PART II: PERSPECTIVES ON THE PRACTICE OF NON-PROFIT ENTERPRISE
As documented throughout this book, increasing numbers of non-profits are developing enterprises to employ formerly homeless and other low-income people. These businesses serve a variety of purposes: training and short-term employment opportunities, permanent employment, skill development, and work experience. While the goals are varied, the enterprises share a common mission: to improve the economic and personal quality of life of the workers. These are indeed social enterprises, and while they try to be profitable and efficient, they are primarily concerned with the social good they help bring about.

Since the workers, and not simply the product or service, are the centerpiece of the non-profit enterprise’s purpose, it is essential to understand the workers’ perspectives on and experiences with these businesses. This chapter is devoted to the employee perspective on these non-profit enterprises. Harder+Company Community Research, an independent research firm based in San Francisco, conducted employee focus groups with employees of three HEDF grantees—Rubicon, Larkin Business Ventures, and Oak Street House—to evaluate how the employees view their experience working in a social purpose business. In the focus groups, employees were asked about training they received, employment opportunities, challenges of the job, the effect employment has had on their personal lives, and any changes they would recommend in the way the businesses are operated.

Employees selected to participate in these conversations were chosen randomly from the businesses and, as is reflected in the candor of their comments, were given no “coaching” or preparation by the groups prior to their participation. This chapter presents the main findings from each of the three focus groups and concludes with a discussion of the cross-cutting themes that emerge.
Rubicon Programs is a multi-service agency serving the disabled, homeless, and those at risk for homelessness in the Greater Richmond area of San Francisco’s East Bay. Rubicon operates two businesses: a building/grounds and landscaping business, and a bakery. Employees from both businesses attended the focus group.

People who come to Rubicon for training and employment are often facing more than just homelessness. They may also be dealing with substance abuse problems, physical or mental health disabilities, and other challenges. The environment Rubicon cultivates takes these special needs into account, providing individuals with a work environment that is sensitive to their lives’ complexity while fostering the growth of their employability.

The Rubicon focus group meeting took place early in the morning before the employees were due at work. Nine employees attended, including both women and men. The group was predominantly African-American, with a minority of Latino participants including one monolingual Spanish speaker. The employees worked at a wide range of jobs, ranging from bakery prep work to baking, janitorial work, and landscaping. All of the employees in attendance had completed the training program at Rubicon and were currently working “in-house.” As “in-house” workers, they did not present the perspective of those employees/trainees who had received training from Rubicon and were then employed elsewhere or continued to be unemployed.

Overall Impression

Focus group participants were overwhelmingly positive about their experiences at Rubicon, and often offered uplifting examples of how their work had touched their lives in a meaningful way. The focus group soon took on a celebratory air as people shared their stories of renewal and recovery. While this group may not fully reflect the perspective of the larger group of individuals who participate in Rubicon’s programs, it certainly is a testimonial to the significant impact the program has made on the lives of the individuals currently employed within Rubicon’s businesses.

Employees find work at Rubicon enjoyable on many levels. On the most concrete level, employees point to the variety of job opportunities offered by Rubicon as providing them with a range of employment options. Perhaps even more influential to employee satisfaction is the work environment created at Rubicon. Employees feel a tremendous sense of support in their work, well beyond basic assistance with the details of their job. They feel they are want-
ed, included, and treated as equals. As one employee sums it up:
"Their slogan should be: 'At Rubicon, Everybody's Somebody!'" The work atmosphere is "fes-
tive"—people enjoy working and being together. Many employ-
ees feel their co-workers and supervisors at Rubicon are like a fami-
ly, and the company is like home.

This unique work environment is fostered through an unusually comprehensive approach to employee management. Rubicon employees are provided with a holistic support system that takes into account the personal challenges they face and how these chal-

lenges affect their work experience. According to employees, this differentiates their work experience at Rubicon from other jobs they have had. As one employee aptly describes, "It's like a sheltered environ-

ment—people with disabilities and other challenges are accepted and worked with. My experience here is that there was always a counselor I could talk to about my prob-

lems, like drugs and alcohol... ... [T]he envi-

ronment on every job is geared toward helping the person.”

In addition to work supervisors, employ-

ees have access to case managers who can help them with personal issues. If a work-

related or personal problem arises on the job, an employee can work it out with his supervisor and/or case manager. Case man-

agers can also provide referrals and support with substance abuse or mental health issues. Employees may turn to other employees, many of whom have faced similar challenges and can provide the strength of peer support. As one employee says, "You get lots of encouragement all over the place. Even though I work in the kitchen, I can get support from anyone all over the building.”

Another unique aspect of Rubicon’s approach to employment is their willingness to take people exactly as they are. People are not held accountable for their past actions. What is stressed instead is the need for a healthy approach to life from this point on. One employee expresses how this approach made the difference for him: "I felt I had no more options, but Rubicon changed all that. They made my bad job background and legal history disappear. Nobody else would hire an ex-con.”

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Sub-Total Op. Exp.: $1,225,224
Sub-Total Net Income: $226,504
Total All Enter. Income: $248,480

Organizational/Program Expenses:

Personnel:
Org./Admin. Salaries (22%) $68,860
Ent.Mgmt.Sal.(Food: 20%) 10,200
Ent.Mgmt.Sal.(B&G: 13%) 15,600
Ent. Line Sal. (All @ 00%) -
Org. Prog. Salaries (100%) 300,000

Gen. Support/Admin.
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TRAINING

The training program at Rubicon mirrors the holistic approach of its employment program and to a certain extent is inter-
twined with it. Individuals are taught job skills and are also assisted with skill-devel-

opment in other areas that might affect employability or job performance. These areas include concrete skill-building, such as resume writing and financial planning, and training in more abstract areas like building self-esteem. Training is geared toward each individual's needs. For some, self-esteem work is the vital part of their training, while others may need very patient, detailed instruction about the

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“T...
tasks involved in their particular job. Training can be a very intensive process depending upon the individual. Rubicon’s investment in training pays off as it enables individuals to have their unique needs met and become employable. One focus group participant described how his disability had prevented him from having a job until he came to Rubicon. With the specialized attention he received during his training, this individual was able to slowly build up to full-time work. This experience was invaluable as it gave him the extra boost he needed to be able to be employed. As he describes, “The training helped me to be in the work force for the long term... [T]here is no disability holding me back now.”

EMPLOYMENT OPPORTUNITIES

As the example above demonstrates, Rubicon can provide a pivotal step in someone’s employment. Focus group participants felt overwhelmingly that their experience working with Rubicon has increased their employment opportunities overall. Through their work they have gained valuable skills in areas such as cooking, janitorial work, and landscaping. For employees facing barriers to employability such as past imprisonment, disability, or substance abuse issues, this opportunity has made a tremendous difference. Armed with a history of employment with Rubicon, these employees feel that many doors have been opened to them. Employees also note that Rubicon has given them the opportunity to develop interpersonal skills through its diverse workforce and emphasis on teamwork. As one employee sums up: “This is a place where you come in and deal with all types of people. When you learn how to do that, you can deal with lots of people in the world while still keeping your own individuality.”

While employees recognize that Rubicon has widened their range of employment opportunities, the majority of the focus group participants did not express any desire to move on from Rubicon and get jobs elsewhere. Only one individual expressed an interest in eventually working for another company. The other participants point out that they see a lot of potential for their growth within Rubicon, as well as potential for Rubicon’s growth as an enterprise. These employees are happy working with Rubicon, and do not necessarily want to move on to employment in the general workplace.

CHALLENGES

The only complaint that employees had concerning Rubicon was that there is not enough of it to go around. Employees felt Rubicon should grow and extend its services to others in the Bay Area. They also suggested it increase the number of training programs offered. A final comment was that Rubicon should do outreach to educate people about the services it provides. All of these comments point to the paradox that Rubicon can be a victim of its own success. Because it has done such a good job with its businesses vis-à-vis its employees, people want it to grow, accomplish even more, and take on increasing challenges. While this must be tempting for Rubicon’s enterprise managers, the push to expand also brings potential pitfalls that must be examined carefully.

EFFECT ON PERSONAL LIFE

Focus group participants were unanimous in expressing how positively their personal life had been affected by their involvement with Rubicon. Rubicon’s holistic approach to employment development has had a very distinct impact on these employees’ lives. Beyond the benefits associated with making money at a paying job, employees also point to an elevated sense of self-esteem and a sense of belonging to a support system as major influences on their personal lives. As one employee concluded: “It’s a one-stop shopping place for making yourself better. It makes you want to live again. I know I’d stay here a long time and I’ve started to see my past disappear. I couldn’t go wrong: they helped me with a job, my mental health problems, a home, everything!”
Larkin Business Ventures (LBV) is a spin-off of Larkin Street Youth Center, an organization that provides multiple services to help homeless youth find lasting alternatives to street life. LBV develops enterprises that offer employment opportunities to homeless youth as well as to other youth who have lacked opportunity due to poverty, abuse, and/or a breakdown in family and community. In 1995, LBV opened its first Ben & Jerry's ice cream scoop shop, employing young people from Larkin Street Youth Center and other disadvantaged youth. Around the same time, LBV began employing young people as ice cream vendors in Candlestick Park, San Francisco's major league baseball park.

Staff at LBV made a special effort to provide a representative sample of individuals for the focus group with regard to demographics, job type, and work performance. Thus the focus group did not include only the highest functioning employees. The focus group included six youth, divided evenly by gender and comprised of Latina, African American, Caucasian, and Asian employees. While most of the employees worked at the Ben & Jerry's store in San Francisco's Marina District, one employee worked in the administrative offices, and most had some experience working at Candlestick Park.

**Overall Impression**

Focus group participants describe work with Larkin Business Ventures as hard, but with distinct rewards. The routine details of the job—scooping, cashiering, cleaning—are often seen by the youth as tedious and monotonous. However, the youth feel the work has other benefits that outweigh these disadvantages.

One of the most important benefits the youth identified was the relative flexibility of the work environment. Supervisors make an effort to accommodate the shifting needs of their young employees. One youth describes how his supervisor makes a special effort to work around his erratic schedule which includes work at another job. Another youth pointed out that staff's willingness to let her bring her daughter to the administrative office has made a big difference in her ability to come to work. At several points during the

Larkin Business Ventures' Ben & Jerry's on Chestnut Street, grand opening. Pictured (from left to right) are Bob Holland, Ben & Jerry's CEO, Ben Cohen, and LBV scoopers.

### Larkin Business Ventures

**Income Statement, Balance Sheet and Ratio Analysis For Calendar**

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<tr>
<th></th>
<th>1996 Projected</th>
<th>1994 8 Months</th>
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<td><strong>Ben &amp; Jerry's Chestnut</strong></td>
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<tr>
<td><strong>Gross Profit</strong></td>
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**Operating Expenses:**

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<td>Agency Admin. Salaries (10%)</td>
<td>$11,631</td>
<td>$4,416</td>
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<tr>
<td>Enter. Mngrl. Salaries (100%)</td>
<td>$54,522</td>
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focus group, the youth made reference to the informal work environment and the supervisors’ understanding of how complications in their lives might affect their job performance. One youth stated: “It’s good. They give us a break. They coulda fired me. They cut us slack.” In addition, the youth point to the egalitarian approach of the management as giving them a feeling of comfort. “With [the manager], we talk to him as a friend. We also know he’s the boss. It’s cool to be friends with the boss.” This sense of familiarity carries over into the youths’ relations with their co-workers.

For the employees of Larkin Business Ventures, the camaraderie with their co-workers provides a sense of fun as well as support that makes work something special. Several employees mentioned that they feel close to their co-workers. The general atmosphere of the focus group was one of friendliness and companionship; one participant brought her daughter and the other participants took turns holding her and commented on how she was growing. The youth seemed very comfortable with each other and took some enjoyment from the chance to catch up with each other.

In addition to the general friendliness of co-workers, these young employees also share a special bond. They participate in regular meetings together with a case manager where they are given the chance to discuss the issues affecting their lives and try to address some of their personal problems. For this reason, the youth are aware of what is going on in each other’s personal lives and are able to offer each other support. As one youth says: “Since we all started together, we all know each other. It’s like another family. It’s an open-minded family. We are open with each other.” They also see each other as sharing some similarities in the types of hardships they face and feel empathy for one another: “The people you work with have been through the same stuff as you— things they don’t know about at [my] other job.”

While the youth enjoy the semi-relaxed atmosphere of work and the camaraderie of their peers, they recognize that they are not given leniency to let personal matters hinder their job performance. Rather, the emphasis is on airing personal issues so they may be addressed, enabling the youth to continue to work effectively. One youth describes how she could not come into work with an attitude and expect it to go unaddressed: “They talk to you like they’re your parents. They don’t let it go. Everything is a big deal.”

