

Making Money in the Nonprofit Sector: Social Enterprises to Support Missions

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During the economic downturn, America's social sector organizations are rising to the challenge. One way in which organizations are investing in a more sustainable future is through social enterprise. The Social Enterprise Alliance (2009) defines a social enterprise as "an organization or venture that achieves its primary social or environmental mission using business methods." According to a recent survey, 54 percent of social sector organizations today now operate a social enterprise (Center for the Advancement of Social Entrepreneurship et al. 2008). As proof that many of these organizations see social enterprise as a path to longer-term sustainability, 60 percent indicate that they plan to launch another social enterprise in the next three to five years.

At first glance, the idea of giving a grant to a nonprofit organization to open a business to make money may seem outside the realm of traditional grantmaking. But if funders are committed to helping nonprofits become self-sustaining, this kind of grant is a vital tool.

The Health Foundation of Greater Cincinnati began to hear from several mental health treatment providers about growing interest in starting social enterprises. Mental health treatment agencies are facing flat or decreased funding, but demand for mental health services is growing. The dilemma is how to deliver more services and maintain quality with shrinking resources. On one hand, social enterprise can be a way to increase unrestricted revenue to support the organization's mission. Starting a social enterprise, however, could also take money and resources away from mission-related work until it becomes profitable, which can take a few years if it is successful.

The foundation responded by developing and issuing a request for proposals for social enterprises in late 2006. The foundation expected each organization to start with a planning grant that produced a thorough business plan for a new social enterprise. After completing the business plan, grantees could submit a start-up proposal.

To date, the foundation has awarded nine planning grants. Out of these nine planning projects, five launched social enterprises, two determined it was not feasible to start a social

enterprise, and two are still in the planning process. The foundation also awarded one start-up grant to an agency that had already written a business plan and did not require a planning grant.

Since social enterprise is new to the foundation and many of its grantees, it was important to provide substantial technical assistance. Together, the senior program officer and the grantees learned what worked. The foundation hired a national expert on social enterprise to conduct formal workshops, provide individual project consultation, and lead peer grantee group sessions. The foundation also provided funds through the grants for grantees to attend a national conference on social enterprise.

Not surprisingly, the social enterprises proposed by the grantees have varied widely. Some employ the agency's clients in businesses such as property maintenance or document imaging. Others use the expertise of staff to operate a private therapy practice as a division of a public mental health center; provide training and consulting to help employers manage problem behaviors of employees; deliver a specialty service for those with internet addictions; or provide coaching to high school students who want to excel in sports, academics, or performance arts.

One of the foundation's grantees explained how a social enterprise grant made a difference for her organization:

The support from The Health Foundation of Greater Cincinnati made a critical difference by giving us the resources to hire expert help with our business plan and then the resources to implement it. The ability to use experts really helped us develop the kind of business planning and market research that for-profit businesses do. This gave great confidence to my board in taking on the risk and investing agency time and resources in this effort. The business principles that we learned along the way have also strengthened the way we think about all of our agency business and how we market it to our clients and donors. The experience of planning and launching a social enterprise has

been one of the richest experiences of my 35-year career and one of the most stressful. Having the foundation's support and the benefit of peers going through the same process made a huge difference. We would not have been able to do without the foundation's support and resources and their wisdom of investing in planning and working capital.

At the same time that the foundation was working with grantees on social enterprise, Community Wealth Ventures, Inc., a nationwide social sector consulting firm, launched a 10-month project in the greater Cincinnati/northern Kentucky region to also help nonprofits increase mission impact and financial self-sufficiency through starting social enterprises. The Community Wealth Collaborative assisted a group of seven high-performing nonprofit organizations in developing and growing business ventures. Participating organizations benefited from intensive, customized assistance from experienced business consultants, which resulted in a focused business plan to guide the growth of the enterprise.

Through their work with organizations starting social enterprises in the greater Cincinnati area, Community Wealth Ventures and the foundation have learned:

- The closer the social enterprise is aligned with the mission of the organization, the better the agency can capitalize on its own assets, knowledge, and skills.
- Commitment and buy-in about the concept of social enterprise are necessary from all levels of the organization, including the board of directors.
- The process of learning about developing for-profit business ventures often causes organizations to shift their perspective from serving clients who need their products or services, to serving customers who want their products or services.
- With the shift to a customer perspective, organizations find that market research is invaluable. They start asking important questions such as: “*Who wants what we have to sell?*”
- In mental health, there are more clients than agencies can usually serve. With a social enterprise, grantees started thinking about competition, and good competitor analysis became critical. They start asking themselves: “*Who else is selling what we want to sell and can we find a special niche?*”
- A solid financial plan for the social enterprise – with financials projected three to five years out – is a central part of the business plan.
- It is important for organizations to examine risks that the social enterprise is likely to encounter. Further, they also should determine several possible ways to mitigate each of the risks, which helps moderate anxiety about starting a social enterprise.
- The business plan provides a good roadmap for the social enterprise, but organizations need to be flexible to make

changes as the external environment shifts.

- The lessons learned from social enterprise planning go beyond the social enterprise itself and often have an impact on the entire agency. For example, many grantees said that their agency started to be more customer-oriented and customer-friendly in all of its programs.
- Planning and starting social enterprises are not for the faint-of-heart. Social enterprises demand considerable time, money, and energy and take much longer to be profitable than most think.

The foundation also learned from its grantmaking process:

- A good business plan is vital for any social enterprise.
- Foundations can help grantees succeed by providing technical assistance that otherwise is not affordable for a nonprofit.
- Most nonprofit agencies have little money to cover the capital and start-up expenses to launch a social enterprise. They need financial help to get started, and foundations can be that help.

Social enterprises are not for every foundation or every organization. And just like other businesses, not every social enterprise will be successful. Foundations, however, can help position nonprofits for success by helping them thoroughly investigate their social enterprise ideas, write detailed business plans, and receive expert consultation. Partnering with an organization like Community Wealth Ventures can also enhance the success of social enterprises and complement a foundation's grantmaking.

Social enterprises can be a viable source of unrestricted revenue for nonprofits to support their mission. They also have the ability to help foundations realize their missions by creating stronger, more sustainable grantees.

SOURCES

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Center for the Advancement of Social Entrepreneurship, Community Wealth Ventures, and Social Enterprise Alliance, *National Social Enterprise Field Study* (Durham, NC and Washington, DC: September 15, 2008).

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