, Social Enterprise Alliance  
Consultant Member, Society for Organizational Learning  
Research Fellow, Center for the Advancement of Social Entrepreneurship at Duke University at the Fuqua School of Business

**Local Leader**
Dallas, Texas - Texas Social Innovation Initiative, Dallas Social Venture Partners, & Social Enterprise Alliance DFW Chapter  
Cincinnati, Ohio – Leadership Council of Human Service Executives  
Durham, NC – Bull City Forward (Social Innovation Initiative) & Social Enterprise Network of the Triangle

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