**TRAINING**

The youth feel the training they received for the job was more than adequate. Most of the youth had participated in a six-week training by “Scoop U. West,” with exhaustive workshops detailing the finer points of scooping ice cream. The general feeling of the youth was that this was a little bit more training than they needed to do the job and that, in fact, after the training everyone developed their own techniques anyway. The young woman working at the administrative office was pleased with her training, which had occurred on the job.

**EMPLOYMENT OPPORTUNITIES**

The youth see their work with Larkin Business Ventures and Ben & Jerry’s as satisfactory for this stage in their lives. They also identify many other jobs they are interested in pursuing in the future, from working a coffee shop to working at Tower Records. The youth recognize the concrete skills they are learning through their current work could later help them get other jobs. Skills such as cashiering, stocking, record keeping and customer service are viewed as useful in a variety of employment settings. As they see it, their experience working in a store will help them get a foot in the door for other retail jobs. In addition, some youth have had the opportunity to develop supervisory experience. The young woman working in the administrative office has gained significant office skills, including computer experience.

The youth feel the challenges they face in dealing with customers have taught them some valuable lessons in customer service. As one youth states: “You really learn to
keep your mouth shut. You don’t lose your temper.” The youth also value the additional opportunity to demonstrate “long-term” stability in employment that will legitimize them in the eyes of future employers.

CHALLENGES

While on the whole the youth in the focus group were very positive about their work environment and the people with whom they work, they had some criticisms concerning the nature of the work itself. Scooping ice cream can be hard and repetitive, with little room for creative expression. The youth also touched on the challenges they face in feeling completely comfortable with the customers in the Marina District, many of whom are relatively well-off and well-educated.

Vending at Candlestick Park is perceived to be particularly tough. Youth cite heavy vending trays and the unfriendliness of other Candlestick vendors as factors that make work at the baseball park uniquely challenging. While they can make additional money vending in the stands, the youth report that carrying the containers with ice cream up and down stadium stairs leaves them tired and sore. In addition, it is very difficult for them to get to the stadium by public transportation, which can sometimes take up to two hours of travel each way. However, the pay is significantly higher at Candlestick than at the scoop shop, a factor which the participants felt made up for the disadvantages of the work.

The youth express some dissatisfaction with their pay rate at the ice cream shop and with the fact that their hours have been greatly reduced during the ice cream off-season. For those youth who are also mothers, the decreased work schedule and the low pay rate are far from adequate to meet their economic needs. While the youth recognize this job can be a stepping stone to other employment, they feel they could use more support finding new employment situations. They feel that job leads provided them from other agencies often never actually materialize. They also feel they could use additional help with resume-writing and other details of job hunting. These services are provided by a separate organization, not a program of LBV.

The youth feel very satisfied with the set-up of the non-profit and business collaboration and appreciate the “extras” it provides them. They feel Larkin Business Ventures should try this arrangement with other types of businesses, giving youth the opportunity to learn a variety of skills and perhaps do something that could more closely suit their individual interests. Some of their suggestions include a day care center for young mothers, a copy shop, a club, or a T-shirt shop. They also feel more office opportunities would be helpful. They expressed some disappointment that Larkin Business Venture’s next store will also sell ice cream. As one youth states, “Kids aren’t all interested in ice cream.”

EFFECT ON PERSONAL LIFE

The youth feel that working with Larkin Business Ventures has had a generally positive impact upon their personal lives by providing a source of income and job experience that will assist them in the future. In addition, they appear to gain support and satisfaction from working and meeting with their peers and understanding supervisors. They also recognize that the combination of limited hours during the ice cream off-season and the low pay scale mean a limited financial impact on the quality of their lives, especially for those who are supporting children. Overall, the youth are satisfied with their work experience and most have stayed with the job for close to a year. This is remarkable staying power, given the chaos and dysfunction in many of these young people’s lives, and is a tribute to LBV’s efforts to create a work environment that is both serious and supportive.
Oak Street House is located in the Haight Ashbury neighborhood of San Francisco and is dedicated to addressing the physical, social, emotional, and spiritual needs of the poor. About six years ago, Oak Street House included economic needs among those it was attempting to address and began its planning for enterprise development.

Oak Street House now operates two businesses—Ashbury Images and The City Store—both of which train and employ men and women who are homeless or at risk of homelessness in San Francisco. Ashbury Images is a silk-screening T-shirt business. The City Store sells San Francisco memorabilia, as well as T-shirts made by Ashbury Images.

Seven individuals attended the focus group—five employees of Ashbury Images and two employees of The City Store. Three participants were men and four were women. The group was ethnically diverse and included Asian, African-American, and Caucasian participants. Because most of the participants were from Ashbury Images, the discussion was dominated by their perspective. The two City Store employees did have some important input and suggestions which are outlined below in separate sections.

Overall Impression

On the whole, the employees of Ashbury Images and The City Store are very satisfied with the quality of their work life. Employees speak highly of their work environment, supervisors, and co-workers. They also have some suggestions for how some of the “kinks” in the system could be ironed out, making their work more efficient and enjoyable.

Ashbury Images employees feel the environment at work is uniquely comfortable. They feel they can be themselves at work—that people are allowed to be human. One employee sums up her appraisal of this atmosphere: “Nothing is used against us. There is room for everything—they take everything in stride. Other jobs wouldn’t have tolerated it. It’s family-like.” Perhaps the most significant factor contributing to this unique work environment is the fact that all of the employees are in recovery. Many of the employees are referred from Walden House, a residential and outpatient substance abuse treatment program. With this shared history and approach to life, employees feel a real sense of identification with their fellow workers. Some of the employees have gone through the recovery process together and consider themselves family. One employee describes what this is like for her: “Everybody is in recovery. This feels safer for me. Being in a recovery-oriented environment is much better...It’s a real job—real world, but you’re stepping out slowly. I think there should be more jobs like that: clean and sober. It’s like grouping every-day.” Ashbury Images provides a nice transition for these employees between the
intense immersion of a residential treatment program and the stressors of the workplace in the “real world.”

The comfortable environment at Ashbury Images is enhanced by the egalitarian management style. Employees feel their supervisors are very approachable and willing to listen to their concerns regarding their work and personal lives. In addition, employees feel their point of view is sought out and respected. One employee expresses her appreciation of this approach: “There is an equality here. There’s no distinction between ‘healthy people’ and ‘sick, homeless, dope fiends.’ There is an equal exchange of knowledge. That makes me feel good—I’m not resentful.”

While Ashbury Images employees are full of praise about the general work atmosphere, they have some concerns regarding the efficiency of work operations. They recognize the business is fairly new and still establishing its systems, as well as a name for itself. Employees feel that as a result, some work is made harder or more stressful than it needs to be. A good example, employees say, is that Ashbury Images offers very low prices and is willing to make changes to orders in ways more established T-shirt production companies would not. This is part of an effort to ensure the business continues to grow, but employees feel it takes a real toll on the quality of their work life. They feel they are often working extra hours to get a job done speedily and then are not adequately compensated by the customer. One employee discusses this issue: “Our reputation is good, but the organization sells itself short. We don’t do what other print shops do—tell people that we can’t do things for free.” While the employees understand this effort is aimed at establishing a name for the company, they feel it has been taken too far.

City Store employees did not have as much to say in the focus group about their work environment. They did stress that they take everything in stride. Other jobs wouldn’t have tolerated it. It’s family-like.”

TRAINING

Ashbury Images employees feel training was often rushed, due to the pressing need for production. One employee explains: “We have training, but we needed to get the work done. I learn things, but I don’t have the time to really hear and practice.” For this employee, a more gradual introduction into the printing process would have made her more comfortable. She suggested that if another press were available, then new employees could train and do smaller jobs on one press, while the experienced workers could speedily produce the larger jobs on the other press.

EMPLOYMENT OPPORTUNITIES

Ashbury Images employees identify a certain loyalty to the enterprise. They feel supported by co-workers and supervisors and feel the work environment is beneficial to them. As one employee sums up, “I have a loyalty to this place. [The management] allows us to learn, to go to school. I could take everything I’ve learned and go to another job. I have picked up social skills as well as other skills. I don’t want to go.” Employees enjoy their work and feel the unusual work environment is particularly suited to their needs. Many employees, particularly those interested in the arts, also feel the skills they are learning in silk-screening will have useful applications in their future work endeavors. Also, employees recognize that the steady job experience will look good on their resumes.

The two City Store employees at the focus group are positive about the experience they are gaining through work at The City Store. One employee feels that the work is interesting and also meets her goals of providing service to the community.

CHALLENGES

Both Ashbury Images and The City Store employees demonstrate a clear connection with their businesses. As part of this connection, they have some feelings
about changes that could be made to make the businesses even more successful.

Employees from both programs have some concerns with the way finances are processed. Because both programs are part of a larger organization, cash flow for the enterprise is perceived to be sometimes hindered by issues that affect the larger organization. Both Ashbury Images and City Store employees feel financial dealings would be made more convenient if their enterprise accounts were kept independent from the umbrella organization, Golden Gate Community, rather than managed by it.

Ashbury Images employees identify many of their concerns as reflective of the newness of the business and are optimistic that with more time, capital, and experience, the hitches in operations will become smoother. One area employees look to for future improvement is the size of the work space. With a larger work space, employees feel they could handle rapid production in a safer and saner manner. Further down the line, the business could potentially buy another press and be able to more efficiently handle large orders. A move to a larger facility is planned for the summer of 1996, and employees are waiting to see how it works out.

City Store employees suggest that with better advertising, the store could see an increase in the number of its customers. They propose leaving fliers in bookstores and other locales frequented by tourists as an inexpensive yet effective way to reach people. Employees also suggest a more thorough effort to advertise the mission of City Store in a way that would reach the most people. Employees report it is often difficult for them to talk to all of the people who come into the store. They suggest it could be a bold and effective statement to have the mission of City Store displayed in a prominent fashion that customers would see so they would be sure to know what the store is all about. (A major marketing campaign is scheduled for launch this summer).

City Store employees also suggest getting feedback from customers about what they would like to see in the store. Employees feel the customers have valuable feedback that could help the business become even more successful. Through their work in the store, employees have become very aware of the different types of feedback customers give, and feel the management may not be as in touch with customers’ opinions. As an example, employees point to the effect on customers of sudden price hikes on store items by management. Employees often field customers’ angry comments and confusion when they find that an item has doubled in price since the last time they were there. Or customers may suggest that T-shirts be made available in a greater variety of colors. Employees feel this type of feedback could be beneficial to management decision making.

Effect on Personal Life

Ashbury Images employees feel their work has made an important difference in their personal lives. On the most basic level, it is a source of regular income; beyond that, Ashbury Images creates a hospitable work environment that can provide a comfortable transition for people leaving residential treatment. Ashbury Images gives their employees the support and encouragement they need to enter the workforce with confidence. One employee describes how her work is building her confidence: “My self-esteem is being built up. It’s hard to get back to work after recovery. I’m getting my self-confidence back.”

City Store employees feel their work impacts their personal lives in that it is enjoyable and provides them with personal satisfaction from doing community service work.
In reviewing the key points from the focus groups conducted with the employees of each of the three non-profit business enterprises, a number of cross-cutting themes emerge. These themes are not empirically definitive, as they are based on qualitative focus groups with limited sample sizes; however, they raise important issues for consideration by non-profit organizations pursuing social entrepreneurship.

**Employees who share a common history or set of life circumstances tend to bond more as a group and appear to be more gratified workers.** Employees who feel identification or a sense of belonging to a group appear to have more investment and pride in their work and in the business as a whole. The work becomes more than just a job. Employees want the business to succeed. The more that employees share some common histories with their co-workers, the more they feel invested in the business. For example, at Rubicon and Ashbury Images, many of the employees share a common history of recovery and/or recent homelessness and feel supported in their transition in their respective places of employment. Many feel their jobs are another step in their recovery programs. At the Ben & Jerry’s store, the youth come from somewhat different but still troubled backgrounds. LBV was able to establish even more common ground through case management meetings and group training. Through these processes, the young people developed identification with each other as co-workers and with their supervisors; however, in this case, there is less of an identification with the business itself.

**Employees are deeply aware and appreciative of non-profit enterprises that are committed to the development of the person as a whole.** Those businesses that incorporate structured and unstructured support mechanisms for their employees tend to produce more satisfied workers. This includes businesses offering support to help improve individual self-esteem and confidence, as well as businesses which address destabilizing forces in their employees’ lives, such as Ashbury Images and Rubicon. In the Ben & Jerry’s store, support from supervisors and case managers was clearly provided and appreciated, and the youth still wanted even more opportunities for self-expression through work. Perhaps that is due to the different developmental needs for self-esteem building and stimulation.

**Employees enjoy a high level of freedom and flexibility within their jobs.** All of the programs’ employees appreciate the freedom and flexibility these businesses offer. Larkin Business Ventures workers are allowed to maintain flexible schedules to accommodate other jobs or life circumstances. Rubicon employees spoke of other employees giving them a break, while boosting them on. At Ashbury Images, co-workers and supervisors are understanding when a worker is having a difficult day: “There are days when I’m not feeling [good]. [My supervisor] is not in recovery, but I feel comfortable talking to him about my issues. You just have to show up [to work] and be as present as you can be.”

**Employees want the businesses to be run efficiently.** When the business is running smoothly and efficiently, employees feel better about their jobs.
Employees do not want to be worried about their paychecks or about the health of the business. In businesses run by LBV and Rubicon, employees have confidence that they will be paid, that the business is well-run, and there is opportunity for growth. With The City Store and Ashbury Images, employees take pride in their success, but do not feel the businesses are run as well as they could be. This is a source of frustration to the employees which is exacerbated by the perception that their successes are not directed back into the businesses, but instead are perceived as going back to the non-profit organization managing the enterprises.

These enterprises have made possible an important transition from a troubled past to a more satisfied and stable future. Businesses that are more efficiently managed, with careful attention paid to both the management of the business and support of the employees, tend to produce more satisfied workers and workers who are committed to the business.

Employees want management to communicate clearly with them and want to be involved with management-level decision making. Related to staff’s desire to have the business run efficiently, they also want to have a greater voice in business decisions that affect their livelihoods and everyday lives. This means clear and regular communication between management and workers. Such communication also relies upon a direct valuing of workers’ contributions to business productivity and the general work environment. This was clearly the case with The City Store, where employees had a lot of constructive ideas for improving the business’ operation, but did not feel they had a voice. At Ashbury Images the employees feel they have a voice vis-à-vis management, even though management does not always directly implement their ideas.

In conclusion, employees of the non-profit enterprises we assessed appear to be very grateful for the opportunities these businesses and organizations have provided them. These jobs have not only given these workers income, skills, and job experience, but in many cases have also increased self-esteem, improved self-confidence, and built support. These enterprises have made possible an important transition from a troubled past to a more satisfied and stable future. Businesses that are more efficiently managed, with careful attention paid to both the management of the business and support of the employees, tend to produce more satisfied workers and workers who are committed to the business.
Managing The Transition to a Non-Profit Enterprise

Central to any non-profit organization’s ability to create a social enterprise is the role played by board members in guiding mission development, endorsing goals and work plans, and, perhaps most importantly, embracing a new vision and concept of social entrepreneurship. Effective board leadership is critical to the development of any successful social enterprise. This chapter presents a process undergone by one board to help develop a small non-profit (Larkin Street Youth Center) into an internationally recognized social service agency, by clarifying its mission and leading the board and staff toward the creation of a new spin-off organization (Larkin Business Ventures, since renamed Juma Ventures) which presently operates several non-profit enterprises.

This chapter should be read together with the Juma Ventures case study found in Part One of this book. In assessing both pieces, the reader may conclude that the focus of the writings is on the planning process rather than the actual transition of creating a separate, 501(c)(3) to manage a non-profit enterprise. This is, in fact, true because it is our belief that if a solid planning process is pursued by an organization, then the problems of transitioning into a new structure become, not minimal, but perhaps at least manageable in a way which may ensure greater success. In many ways, this entire document addresses the issue of how to best approach this question of organizational change and transition. We provide this discussion of the LBV experience as but one example of the process through which a board of directors must steer its organization.

BACKGROUND

Founded in 1984, Larkin Street Youth Center (LSYC) is a San Francisco-based non-profit dedicated to providing services to homeless youth in the San Francisco Bay Area. During its early years, the LSYC board of directors was largely composed of founders and various community volunteers. The primary role of board members focused upon advocacy for the original goals of the agency: to provide safety and emergency assistance to San Francisco’s numerous runaway and street youth. As is true of many non-profits, as the agency grew in size and scope, recruitment of board members increasingly targeted candidates from the Bay Area’s business and professional communities.

As the social service components of LSYC began undergoing rapid and significant growth in response to critical need, the board identified a range of broad policy questions concerning the agency's future
and core mission. In an effort to reach consensus on the future agenda of the agency, work began on a long range strategic plan to guide decisions and growth. Due to LSYC’s community-based culture, the design and leadership of the strategic planning process took a strong participatory approach. An organizational development consultant was hired to work with the board chair and executive director. Thus, the LSYC board embarked on an intensive three-year planning process.

The board began by designing a three-track, parallel leadership system to guide the organization through the change process over the coming years. This system allowed participants to simultaneously operate a rapidly growing, existing organization on a day-to-day basis, engage in planning and implementing three-to-five year projects, and pursue a mission that would set the agency’s course for a 10-year horizon. Obviously, this process was a major undertaking. The board chair took responsibility for developing the collaborative organizational mission process, while the executive director was responsible for overseeing day-to-day management, implementing strategies for achieving medium term (five-year) organizational goals, and providing the necessary staff and client input to create the content of the long-term strategic planning effort.

Early in the process, the board came to understand that the agency was facing five major issues:

- A tension existed between the role of advocacy and service provision.
- A tension existed between the goals of providing emergency services versus long term stabilization.
- A challenge existed with regard to the desire to provide housing for the agency’s youth when the history of the organization was one of street-based, non-residential services.
- A strong desire was present among staff and board members to include, as a part of long-term support to youth at risk, economic development programs to expand employment opportunities for youth.
- A number of funding issues were raised, especially concerning the appropriate diversification of funds from public, private, and other sources.

**Implementing the Planning Process**

While the board planning process was extremely effective, it was felt to have moved slowly due to the fact that volunteer board members had limited time, especially when compared to full-time staff with greater availability. As a result, the time lines for completion of the three parallel planning tracks discussed above had to be balanced by the board, which proved to be the biggest challenge of this organizational change design.

During this process, the board also became aware of increasing internal and external pressure to move aggressively toward completing the planning process, even if that meant skipping certain steps which were part of the mission clarification process originally endorsed by the board. The external pressure came in part from the director of the HEDF who, having waited through what appeared to be an ever-longer planning process, wanted to see specific outcomes. The internal pressure came from staff and clients who, primarily involved in the ongoing, street-level operations of the program, were anxious to see decisions made and new programs launched. By having the three-level, parallel process in place, the board was able to effectively manage these pressures by referring back to the original planning documents as a “touchstone” to keep the overall process on course and on schedule.

Approximately halfway through this process, the interest of the staff, board and community in linked economic development and housing programs emerged. The LSYC board of directors made a decision to focus more in-depth research on the creation of a business venture. And it was at this time the HEDF funded an initial...
business feasibility study to examine LSYC’s capacity to operate a business. The feasibility study, along with initial planning for housing, became fully integrated into the overall planning process.

The business feasibility study took approximately one year to complete. During this time the LSYC board of directors spent considerable time examining the impact a business would have on the organization, community, and most importantly, the youth. At this stage the board focused on evaluating the following questions:

► What are the anticipated benefits of owning and operating a for-profit business?
► Does the current organization have the infrastructure and managerial capacity to operate a social purpose business?
► How will the business venture be financed?
► How will the organization balance rapidly growing social services with a new business venture?

During the feasibility study process the LSYC board concentrated on weighing the pros and cons of starting a business. The primary conclusion of the feasibility study was that a business venture would further the mission of LSYC by providing important transitional employment opportunities for youth. After several meetings to discuss and analyze the study, the board approved moving forward with this concept. This decision then raised yet another set of questions:

► Should LSYC spin-off a new organization to hold the business venture?

After evaluating these and other key questions, the LSYC board decided to create a spin-off organization which would own and operate the business venture. This decision was based on three central rationales:

1) A separate organization would provide more focus for both the business venture and the social services aspects of the agency;
2) The youth would potentially benefit from boundaries, which would make for a clear separation between their social service experience and their entry into the mainstream, working community; and
3) Two separate organizations would provide better liability protection for both corporations.

LEADERSHIP IN MOTION

At this point in the change process, the LSYC board faced a transition in leadership. While for many organizations such a transition would have, at that point, caused a crisis and disrupted the planning effort, in this case it provided a positive opportunity for movement and growth for both key staff and board members. The tenure of the board chairperson was coming to an end and it was decided she should chair the new corporation. The executive director of five years decided to resign from her position and take this opportunity to work exclusively on development of the business venture. A senior administrative staff person agreed to serve as executive director for an interim period to provide the organization with a smooth transition and allow for adequate time to secure a replacement. With these re-assignments in place, the organization was ready to move ahead.

The LSYC board of directors went about making a series of decisions concerning the spin-off of the business venture. In large
As presented above, the LSYC board provided the necessary leadership for the inception and creation of the new spin-off organization. It was also decided that Larkin Business Ventures (LBV), the new entity, would launch the businesses itself, with no direct involvement from LSYC, although the two agencies would continue to work in collaboration.

While LBV staff managed the essential elements of the business planning process in conjunction with the LBV board, the newly created board spent its first year working on finalizing its mission statement, enunciating the core values of the organization, setting up management structures, setting long term goals, and, most importantly, forging a new relationship with LSYC. The spin-off from LSYC was a difficult transition for both organizations. In hindsight, the transition would have been smoother if the relationship between the two organizations was clearly established prior to the separation. It proved to be more complicated when two distinct entities had to reach agreement on particular issues.

The newly created LBV board has successfully lead the organization through its first few years. The major challenges facing the board at this stage of development include:

- LBV now operates four separate businesses; a critical decision facing the board is in determining the appropriate future rate of growth for the organization;
- Providing direction to staff with regard to policies aimed at balancing the natural tension between the business and social goals of the organization; and
- Identifying the next generation of business ventures that both meet the needs of the youth and fit the mission of the new organization.

In both the LBV case study and the chapter on cost-benefit analysis, the issue of the length of time required to transition a non-profit through this process is raised. From the board’s perspective, while a realistic timeframe had been endorsed, as the board actually began to move the organization through the process itself, it became aware of the reality that while a time frame could be set, the period within which real,
profound change takes place is much longer than a matter of months or a couple of years. This is due to the fact that if one intends to create a new “socially entrepreneurial” entity one must be successful in changing staff and board perceptions of clients, the type of language and conceptual constructs used to describe the new mission and organization, and the ability of all involved to adopt a view of money itself which is grounded in notions of value added and wealth creation as opposed to grants and public governmental support.

If an organization does the same thing a number of times, it becomes more efficient at the task. A board of directors which is asking the members of the non-profit to shift their practice, to adopt new operating methods, will meet resistance in some form regardless of how well the tasks outlined in the planning process are executed. There is simply no way to avoid the truth that in engaging in truly visionary work (and if social entrepreneurship is anything, it is visionary) the board must create a process which allows the organization’s stakeholders the opportunity to embrace and become fully invested in that vision. In some ways, it is for this very reason that the “best” non-profit enterprise in the nation, Pioneer Human Services in Seattle, is over thirty years old. During these years it has been able to nurture and cultivate its vision within the program participants, board members and staff.

A thirty year horizon for organizational change may feel overly burdensome to those starting out on the path, but we must remember we are building upon decades of work in the arena of social welfare and community development. The task now before the boards guiding our nation’s non-profit organizations is to help move the practice of non-profit management and program development into the next stage of evolution. We move forward in part to realize our new vision of the role of non-profits in the 21st Century, however we also move forward to escape the limitations inherent in past approaches to achieving economic and social justice. The successful non-profits of the new century will be steered by boards of directors with the understanding of this reality and the commitment to lead this process of positive transformation.
Lessons Learned

Adequate time must be provided for the development of a mission statement and drafting of a strategic plan as part of the preparation for the start-up of the venture, especially when the new venture is an outgrowth of an existing agency with an established mission and program. Once the decision was made to spin-off LBV from LSYC, events moved rapidly, requiring quick decision making and responses to problems which inevitably arose. Even with a significant amount of planning by LSYC, it still took a number of months for the new board to feel organized and in control of the process. Time is something you have plenty of before you start and none of when the business is operational!

When an organization creates a spin-off to operate the social enterprises, it is important, to the greatest degree possible, to determine the specific nature of the relationship between the two organizations prior to actually spinning off the separate corporation. Immediately following and in the months after the spin-off, a number of issues surfaced for both LSYC and LBV which they had not fully anticipated. However, once the organizations were completely separated, it became more difficult to view the two entities in the same way and significant time was spent working through the fundamental elements of their working relationship. Prior to spinning off the organization, additional effort should have been made to anticipate possible problems and reach basic agreement on how they would be addressed. Following the separation, it became clear that certain members of the board did not fully appreciate how the creation of a separate, legal corporation would impact the operation of each organization. Some members thought the separation would simply mean the new organization would have their offices elsewhere, but still be accountable to the old organization. And others did not adequately foresee the difficulty of raising operating support for two organizations which many in the foundation community still viewed as one entity. Of course, the process of spinning off the organization meant that various players changed roles rapidly. There was little capacity to see how these shifts would “feel” to both the old and new entities. This further complicates the process.

The field of non-profit enterprise creation is still young and untested in many ways and boards need to be fully aware of the risks they undertake when they commit to this course. The LSYC board read about, researched, and felt they understood the issues they were to take on; however, only when they actually found themselves involved in the process did they realize how few “maps” were available to the board and the staff. While there were a number of sources of advice, no one could really tell them exactly what to expect in the course of launching a franchise operated by a new non-profit. While the boards of both organizations feel the business is a success and worth the effort, they also recognize it required a level of energy and flexibility even beyond the high level of commitment they thought would be needed.

Staff energy and enthusiasm need to be geared to board time and availability. As the strategic planning process unfolded, the steps and activities of staff moved faster than those of the board of directors. This was not surprising given that the staff worked on issues for a greater number of daytime hours than the volunteer board of directors had available. While not a fatal issue, it proved difficult to coordinate the timing of task completion and maintain organizational momentum when the staff were able to complete tasks sooner than the board.

In designing the planning process, clearly state what decisions will have to be made at what time, and how. While a great deal of time was spent in process, it does not appear the board fully understood at what stages various decisions would need to be made. Therefore, the board and staff felt in some ways as if decision deadlines were reached without adequate warning or anticipation. This created frustration as the executive director attempted to work with the chair to move the board through decision points which the board itself had yet to reach. This made the overall effort perhaps more difficult than originally anticipated.
The Funder’s Perspective

Grantmaking as an Investment Strategy

While there are not an infinite number of economic development strategies, it seems each foundation supporting such efforts adopts its own unique approach to the field. The purpose of this section is to outline the process by which The Roberts Foundation became involved in the area of homeless economic development and to present our learnings from the funder’s perspective. While some sections of this book have been written by an independent evaluator and others include source citations documenting factual statements, this section is written from the perspective of one funder who has worked with grantees in Northern California for six years. It is offered not as a formal, academic statement to the field, but as one person’s attempt to understand the appropriate role we are called to play in helping non-profit organizations succeed in enterprise creation and management.

The Context

George R. Roberts, founding partner of Kohlberg Kravis Roberts & Co., has experienced great personal and professional success in the field of finance. Roberts, a firm believer in the free enterprise system, has also sought to contribute back to society. Established in 1985, The Roberts Foundation began its grantmaking activities within a fairly broad area of interest which included an array of civic, cultural, educational, and environmental concerns. With the assistance of Lyman H. Casey, President of Pacific Foundation Services, a privately managed foundation services firm, George and Leanne Roberts evaluated requests brought to them either by PFS staff or through other means. After several years of grantmaking in this manner, they decided to focus upon a single area in which they had particular interest and within which it was felt the Foundation might make a specific contribution. In particular, George Roberts was interested in efforts to bring the power of the free market to bear upon poverty. Given the pressing national crisis of homelessness, they decided to focus their work in the area of expanding economic opportunity for homeless Americans.

Accordingly, from August through December of 1989, The Roberts Foundation commissioned a study to assess the feasibility of applying economic development strategies to the issue of homelessness. A project consultant, who later became director of the Homeless Economic Development Fund, was hired.
The purpose of the study was twofold: First, to "assess current efforts which enable individuals to move to independence and stability by involving them in programs which integrate social goals with values of the free enterprise system"; and, second, to make "recommendations regarding how The Roberts Foundation could best support the successful creation and operation of such programs."1 To respond to this area of assessment, the following five questions were examined over the five-month period of study:

1. What is the current status and experience of economic development projects, both in the arena of for-profit ventures managed by non-profits and in that of self-employment programs for individuals?

2. What is the present status and organizational capacity of social service programs for the homeless?

3. What sub-populations of the homeless would best be suited to participate in an economic development project?

4. What additional support services would need to be in place for the targeted populations to participate in economic development programs with the greatest possible degree of success?

5. In light of the above, what funding mechanisms and process would best enable The Roberts Foundation to successfully create and support such programs?

The project consultant interviewed over 150 individuals nationally active in the field, reviewed numerous documents, and evaluated reported outcomes from a variety of programs operating across the country. The final report submitted to the Foundation approached 300 pages in length and represented a comprehensive, though surely not definitive, evaluation of the issue. The Executive Summary of the 1989 report was publicly released in early 1990. In that summary, each finding is followed by a narrative that expands upon the finding. While the narrative will not be included in this chapter, the report's key findings were grouped as follows:

**HOMELESSNESS:**

- **Finding #1:** Individuals become homeless as the end result of a complex, though definable, series of social and economic forces. The individual experience of homelessness cannot be addressed outside of the local, national and global context within which it occurs. Within the broad context that homelessness occurs, the two central forces contributing to the current rise of homelessness in the 1980s have been a decrease in our nation's investment in affordable housing stock coupled with a decreasing pool of jobs which pay enough to adequately support a family in today's economy.

- **Finding #2:** While a significant percentage of homeless Americans have substance abuse, mental illness, or other disabilities, not all those who are homeless fall into those categories and, when you get right down to it, there really is no such group as "the homeless."

- **Finding #3:** Any effort to address the needs of individuals experiencing homelessness must provide a continuum of support to assist the individual in his/her efforts at leaving the street.

**ECONOMIC DEVELOPMENT:**

- **Finding #1:** While there has been a mixed history of success and failure experienced by both public and private efforts to encourage enterprise development among low-income Americans, there is enough realized and potential success in the area of economic development to warrant The Roberts Foundation's significant involvement in this field.

- **Finding #2:** Successful economic devel-
Development projects have less to do with the target population involved than with the extent of planning, sense of community, individual client investment in the program and, perhaps most importantly, the business skills and entrepreneurial passion of those individuals leading the organization’s enterprise efforts.

**Finding #3:** For both individuals and agencies starting for-profit ventures, the two most important areas of need are those of technical assistance and capitalization.

**Funding Support:**

**Finding #1:** Successful funding approaches to economic development are based upon a solid planning process, a flexible structure for implementation, a realistic definition of successful outcomes, and a long-term commitment to allowing funded projects sufficient growth time to succeed as independent actors in the open market.

**Finding #2:** A successful funding initiative should be framed broadly, supporting a variety of endeavors, but focus on two or three specific efforts to target as demonstration projects. In addition, the most successful enterprises integrate a variety of funding support as opposed to relying upon a single foundation, government, or private source alone. In sum, diversity breeds strength, which makes for success.

**Finding #3:** While The Roberts Foundation may decrease its exposure to risk through maintaining perceptive screening efforts, the establishment of technical assistance programs, and the practice of innovative planning, management and project implementation, the Foundation should not allow itself to be deluded by “messianic visions” of converting hundreds of homeless persons into budding entrepreneurs. We must acknowledge that a limited number of people may successfully participate in this effort. Even after we screen carefully for the most appropriate persons, we cannot deny that this area is inherently one of high risk and while we are assured our successes, we must also allow for our failures.

The above findings were then summarized by staff:

If The Roberts Foundation wanted to support an economic development strategy in working with people who are homeless, it could be done; however,

1. A significant level of resources would have to be committed to the effort, since such a strategy would have to assure the presence of adequate housing and social service support in addition to small business capital;

2. Such an effort could not be undertaken on an annual or one-time basis, but as a long-term commitment of the Foundation to those organizations it funded. Such a commitment could be no less than five years and might realistically require a decade before the enterprises could grow to a significant enough scale to be truly self-sustaining;

3. Foundation staff would have to play an active role in working with funded enterprises and would require a high degree of freedom in decision-making;

4. Even if the Foundation did “all the right things” in its strategy and implementation, efforts supported by the Foundation might still meet with failure due to unanticipated movements in the markets within which the social purpose enterprises operated.

**The Rationale for Pursuing a High Risk Strategy with a History of Failure**

At this point, the question must be asked: Why, given the difficult history...
of community economic development, should significant resources be committed to any effort to assist non-profits attempting to create jobs and training opportunities for homeless Americans through non-profit business development? We suggest three primary answers to this question:

- **There is new potential for success.** One becomes active in this arena at least in part because there is a new breed of entrepreneurs engaged in the work. Despite past failures and without significant financial support, there are non-profit managers across the country attempting to do the “impossible.” These individuals are frequently community activists or recovering social workers (!) who now hold MBAs or have a solid grasp of business management skills. Furthermore, they belong to a breed of practitioners who have learned from the experiences of those who have gone before. These are not only well-meaning social workers, but are social venture practitioners with a collective knowledge base built upon 30 years of history.

- **We must anticipate future economic necessity.** We must respond to the economic imperative of the 21st century which will provide fewer resources for social and community concerns. This environment will force increasing numbers of non-profit organizations to identify and secure new sources of revenue and become less reliant on government or foundation subsidy. If the non-profit of the coming decades is to preach economic self-determination for its clients, it must seek to practice the same for itself, or risk extinction. In addition, a “program” which provides training and employment while generating some significant percentage of its costs will be more valuable in the future environment of limited resources, than those which rely completely upon public or private support.

- **Non-profit organizations have the unique capacity to assist those on the margins in their efforts to achieve economic self-determination.** Our nation is moving through a period of structural redesign which will entail the displacement of many workers from a variety of levels up and down the employment ladder. Certainly, all these individuals need support in their transitions; however, those on the bottom of the economic scale will require longer periods of retraining and education in order to move toward greater productivity. It is doubtful the mainstream business community will be able or willing to provide employment for all the individuals in need of transitional employment. The non-profit community is uniquely positioned to provide training, transitional employment and, in some cases, permanent employment to those left out of traditional labor markets.

With these thoughts in mind, the next question posed by most funders approaching an issue area is a simple one: Do you focus on broad systems or targeted projects? The Roberts Foundation’s response was to focus upon targeted projects within the context of the systems to which they are connected. The Foundation did not want to work with such groups as the Private Industry Council or funding streams such as the Job Training Partnership Act initiatives which are huge and complex. The Foundation did not want to expend significant resources upon countless meetings with policy and regulatory administrators and others who are paid to attend such sessions. Instead, since we were mainly concerned with homeless people who, for the most part, stood outside such systems, we chose to invest in organizations that could deliver more tangible, consumer-focused outcomes at the street level.

Ultimately, the Foundation focused on making non-profits more competitive in economic markets and helping individuals who are homeless to become more competitive in labor markets through the provision of supported, transitional employment opportunities. It is critical to understand that this effort was not simply to see if one or two major organizations could develop
enterprise capacity, but rather to assess the potential of social service organizations from a broader cross-section of the nonprofit community to engage in social enterprise creation efforts.

In sum, from the perspective of The Roberts Foundation it may be said that:

**Homeless Economic Development is:**
- non-profits attempting to create self-sustaining, market-directed enterprises providing job/work readiness support to formerly homeless people;
- creating paid (either stipend or wage based) transitional or permanent employment;
- building the capacity of non-profits to profitably manage for-profit enterprises

and

**Homeless Economic Development is not:**
- a strategy for creating significant, net new jobs for the economy;
- a traditional, community economic development or “place-based” strategy;
- a broad-based agenda for changing the face of poverty across America;
- Sectoral Analysis or other “big picture” approaches to economic development (although HED learns from and is informed by such work).

Having outlined the basic assumptions upon which the work of the Homeless Economic Development Fund is based, we may now turn to a discussion of the key aspects of The Roberts Foundation’s approach to implementing its strategy for expanding economic opportunity for homeless people.

**The Funder as Venture Capitalist**

While it has become chic to draw parallels between foundation activity and venture capitalism, most foundations do not operate at all like venture capitalists. A significant number of foundations resist multi-year financial commitments, would prefer limiting the percentage of their annual distribution budget designated for a single issue, tend not to be actively involved in the management of funded projects, and are extremely uncomfortable with supporting a truly “high-risk” grants portfolio.

As a newcomer to the arena of professional philanthropy, George Roberts was not limited by such concerns. A multi-year strategy for economic development of nonprofit organizations was consistent with his own management philosophy. It also made sense to him that a significant financial commitment would be required in order to have any meaningful impact, given the “research and development” nature of much of the proposed work. Dedicating a single staff position to evaluate management and operational issues of non-profit businesses made sense as an effective strategy for monitoring grantees. And, finally, the fact that the foundation established by Roberts would take the same “high risk, high return” position as the firm he had co-founded many years earlier paralleled what had made for his success in the world of finance.

Following several meetings to discuss the implications of the direction they were about to take, in mid-January, 1990, George and Leanne Roberts approved the creation of the Homeless Economic Development Fund, a five-year initiative with an average annual budget of $1 million. By 1996, the annual budget had increased to $1.4 million.

Initially, the actual disbursement of Foundation support was envisioned as a fairly traditional grants program. The Fund would have two categories of grants: General Support and Special Project Support.

**General Support** included three types of grants: Program Grants (to support social services and other activities related to economic development), Business Feasibility and Planning Grants, and Economic Development Grants (to provide one-time support for pilot enterprise efforts).

**Special Project Support** included two areas: The Homeless Women’s Economic Development Project (an effort to provide formerly homeless women with opportunities for self-employment) and the
Homeless Agency Enterprise Development Project (an effort to target significant enterprise creation resources in a limited number of grantees). An evaluation of the Women’s Project is included in this document, and the experience of the Agency Enterprise grantees forms the basis for much of the other information presented in this book. Overall grant size ranged from as low as $500 in the Program Grant category to a one year high of $270,000 in the Agency Enterprise category.

While the grant categories may sound similar to those of many other foundations, the actual execution of the HEDF’s grantmaking strategy has differed, both initially and in its evolution, from traditional grantmaking in the following five ways:

1) **High Staff Discretionary Authority:**
   It is important to make a distinction between what may be called “general purpose” grantmaking and grantmaking in the economic development arena. Under a widely-practiced approach to general purpose grantmaking, non-profits submit proposals to a foundation which are then reviewed by program officers who submit a docket of proposed grants to a board of directors which then reviews and discusses each proposal before approving or denying the request. While some foundations have successfully minimized the turnaround time for this process, for many others the period from submission to award can range from three to six months. The Homeless Economic Development Fund has compressed this time frame to less than a month and, in some cases, grant support can be approved within 48 hours.

   This more responsive process is a result of the Fund director’s fairly high discretionary authority to make funding commitments. At the start of each year, an outline budget is presented to the donor who then reviews it with the Foundation’s executive director and the Fund director. The categories of grants are then agreed upon, along with general funding levels for each category. At regular intervals throughout the year, funds are transferred from the Foundation to the Homeless Economic Development Fund account. The Fund director works with potential grantees to assess business plans and predevelopment opportunities. Based upon his assessment of the various enterprises and planning efforts, the director awards grants to various non-profit organizations.

   While this system certainly represents a non-traditional approach to disbursement of philanthropic dollars, it gave the Fund a high degree of flexibility in managing its resources. If a grantee needed an advance against an annual commitment to facilitate an enterprise’s cashflow, a check could be issued immediately. If a critical piece of equipment or supplies were needed to fill an unanticipated order, funds could be made available in time to allow for fulfillment of the order. This process placed the level of decision making as close to the point of implementation as possible. Furthermore, it made the Foundation more responsive to the needs of its social entrepreneur grantees seeking to operate in difficult markets with little or none of the track record of prior business activity usually required by mainstream sources of capital.

   In our experience, effective enterprise creation grantmaking cannot be pursued within a “generalist” approach, but requires a “specialist” in whom greater authority may be placed to manage the foundation’s enterprise “investments.”

2) **No RFP or Annual Report Announcements:**
   A traditional foundation approach to funding enterprise development usually begins with the publication and distribution of a Request For Proposals asking non-profits with the interest and capacity to engage in enterprise development to submit proposals which could be evaluated by foundation program officers for possible funding. At a minimum, a foundation would include as a part of its annual report a description of the initiative, as well as contact information for those interested in submitting proposals. Presently, the Foundation does include a paragraph on the work of the HEDF in its annual report, but in its early approach to funding social enterprise development, The Roberts Foundation intentionally avoided listing...
HEDF in its report or issuing RFPs. The Foundation's rationale was that if a general announcement was made, the HEDF would receive a large number of proposals which would require sorting and evaluation. While such a process would reach those "in the loop" of traditional foundation circles, it would not necessarily guarantee inclusion of those on the margins. Perhaps more importantly, issuing a generic RFP would encourage many non-profits engaged in basic grants or foundation research to submit requests for "programs" they sought to develop as a result of a perceived funding opportunity rather than due to a true commitment to business development.

Instead of an RFP or annual report announcement, it was decided that the Fund director, who had managed a non-profit in San Francisco and knew many of the organizations in the greater Bay Area, would simply begin attending regional and local meetings of service providers engaged in addressing homelessness, and in particular those meetings which addressed employment, job training, and related topics. At these meetings the director would seek to identify organizations and staff who were already managing small-scale ventures or who reflected an organizational commitment to such approaches as a means of expanding economic opportunity for their clients. These groups would then be approached privately in separate meetings to discuss their vision and experience, along with what barriers they felt restricted their ability to pursue enterprise development.

This style of "grantmaking at the margin" improved upon the traditional approach in a number of ways. First, it freed foundation staff from dealing with countless requests for information and funding which were not appropriate to the task at hand. Second, it allowed Fund staff to observe emerging social entrepreneurs as they operated in their natural "markets," without undue awareness that a funder was watching them. While this approach obviously became less effective as the years went on, initially it made for a more broad-based assessment of the specific non-profit organization and its players. Third, while over a period of years the Fund did begin receiving unsolicited proposals (some of which received support), this initial process allowed staff to create a portfolio of grantees with shared commitments and values that evolved slowly, without significant fanfare or public attention.

Many foundations would have announced, understandably, an annual commitment of one million dollars with a press conference and high expectations. Freeing our grantees of such public exposure allowed both the grantees and the Fund director to gradually explore their work. The Foundation thus had the liberty to see what we could make happen and then share our experience with others, as opposed to telling the world what we were going to achieve and then seeing whether or not it could actually be done. Overall, the initial grantmaking approach resulted in a low-key, deliberate effort to expand into a difficult area of work, rather than adding more pressure to a practice which already carried a fair amount of unfulfilled expectation and potential doubt.

3) FROM GRANT PROPOSALS TO BUSINESS PLANS:

As a rule, most foundations use the "general purpose" grantmaking practice of requesting proposals to evaluate requests for program support. Experienced funders of community economic development efforts, though, make use of business plans as well as traditional proposals. While the HEDF used the proposal system to disburse some of its funds, most of its resources were distributed in support of formal business plans submitted to the Fund.

Such an approach has a number of advantages and is worth considering by funders interested in expanding their work in this field. First, the overall tenor of the enterprises shifts and is more easily viewed as a true business rather than simply one more program of the sponsoring non-profit organization. Furthermore, by going through the exercise of developing marketing strategies and competitor analysis, by drafting financial projections and assessing capitalization requirements, grantee orga-
nizations cultivated a more “business-oriented” understanding of the task they were undertaking.

Second, development of a formal business plan forced grantees to make “bottom-line” commitments to the financial goals of the enterprise. Evaluation and reporting requirements were more easily established by simply comparing actual versus projected revenue and expense positions for the enterprise during a given reporting period. While many grant proposals also include timelines and projected budgets, there appeared to be a real shift in attitude and seriousness by organizations forced to complete a specific business plan and not a more general grant proposal or application.

Third, making use of business plans for capital and other financing needs facilitated participant organizations’ pursuit of mainstream commercial banking and lender relationships. While these relationships are still evolving, the non-profit enterprises have been able to more effectively present their work to others in the business community in a format appropriate to that audience. This has allowed the social enterprise to secure lines of credit and other financing necessary to support its growth. Through the use of a business plan, and not exclusively a grant proposal, the HEDF and its funded organizations were more effectively able to manage both the disbursement of resources and assessment of impact achieved for dollar invested.

4) FROM GRANTMAKER TO INVESTMENT ADVISOR:

Within the philanthropic community there are continual discussions regarding the appropriate role of the funder. Many funders advocate a “hands-off” approach out of a very real concern that too much involvement on the part of the grantmaker will lead to a prescriptive relationship which “directs” the process from the outside, and not from within the community or non-profit organization where such decision making should take place. Others are concerned with the potential liability incurred by a grantmaker providing direct technical assistance and the possibility the grantee may implement a program officer’s advice even though the organization itself may have reservations about the funder’s recommendation. The risks of proactive philanthropy should not be taken lightly. At the same time, it cannot be denied that one of the most powerful aspects of our experience has been that the HEDF director has functioned more as an investment advisor than a traditional grantmaker to the grantee.

In many “general purpose” grantmaking situations, the grantmaker evaluates a proposed project or initiative, conducts a site visit to meet with key players and assess the organization, then drafts a recommendation which is presented to a board of directors, transfers payment of an approved grant to an organization, and finally waits to receive a written report from the grantee at the conclusion of the project period. In some instances, this approach was appropriate for the HEDF director as well, and was used primarily for smaller grants of less than $5,000. But as the grant size and/or the funded effort itself grew, the director became more intensively involved vis-à-vis funded organizations.

While careful not to cross the line into “micromanaging” a grantee, the director often found himself participating in enterprise meetings discussing appropriate pricing strategies, involved in conversations with management concerning approaches to enterprise capitalization, and attending quarterly sessions with management to assess missed goals or targets. Over the past six years, the HEDF director has come to play a supportive role to the grantee organizations and in many cases has served as advisor, technical consultant, and champion for the social enterprises with which the Fund is involved. Certainly, this has something to do with the director’s personality and skills; however, it is also because the HEDF allowed him to research and analyze the experiences of a variety of efforts (not simply HEDF grantee organizations, but others across the nation), the time to research specific questions regarding capital or marketing or other business issues, and the freedom to use the funder’s position to help facilitate conversations.
between disparate parties.

This shift in funder role was appropriate and has empowered the director to make a value-added contribution to the discussions at hand, as opposed to simply observing or attempting to be helpful in some vague manner. In a very real sense the task of the HEDF grantees to expand economic opportunity for homeless individuals moves both practitioner and funder into uncharted waters. On the one hand, it has meant adding economics to the housing and services mix, while on the other hand, it has placed enterprise creation on an economic development agenda which has historically focused upon housing. To be effective, the staff of the Fund had to have the skills and credibility needed to guide such a process.

In our opinion, the HEDF director did not initially have the skills necessary to contribute effectively to this process. With a 15-year background in community services and an MSW, he clearly understood the non-profit environment and community reality, but, despite efforts at self-education, lacked the core business skills necessary to fully assume the role of involved investor. These skills have only been developed over years of learning from grantees’ mistakes (made both with and without his advice!), as well as from the completion of a Masters in Business Administration. Foundations considering entering into or expanding their work within the field of economic development are urged to reflect upon our experience. The shift from grantmaker to investor has been central to the Fund’s current effectiveness and success to date. It did not come about without a large investment of both personal and professional resources.

5) THE MODEL IS DEAD; LONG LIVE BEST PRACTICES:

Lastly, the HEDF has differed from many other grantmakers in its approach to “models” and “project replication.”

In 1995 a representative from a foundation from outside the Bay Area made a presentation to a regional group called Bay Area Funders of Employment and Economic Development (BAFEED). In announcing a new “groundbreaking” initiative in the area of non-profit enterprise creation, the representative stated the intent of the foundation was “to identify and replicate the lighthouse models of the field.” This classic approach to practitioner efforts assumes the foundation’s role is to support small-scale model development which may then be replicated in a large number of communities nationally by the federal government or other major foundations. Many of the community development efforts of past decades have been framed by this approach. Indeed, many continue to adhere to the language of “models” despite widespread recognition of its many flaws and with seeming disregard for its history of failure.

Our experiences and observations have been that an effort, strategy, or approach to enterprise development works in a given area or market as a combined result of a variety of elements, none of which can be lifted up and replicated in another area. Whereas a variety of seemingly similar factors may be found in many urban and rural areas, the particular combination of talent, capital, market opportunity, outsourcing relationships, and business acumen which Truth be told, there is no such thing as an enterprise creation model that can be studied and then simply replicated in another neighborhood or region. If this were not the case, individuals involved in non-profit enterprise development across the country would not now be working so hard to effectively create and manage profitable, social purpose businesses.
make for a successful non-profit business in Seattle simply cannot be found in San Francisco or Denver or New York. Each of these regions, in turn, has its own examples of successful non-profit enterprises which have evolved in their own manner in accordance with their particular circumstances. It may even be said that what made for success within one region or one market during a given point in time with a given organization will never again be replicated by another organization operating within that same market.

Truth be told, there is no such thing as an enterprise creation model that can be studied and then simply replicated in another neighborhood or region. If this were not the case, individuals involved in non-profit enterprise development across the country would not now be working so hard to effectively create and manage profitable, social purpose businesses. This book would have already been written and our task simply one of filling in the blanks.

It can be said, however, that there are core and central principles of successful practice which others may learn and seek to implement. Just as with “models,” every practice will not be appropriate or applicable in every market or organizational context; however, as a general rule, one may identify certain elements in well-managed, market-driven social enterprises which, we feel, make for the success of those organizations. Some types of “best practice” may be more appropriate to large, institutional entities and others to smaller, grassroots groups. Nevertheless, core practices such as planning, capacity building, market orientation, and other factors presented elsewhere in this document can fairly be considered the central elements that bring success to a given social enterprise.

These are the principles of best practice which emerging entrepreneurs should study and from which we may all learn. Too many would-be non-profit entrepreneurs and program officers attempt to find cookie-cutter solutions or models to implement in their own difficult environments. The foundation community and the organizations we care about would be far better served if we did not cater to this desire for easy answers to problems encountered by neatly conceived foundation initiatives. We must learn to think “outside the box” and should instead support the exchange of these ideas and principles between ourselves and practitioners—who, after all, are in the best position to assess their relevance to the local markets within which they operate their enterprises.

CONCLUSION

The challenge of funding successful non-profit business development is a serious one and should not be considered lightly. It also offers the most exciting, growth-filled and exhilarating arena available for funder involvement. Those who are called to the practice of true social entrepreneurship live in two worlds simultaneously: non-profit and business. Those who would support the work of such folks must be comfortable in three: non-profit, business, and foundation. Effectively managing the distribution of a foundation’s financial support is a tougher task than many who are not involved in the work would imagine. It is all too often easy to succumb to the notion that because we have access to wealth, we have access to knowledge as well. Of course this is not always the case. Funders involved in enterprise development face the challenge of creating a meaningful investor relationship wherein the social and financial returns of enterprise creation are convincingly greater than the net present value of any other potential priority for grantmaking investment. We believe it is, and we welcome continuing opportunities to learn with our colleagues as we continue management of our social investments in the years to come.
Market Realities of For-Profit/Non-Profit Competition

Introduction

Non-profit enterprise managers have raised numerous concerns about pursuing business enterprises, including questions regarding the sponsoring organization’s jeopardizing its 501(c)(3) status, the need to assure that clients employed in such enterprises receive appropriate support services, and the challenges of blending a social mission with a business mind-set. More and more, managers also want to know how to respond to assertions that the non-profit sector has no right to engage in commercial activities of any kind, and that doing so constitutes unfair competitive advantage over mainstream, for-profit businesses. A review of the literature on community economic development finds relatively little information on this very important question or guidance on how to address this concern in the course of one’s work. This section is presented in an effort to make more non-profit managers aware of the concerns held by many in the for-profit small business community, and to assist non-profit managers engage in positive discussions with those who might initially view non-profit enterprise as a threat to their own livelihood.

To provide a balanced presentation of this topic, both the National Federation of Independent Business and the Business Coalition for Fair Competition were invited to present their thoughts to a national audience of non-profit managers interested in the possibility of engaging in social purpose business development. Unfortunately, for reasons which are unclear, representatives from both organizations chose not to respond. Therefore, as a “next best step” to this lack of response, a review has been conducted of articles and documents produced over the past decade that address the issue of non-profit competition with for-profit firms. The following information is based upon that research and presents the fundamental arguments...
made by those opposing non-profit enterprise.

It is our intention to address the concerns raised by certain actors in the small business community from the perspective we have developed over the past six years of working in the field of non-profit business enterprise. We do not attempt to represent the field as a whole or speak for it, but simply seek to reflect on the concerns of small business from the position of individuals attempting to expand economic opportunity for homeless people through the creation of small business ventures.

The Argument Against Non-Profit Enterprise Development

Perhaps the best presentation of relevant issues is found in the 1984 report, “Unfair Competition By Non-Profit Organizations With Small Business: An Issue for the 1980s,” produced by the Office of the Chief Council for Advocacy of the U.S. Small Business Administration. The document is the product of a small business symposium held to discuss the issue and, though dated, is nevertheless the best piece available on this question. The document addresses a wide array of concerns; however, the core argument is that the original rationale for awarding non-profit status to organizations has shifted. Today, the report claims, an increasing number of non-profits engage in activities not supported by the original intent of the laws that granted them tax-exempt standing under IRS regulations. The report goes so far as to challenge the very existence of non-profit organizations, calling for a complete revision of the statutes permitting their present tax status.

According to the SBA report, there are essentially two general rationales for the existence of a non-profit tax status within the nation’s tax code. The first rationale, known as “Public Goods,” states that non-profits should be exempt from tax and other regulatory requirements since they provide services which would otherwise not be provided by for-profit firms without a financial subsidy. The report acknowledges such a status for the Salvation Army or CARE makes sense, but challenges non-profit status for hospitals and other entities it feels clearly target paying customers and not those on the margins of society. It is interesting to note that the report does not address those non-profits with missions similar to that of the Salvation Army which also operate thrift stores, moving companies, or other such enterprises.

The second rationale, “Quality Assurance,” states that consumers are not equipped to evaluate the quality of services offered in health care or educational settings and must therefore rely upon non-profits to assure high quality and protection in industries where the push for profit might otherwise create a potential for overpricing of low-quality services. This rationale is less relevant to our discussion and will not be expanded upon in the following essay.

The report goes on to describe the growth in the non-profit community as a whole and criticizes non-profits for increasingly diversifying their revenue base through the creation of “commercial” enterprises and for becoming more businesslike in their structures and operations. It
describes as dangerous the alleged practice or potential for non-profit price cutting in their businesses, creation of an “oversupply” of a service or product within a given industry, and the temptation for an increase in the number of non-profits established strictly to benefit from the tax advantages achieved via non-profit corporate status.

Following a series of case studies which include anecdotal stories of unfair competition, the report cites areas of special treatment from which non-profits allegedly unfairly benefit, such as Social Security, unemployment insurance, minimum wage, postal rates and other regulatory advantages. The SBA report concludes with a series of recommended regulatory changes that would eliminate the ability of non-profits to unfairly compete with for-profit businesses. These recommendations range from the elimination of permission to engage in any unrelated business activities, to a review of IRS regulations and forms, to an amendment of the Federal Trade Commission Act that would place significant limitations on non-profits’ ability to carry on commercial activities of any type.

The report concludes with the following statement:

“The increasing phenomenon of non-profit organizations engaged in commercial activities in competition with for-profit small businesses cannot be ignored. The traditional justifications for granting non-profits tax-exempt status have been stretched beyond recognition by this development. Policy makers in the Congress and in the Executive Branch must undertake a thorough evaluation of the changing role of the non-profit in our society and economy. Appropriate revisions in Federal statutes and regulations governing non-profits are necessary to reflect the existence of the commercial non-profit sector, and to remedy the unfair competition now imposed on for-profit small business.”

The SBA document raises a number of issues worthy of discussion, and any non-profit manager interested in partnering with the for-profit sector should be open to honestly evaluating those issues. In fact, the cases presented could be made even stronger in light of current lawsuits involving the operation of YMCA health clubs and alumni travel services, both of which are often viewed by advocates of traditional small business as constituting unfair competition.

However, in both its rhetoric and recommendations, the report contributes nothing to our effort to honestly address the concerns of small business people who, in addition to wanting to stay in business, are also concerned with the impact of social problems upon their ability to conduct business or contribute to the communities of which their customers are a part.

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2SBA, p. 42.
The Rationale for the Support of Non-profit Enterprise

Before beginning our response to the claims of unfair competition, it should again be acknowledged that our perspective is based on our own experience of the last six years of working with groups in the greater San Francisco Bay Area, augmented by contact with other groups across the country. This experience has, for the most part, involved small business start-ups sponsored by non-profits paying market rate wages and charging market-determined prices for services and products developed in response to customer demand. Meaningful arguments may be made in defense of a variety of non-profit enterprises; however, our experience has not been primarily with "work-therapy ventures" (wherein workers earn no wage, consistent with the belief that work itself is a form of therapy), prison labor business (wherein labor costs are significantly lower than market, though the costs of products are in some cases actually higher than market levels), or sheltered workshops (wherein workers earn according to their productivity on a piece rate basis). The work of the HEDF has been with market-directed, social purpose businesses providing transitional employment to formerly homeless and other very low-income individuals. As we will present below, it is our position that these non-profit enterprise activities do not in and of themselves constitute unfair competitive advantage with their for-profit counterparts.

To understand this position, it is necessary to know something of the forces which have given rise to the New Social Entrepreneur. Briefly, the practice of social entrepreneurship is the logical evolution of intervention in the homeless issue which has moved its focus from housing to services to jobs. Our nation and its communities are placing increasing emphasis on the importance of the contribution of all members of society to our country's economic well-being— as well as their own livelihood— through participation in the economy by holding a job, not an entitlement check. Indeed, many of those who have worked in human services have seen firsthand the limitations of the traditional approach to welfare and support services as ends in themselves, as opposed to a stopping off point on the way to a better life. Many human service organizations are now looking for higher impact, market-based approaches to expanding economic opportunity to those on the margins of our society.

Much of the impetus for this shift in perspective has come from the business community itself, which for years has complained that non-profits are "too soft" and don't take a "businesslike" approach to problem solving. Many in the business community have opposed the provision of social services by government, preferring the non-profit community carry the responsibility for working with the poor.

Unfortunately, this reasonable commitment to community and grass roots empowerment has often been simplistically translated into a steady strategy to decrease the overall amount of federal funding available for the support of human service organizations. Regular budget cuts have led non-profits to step up their efforts to diversify their revenue base, including efforts to engage in revenue generation, as a means of expanding employment opportunities for clients as well as supporting program operations.

In reviewing the published literature on non-profit competition with for-profits, it would be easy to conclude that on one side of the divide one may find business people, and on the other a rabid band of social workers. Nothing could be further from the truth.

non-profit competition with for-profits, it would be easy to conclude that on one side of the divide one may find business people, and on the other a rabid band of social workers. Nothing could be further from the truth. In fact, many non-profits have significantly benefited from the participation of business people on their boards and venture committees. This participation has helped drive the interest in the creation of free enterprise approaches to both client interventions and funding strategies. While most of the effort of non-profit community volunteers has focused upon fund diversification through increasing individual donations and other forms of charitable support, some members of the business community who sit on non-profit boards have been strong advocates of efforts to generate revenue and create jobs through the operation of small business ventures. This strategy, strongly supported by one segment of the business community, now appears to be the subject of renewed criticism from another segment. It is, of course, more than a little ironic to be criticized for being too businesslike by segments of the business community who in the past have criticized non-profits for not operating enough like real businesses!

With this background in mind, it is our position that non-profit enterprises actually operate at a significant competitive disadvantage when compared to for-profit enterprises and do not constitute unfair competition for the following reasons:

- Non-profit enterprises incur significantly higher costs of supervision and personnel turnover.
- Non-profit enterprises incur significant “productivity drags” due to their commitment to hiring those considered by the mainstream labor market to be the least “productive.”
- Non-profits must manage not simply for profit, but for social benefit as well, which places increased burdens upon the organizations.
- Non-profits must attempt to operate under significant funding limitations which serve as a critical competitive disadvantage to their ability to survive in the market place.
- Non-profit enterprises pay market-based wages and do not use “profits” to undercut the market.
- Non-profit enterprises may increase the absolute number of competitors overall which does not, however, constitute unfair competition, simply more and better competition which works to the advantage of our communities and society.

These issues may be framed in the following four statements:

1) **Non-profit enterprises pay market-based wages or above and therefore can not use “profits” to undercut the market.**

This statement is worth repeating one more time, just for emphasis: Non-profit enterprises pay market-based wages and do not use “profits” to undercut the market.

We have no doubt that in a national survey of non-profit sponsored enterprises, one might be able to find social purpose ventures which do not pay market-based wages. We know this is true, if only because in a survey of for-profit businesses one would probably find owners who are attempting to pay below-market wages, sometimes even denying benefits as a part of cost-cutting strategies. We know most employers with any interest in remaining a long-term, growing enterprise prefer to pay wages that are both fair and supported by the market. We know this because we are committed to the same strategy and, in fact, often pay above the market-determined wage.

All things being equal, as a for-profit business, would the New Social Entrepreneur pay someone $8.00 who can command only $5.00 per hour on the open market? Of course not. The difference is that we are also committed to attempting to pay people what we feel are livable wages in urban areas—and for some that means a base wage noticeably above the national minimum wage of $4.25 per hour. While non-profit businesses are not always...
successful in their efforts to pay a living wage that is above the market average, this is part of our commitment to our community, of which we are proud, and is made possible in part by the fact that there are no dividends to shareholders or individual owners of the business. It is a commitment we feel is a central justification for allowing non-profits to operate for-profit enterprises as part of our effort to enable formerly homeless individuals to save enough money for the rent deposit on a new apartment, or pay tuition at a community college, or maybe even save enough to buy a child a new outfit for school.

In many cases, the non-profit business manager is under pressure as a result of his social mission to offer wages substantially above the market rate, something a for-profit would only do to secure an exceptionally productive employee. If anything, the status of a non-profit enterprise as a non-profit enterprise means there are even greater pressures to pay wages which are viewed by the community and not necessarily by the market as valid, fair wages. We rise to that challenge, but certainly do not compete unfairly because of it.

2) SIGNIFICANTLY INCREASED TRAINING, SUPERVISION AND OTHER COSTS ASSOCIATED WITH THE EMPLOYMENT OF INDIVIDUALS WHOM THE MAINSTREAM LABOR MARKETS WILL NOT EMPLOY, LEAVES THE NON-PROFIT ENTREPRENEUR AT A COMPETITIVE DISADVANTAGE.

Non-profit enterprises operate at a significant disadvantage to for-profit businesses for two primary reasons: the increased costs of training and supervision, and an increase in personnel turnover. The for-profit labor market will simply not employ growing numbers of Americans presently outside the job pool. The reality is that many people who are homeless or on welfare have never “learned to work.” If one is to employ them one must be willing to incur job training and supervision costs which are significantly greater than those training costs supported by mainstream, for-profit businesses.

Many for-profit enterprises “externalize” the cost of training and support by receiving wage and training subsidies from the federal, state and/or local government. The rest of the for-profit community externalizes the cost of a less competitive workforce by simply hiring the best and leaving the rest of the employment pool outside the gates of business. The non-profit does not have this option; it must “internalize” the cost of a less competitive workforce, since the very reason for its existence is to provide transitional employment to just this segment of the labor force. Some of these costs may be supported by training funds; however, most are hard to quantify and are found in the form of lower productivity, a less stable workforce, or a workforce in need of support beyond what the government may deem appropriate. Taken together, these costs would force other businesses to close their doors. For the non-profit business, they are simply one more element to be considered, one more barrier to achieving break-even.

As if the added costs of supervision and training were not enough, the non-profit business must also continually deal with high personnel turnover. This is true simply because the main purpose of the non-profit enterprise is not to generate significant wealth and increased market share (although those are certainly concerns), but to provide individuals with career options and transitional employment. Transitional employment means what it says: a job for some period of time during which the employee is going to school, stabilizing their life, and maybe engaged in counseling or other activities to improve their life condition and help enable them to succeed on their own in the community. While there are certainly cases of non-profits providing permanent employment to formerly homeless folks, overall program participants are employed for a matter of months, not years. This turnover means yet more costs to the non-profit which must watch as its best employees are hired away by, yes, mainstream businesses looking for dependable, well-trained, and enthusiastic employees. The businesses which hire away the best people do not complain about unfair competition, because they know the non-profit enterprise makes a valuable contribution to the

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development of our nation’s human capital. While the community at large and future employers are the beneficiaries of our work, the non-profit must continually deal with employee turnover as it pursues its goal of sustainability and the provision of yet more opportunities for those rebuilding their lives.

As a country, we cannot have it both ways. If it is deemed by society that all must work, then it is reasonable to expect society not to penalize those who have commitment to work, but lack the means of participating in today’s economy. Non-profit enterprises provide the bridge back to mainstream employment and, in so doing, contribute significantly to our country’s efforts to end poverty in the lives of individuals.

In addition, non-profit enterprise actually expands tax revenues through the future payment of income and other taxes by employees who may cost more on the front end, but provide significant returns to the overall community following their placement. We believe that allowing non-profits to pay this cost at the beginning of a transitional employment opportunity is a better investment of public dollars than all of us paying the higher price for more jails and a non-productive workforce further down the road.

3) DUE TO THEIR COMMUNITY AND PUBLIC SERVICE MISSIONS, NON-PROFIT ENTERPRISES MUST NOT SIMPLY SEEK TO BREAK EVEN (AS ANY BUSINESS WOULD), BUT MUST ALSO MANAGE THEIR ACTIVITIES WITH CONSTANT CONSIDERATION FOR THE BROADER SOCIAL MANDATES THAT GUIDE COMMUNITY-BASED ORGANIZATIONS. THIS CREATES A BURDEN ON THE NON-PROFIT ENTERPRISE WHICH IS NOT SHARED WITH ITS FOR-PROFIT COUNTERPART.

A conventional, for-profit enterprise adheres to one goal: staying in business. Wage levels, benefits provided, marketing strategies, and indeed, all aspects of business management must focus upon achieving that singular purpose of profitability.

The non-profit enterprise must do all that and more. By its very nature, the non-profit must operate with concern for community values and priorities. In addition to her commitment to hire from populations with training and educational disadvantages, the non-profit entrepreneur is not allowed to provide significant financial bonuses or other private inurement to managers and employees who excel on the job. She is constantly open to scrutiny from a wide range of community players representing any number of agendas which may or may not be consistent with the goal of keeping the business open and providing employment to the heretofore unemployable. The broader social mission of the non-profit business presents the practitioner with a significantly greater burden than that faced by her for-profit counterpart and is central to any discussion of what is "fair."

Furthermore, the process by which non-profit organizations must manage their ventures places them at a significant disadvantage to their for-profit counterparts. Operating under the status of a non-profit enterprise does not simply mean one must be responsive to a social mission, but also that the management process itself is profoundly different from that of most small business operations.

Many small businesses operate with an advisory committee or board. Non-profit enterprises frequently function with two sets of committees: those charged with overseeing the programmatic aspects of enterprise decisions, and those concerned with such basic business tasks as marketing or finance. Often a larger, organizational board of directors will appropriately require regular verbal and written reports from managers and executives on the operation of the enterprise. These functions represent more than simply the standard “committee meeting madness” of many small corporations, but are in essence a second layer of organizational process which must be in place to assure compliance with the charitable mandates of the enterprise.

While maintaining compliance with the same variety of state and federal regulatory requirements as the for-profit business, the non-profit enterprise must also comply with an array of private and public reporting requirements from which the for-profit enterprise is free. These range from filing
publicly available tax records to holding regular community meetings. To ignore these “process requirements” may mean risking mission drift or creating a situation where the enterprise drives the sponsoring organization—a clear violation of the non-profit terms which govern the very existence of the social enterprise. While the for-profit small business person is free to evaluate a challenge and make a decision on the spot regarding how to proceed, the non-profit enterprise manager must constantly assure the decision making process has been correct and remains in line with the social mission of the venture.

Businesses have not sought the supposed tax shelter of non-profit status for the very simple reason that they understand inherently the costs of doing so. ... These are astute business managers who understand quite clearly the costs of one corporate structure versus another.

Indeed, the very reason the New Social Entrepreneurs are called to their work is that they are accountable not only to the key demands of the market, but to the demands of society and community. For this reason many such community-based businesses have failed in the past, for they could not find a way to walk this tightrope between operating a successful enterprise and maintaining strict adherence to their social goals. The burden of operating a small business is significant. The burden of operating a small business with a social agenda is more so, and represents a critical disadvantage to non-profit business managers.

4) **The funding limitations placed upon both individual practitioners and organizations serve as a major competitive disadvantage to non-profit enterprise.** While the SBA report states that non-profits receive significant federal and state subsidies not available to the for-profit small business, the same may be also said of for-profit small businesses. The non-profit manager is not invited to participate in SBA sessions nor has he been allowed to apply for SBA funding at any level. Critical access to expansion and capitalization funds has been denied these community-based businesses. Non-profit businesses do not qualify for enterprise zone wage subsidies, investment credits, or other incentives, all of which enable many for-profit small businesses to cut costs and avoid paying significant taxes. The catch, of course, is that the non-profit business must be willing to employ the “unemployable” and locate their businesses in low-income areas. Many non-profit entrepreneurs are willing to take on such challenges, and yet until recently have remained barred from receiving any SBA support. Non-profits may qualify for private foundation support, but such support is extremely difficult to secure and is often only available for short-term, one-time needs. The reader should be advised that the SBA has recently approved a modification of its regulations to allow community development corporations to participate in its 8-A lending program. However, in May, 1996, the region nine director of SBA programs stated he was unaware of any changes and that non-profits would continue to be denied access to SBA 8-A programs. He was very nice about it, though...

The Nature of Competition

In the final analysis, it might be said that any “subsidies” received by the non-profit entrepreneur are balanced out by the significantly greater costs of employing very low-income or disabled individuals for extended training and transitional employment periods. Managerial flexibility, as well
as access to SBA or other capital sources available to the for-profit manager, compensates for any perceived unfair advantage from which the non-profit supposedly benefits. This conclusion leaves two remaining issues for discussion: whether non-profits truly gain unfair profits when competing with for-profits, and whether the very presence of non-profits in the marketplace contributes to an oversupply which will distort the market to the disadvantage of existing for-profit businesses.

With regard to the issue of whether non-profits truly benefit from unfair profits, it may help at this point to revisit an elementary concept of free market economics, namely, that of “surplus profit,” wherein the amount of profit available through an economic activity becomes great enough to serve as an incentive for other competitors to enter a given market. As increasing numbers of competitors open up shop in order to capture these profits, those “excess” profits are bid down through aggressive pricing strategies in the face of the increased competition until, on average, the marginal costs of the business come to equal the marginal revenue of each competitor. At this point, market equilibrium is achieved and the remaining competitors attempt to survive based primarily upon quality, price, and service.

With this concept in mind, one can only conclude that were there a significant competitive advantage to being a non-profit engaged in revenue-generating activities, we would have witnessed a marked increase in the number of businesses seeking to qualify as non-profits strictly to take advantage of the added financial benefit of non-profit status in the marketplace. In fact, we see just the opposite. Increasing numbers of non-profit organizations explore the feasibility of creating a social purpose business and decide against it; at the same time, we are aware of no recent documentation of a new influx of businesses attempting to become non-profits simply to take advantage of all the supposed benefits. Conversely, it may be argued that many areas which have traditionally been the domain of the non-profit, community enterprise have now become increasingly commercialized, making it more difficult for the non-profit community to maintain a market presence.

Businesses have not sought the supposed tax shelter of non-profit status for the very simple reason that they understand inherently the costs of doing so. They know from their own analysis that the burden of the social mandate itself is much greater than any possible financial advantage they might achieve. These are not simple minded people unable to appreciate a competitive advantage, but astute business managers who understand quite clearly the costs of one corporate structure versus another.

But what of the concern that non-profits entering the market will create an “oversupply” of products and services which will undercut for-profit price structures? At this point, the question comes down to one of simple competition. Namely, is it appropriate for non-profit organizations to add to the supply of small businesses competing in the open market? It becomes an issue of economic philosophy, a question of whether one believes that more competition is better for consumers and society, or that we should pursue policies which limit competition in order to protect existing enterprises.

It is our position that competition is good, and that the more competition there is, the better it will be for customer and manager alike. For example, one of the non-profits involved with the Homeless Economic Development Fund, Conard House, opened a coffee shop near the downtown San Francisco shopping area known as Union Square. When they opened, there were no other ventures in the immediate vicinity and they met with modest success, creating a limited number of jobs for formerly homeless, mentally disabled people and generating revenue to help pay for the added costs of training their employees. After a number of months, a competing coffee shop opened up not down the block or across the street, but immediately next door. The new coffee shop had a “better” design, superior lighting, and cheaper prices. Sales at the non-profit shop immediately took a nose dive.
reducing overall revenue and sending the manager into something of a panic as she analyzed how to respond to this direct attack. Within weeks they added needed seating, decreased their prices to be on par with the new shop, and created several new product offerings for their menu. While sales have not returned to their prior levels, the shop is back in the black.

The lesson here is clear. The for-profit business is not going to pack up and go home. And neither will the non-profit enterprise. But the customers keep coming and benefiting from the competition between them, which provides customers with better service, an improved emphasis on quality and, perhaps most importantly, market-based prices which are now lower than before the competition took place. (It should also be noted that the for-profit hired away one of the non-profit’s best people to work in their store, proving the “system” does work!)

**Conclusion**

There is one final, added benefit to this type of competition: It teaches the non-profit manager to better understand the nature of market economies and how to position the enterprise in the very same “businesslike” manner suggested by many of those from the business community. And in this vein, we may turn for support to the “father” of modern capitalism, Adam Smith, who observed that within a healthy, competitive economy,

> “Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man or order of men...”

If we are to decrease government itself and the resources which currently support the social safety net of this nation, we have no choice but to evolve new theories and practices of non-profit management. New Social Entrepreneurs seek economic justice through fair competition in an effort to assure that others may seek their better fortune outside the realm of homelessness and poverty. Many in the business community join with us in this task. We seek partnership and dialogue with still more members of mainstream business as together we create expanded opportunities for all members of society.
**The Non-Profit Capital Market and Its Malcontents**

**Introduction**

Most of this book addresses issues related to developing greater capacity within non-profit organizations to effectively manage social purpose businesses. However, capacity is not the only limitation on the practice of social entrepreneurship. The current systems of government and foundation support which constitute the bulk of the non-profit capital market contribute in part to the non-profit community's poor track record in its execution of enterprise creation strategies. Access to capital can make small business start-ups possible, fund enterprise expansion, and create significant long-term investment in infrastructure capacity. The lack of capital investments limits growth, forces reliance upon non-diversified (and therefore high-risk) operating funds, and often dooms promising ideas before they are allowed to succeed or fail in the marketplace.

To understand how capital moves through any system one must have a basic understanding of the structure and functioning of existing markets. This chapter applies Michael Porter's analysis of the challenges presently before the U.S. for-profit capital market to the non-profit capital market. For the purposes of this document, the non-profit capital market is defined as consisting of financing available to non-profits involved in affordable housing and non-profit enterprise creation; it may actually be seen to include all non-profit organizations and the financing mechanisms which support them. We use this general outline to then frame specific issues of relevance for the field of non-profit business development. We will conclude with a call for the restructuring of the non-profit capital market and the organizations which operate within it, for without such a restructuring we may never fully realize the potential returns we have every right to expect for our nation's precious investments of social capital.
Porter's Capital Market Framework and Proposed Reforms

While not revered throughout the non-profit community, Michael Porter's analysis of capital markets is very interesting and should be examined by those concerned with increasing the amount of funds available to support non-profit enterprise. In 1992, Porter, using research conducted by the Harvard Business School and the Council on Competitiveness, published a broad analysis of the causes and possible cures for what is commonly referred to as "the U.S. investment problem." It is his contention that problems frequently cited, such as a short-term investment mind-set, poor corporate governance, and relatively high costs of capital, are merely symptoms of the inherent shortcomings of the U.S. capital market. While acknowledging the many strengths of the U.S. market, Porter states that "[t]he problem lies in how this capital is allocated—at what rates and into what kinds of investments. One consideration is whether there is over or underinvestment. A second is whether an investment is complemented by associated investments—that is, whether there are linkages among different forms of investments. For example, a physical asset such as a new factory may not reach its potential level of productivity unless the company makes parallel investments in intangible assets such as employee training and product design. A third consideration is whether private investments also create benefits for society through spillovers or externalities. For example, a company that invests in upgrading its employees and suppliers not only enhances its own competitiveness but also creates better trained workers and stronger suppliers that may allow it to pursue entirely new strategies in the future. Nations that encourage appropriate investment across a wide variety of forms and create these social benefits can leverage their pool of capital to build a strong and competitive national economy."3


2Porter, p. 67.

3Porter, p. 68.

4Porter, pp. 69, 71.

In appreciating how Porter reaches this conclusion and what it means for a discussion of the non-profit capital market, one must first understand the determinants of investment behavior and the implications of current investment practices. Porter presents a very stimulating analysis. (For a comprehensive presentation of this framework, the reader is directed to review Porter's article in its entirety.)

Briefly, Porter identifies three categories of determinants of investment: "the macro-economic environment; the allocation mechanisms by which capital moves from its holders to investment projects; and the conditions surrounding specific investment projects themselves."3 This chapter focuses on the second determinant, allocation mechanisms.

Allocation mechanisms operate in the two distinct arenas of external and internal capital markets. External markets have the four primary attributes of:

- the pattern of share ownership and agency relationships;
- the owners’ and agents’ investment goals;
- the approaches and information used to measure and value companies; and
- the ways in which owners and agents may influence management behavior.

By contrast, internal markets have the four primary attributes of:

- the particular goals set by an individual corporation;
- the organizational principles which govern relationships between managers and business units;
- the information and methods used to monitor internal resource allocation; and
- the manner in which senior managers intervene in investment projects.4
The attributes of capital markets, and their allocation mechanisms, have manifested themselves in different ways in the United States, Germany, and Japan. To distinguish between these markets, Porter uses the labels “fluid capital markets” and “dedicated capital markets.” More specifically, the U.S. capital market is characterized as having fluid capital, whereas the Japanese and German markets are built more strategically upon the notion of dedicated capital.

A fluid capital market is characterized by “funds moving rapidly from company to company based on perceptions of opportunities for near-term appreciation...” with investors holding a variety of small stakes which create a “fragmented pattern of share ownership due in part to legal constraints on concentrated ownership, fiduciary requirements that encourage extensive diversification, and investors’ strong desire for liquidity.”

A dedicated capital market is characterized by permanent owners with long-term, major investments, the returns of which are evaluated less in terms of the strict financial measures of the fluid capital market than by the value placed upon owner relationships between various actors in the dedicated capital market. As Porter states, “Suppliers and customers own stakes in each other, not to profit from the share ownership itself, but to cement their business relationship.”

These and other attributes of fluid and dedicated capital markets may be summarized as follows:

<table>
<thead>
<tr>
<th>UNITED STATES FLUID CAPITAL MARKET:</th>
<th>JAPAN/GERMANY DEDICATED CAPITAL MARKET:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transient Owners</td>
<td>Permanent Owners</td>
</tr>
<tr>
<td>Transaction-Driven</td>
<td>Relationship-Driven</td>
</tr>
<tr>
<td>Fragmented Stakes</td>
<td>Significant Stakes</td>
</tr>
<tr>
<td>Outside Information</td>
<td>Inside Information</td>
</tr>
<tr>
<td>Valuation Driven by Buy/Sell Choices</td>
<td>Valuation Does Not Affect Buy/Sell Choices</td>
</tr>
<tr>
<td>Owners with Little Management Influence</td>
<td>Significant Ownership Influence</td>
</tr>
</tbody>
</table>

As is the case in all such frameworks, these attributes are generalized; in fact, over recent years it seems players in both types of markets are moving closer to each other. Furthermore, it should be understood that each system has its place and has evolved in response to a given set of historical, cultural and economic imperatives. As discussed below, the challenge for the non-profit manager or investor is to understand how each approach differs and what the implications of each are for non-profit capital markets.

Having outlined the fundamentals of each type of capital market, the balance of Porter’s article presents a set of proposed reforms for improving the efficiency and effectiveness of the U.S. capital market. When it was first published, Porter’s piece was highly controversial among both the academic and business communities; after all, how a nation structures its capital market goes to the core of its values regarding the purpose and operation of its national economic system. Porter’s proposed reforms fall into five areas worth quoting fully from his article:

1. Improve the macroeconomic environment;
2. expand true ownership throughout the system;
3. align the goals of capital providers, corporations, directors, managers, employees, customers, suppliers, and society;
4. improve the information used in decision making.
5. Foster more productive modes of interaction and influence among capital providers, corporations, and business units.8

Each of these recommended areas of reform are played out in the arenas of public policy, institutional investor strategy, and corporate practice. Again, Porter’s discussion is broad and beyond our specific area of interest; however, a number of implications of his proposals may have particular relevance to actors in the non-profit capital market. While the reader should review Porter’s entire article for his full analysis and complete list of recommendations, certain areas of reform suggested by Porter have particular relevance to our discussion of the non-profit capital market. They are:

**PUBLIC POLICY**
- Remove restrictions on investor share ownership; encourage long-term employee ownership; lower tax barriers to holding significant private ownership stakes.
- Create a long-term equity investment incentive.
- Eliminate restrictions on joint ownership of debt and equity.
- Loosen restrictions on institutional board membership.
- Encourage board representation by significant customers, suppliers, financial advisers, employees, and community representatives.
- Provide investment incentives for R&D and training.

**INSTITUTIONAL INVESTORS**
- Increase the size of stakes.
- Select companies more carefully based on fundamental earning power.
- Transform interactions with management to productive, advisory discussions.
- Create special funds to test these new approaches.
- Support system public policy changes.

**CORPORATIONS**
- Seek long-term owners and give them a direct voice in governance.
- Transform financial control systems into position-based control systems.
- Move to universal investment budgeting.

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8Porter, p. 77.

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**The Relevance of Dedicated and Fluid Capital Markets for Non-Profit Enterprise Creation Efforts**

As previously stated, when Porter first published these and his other proposals for reform, he instigated an energized debate. In essence, the debate concerns whether the flexibility and quick response capacity of the fluid capital market are ulti-
mately superior to the less flexible, slower-to-respond dedicated capital market, which places greater value upon broader, social returns and does not adhere to a strict focus upon internal rates of return and financial profit. This debate is especially fascinating given the current problems confronting the German and Japanese economies and the apparent inability of their systems to respond promptly to changing global and national trends. The specifics of that debate are significant and of great interest, but beyond our present discussion.

What is worthy of comment is that the modern dedicated capital markets of both Germany and Japan largely grew out of the need to rebuild those nations in the aftermath of the Second World War. At that time, cities in each of these countries (as well as a host of others) had the following post-war characteristics:

- the high cost, relatively low availability, and poor quality of food;
- destroyed or poor physical infrastructure due to bombings;
- local gangs controlled only through the presence of occupying forces;
- existence of “black” market economies;
- threats to personal safety;
- environmental pollution as a result of the destruction wrought by war.

The Marshall Plan and the proactive role played by government within the European and Japanese markets were both responses, at least in part, to the need to address and overcome these crippling factors which inhibited stability and economic growth. As these responses played themselves out, they evolved into the dedicated capital markets identified and described by Porter.

In many ways, we are now in a “Post-War on Poverty” era. While some would argue that the “war” was never fully engaged, we must nevertheless acknowledge that many

Much of the non-profit capital available for enterprise development has incorporated aspects of the dedicated market, which may be relevant to meeting the needs of enterprises in the start-up and early development stages.

of America’s inner cities presently reflect much the same environment and context of post-war Germany and Japan:

- food costs are significantly greater in low-income neighborhoods than in surrounding communities;
- many buildings are vacant, burned-out, or otherwise underutilized;
- gangs engage in street battles which victimize local residents and at times are only barely contained through the presence of “occupying forces” in the form of local police departments;
- “black” market economies provide both legal and illegal products and services;
- environmental pollution has resulted from the placement of “high-risk” factories and plants in areas deemed “less valuable” by regional real estate markets.

We may conclude that while the future health and well-being of our national economy may rest with the strength of a fluid capital market, America’s inner cities and poor communities may require a more strategic, interim investment approach to target capital resources most effectively and leverage those resources directly against the assets already present in even the poorest of neighborhoods. In truth, no capital market is fully fluid or dedicated; however, if we are to achieve the highest impact and greatest return, the limited resources available to support community economic development should be invested within the framework of a capital market strategy which promises to achieve the highest possible leverage for those dollars.

A second conclusion may be that the needs of enterprises within these markets shift, depending on what level of capacity and development they have achieved. And, ideally, the market structures, institutions, and investment instruments used by these evolving enterprises should change as well. In this regard, both the German and Japanese economies appear to be develop-
ing additional attributes of the fluid market. And as we will see in the following discussion, much of the non-profit capital available for enterprise development has incorporated aspects of the dedicated market, which may be relevant to meeting the needs of enterprises in the start-up and early development stages. However, if these same enterprises are to achieve their full potential and become more fully integrated into the mainstream economy of the United States, the capital markets of which they are a part must come to reflect greater qualities of the fluid market.

Again, in reality capital markets are neither fully one or the other, but some blending of the two. Regardless, as a basic framework for understanding how investments are made, valued and managed in the world, Porter’s approach provides an important tool for assessing the movement of capital in our society in general and, of greatest importance to this document, for assessing the movement of capital in the non-profit enterprise market in particular.

### The Non-Profit Capital Market: Financing Instruments and Strategies

While it is not popularly referred to as such, the complex web of government grants and loans, foundation grants and loans, commercial loans, community development loan funds and bank pools, religious institution loan funds, savings and loan institutions, and individual investors constitute what may be called the non-profit capital market. Our primary frame of reference is the potential and existing capital market available to support affordable housing and non-profit enterprise creation. While they may, in fact, be included in this market, we are not referring to the entire universe of non-profits, which might include hospitals, museums, and universities.

Furthermore, while we do include both housing and enterprise development examples in the following discussion, it should be understood that our primary area of con-

### Table 1: Instruments of the Non-Profit Capital Market

<table>
<thead>
<tr>
<th>TYPE OF INSTRUMENT:</th>
<th>GRANTS</th>
<th>PRIs⁹</th>
<th>DEBT</th>
<th>EQUITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>FACTORS:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Capital</td>
<td>0</td>
<td>3 to 5%</td>
<td>8 to 10%</td>
<td>ROI¹⁰, Var. Rates</td>
</tr>
<tr>
<td>BOARD/INVESTOR ROLE?</td>
<td>No</td>
<td>No</td>
<td>Maybe</td>
<td>Yes</td>
</tr>
<tr>
<td>Available for Housing:</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>AVAILABLE FOR:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Profit Business:</td>
<td>Yes</td>
<td>Very Limited</td>
<td>Very Limited</td>
<td>No¹¹</td>
</tr>
<tr>
<td>Appropriate Mix¹²</td>
<td>15%</td>
<td>15%</td>
<td>20%</td>
<td>50%</td>
</tr>
<tr>
<td>Present Mix</td>
<td>90%</td>
<td>0%</td>
<td>10%</td>
<td>0%</td>
</tr>
</tbody>
</table>

⁹ Program Related Investments. See discussion to follow.

¹⁰ Return On Investment

¹¹ We refer here to equity available for non-profit managed business—not cooperatives.

¹² Estimates of Appropriate and Present Mix refer specifically to the non-profit business sector and not to fund/capital diversification in the affordable housing real estate market.
cern is how to expand capital for non-profit business development as well as those institutions which might be channels for that capital. In some ways it would be “easier” if we simply focused upon non-profit business enterprise capital needs, but many of the instruments of potential use in that market may be taken from the housing arena and are therefore included below.

Just as those seeking investments in the for-profit capital market must pursue bank loans and security investments, the New Social Entrepreneur turns to the non-profit capital market for financing to start, expand, and support non-profit business activities. Table 1 provides an outline of the various types of funding presently available in the non-profit capital market.

In discussing each of these funding instruments, we must be clear on three points:

First, while they may be available in the non-profit market, the overwhelming majority of presently available economic development funding goes to support real estate development in the form of affordable housing managed by non-profit community development corporations. This is not the same as investing in business development, supported employment, or job creation. Certainly, the creation of affordable housing makes possible certain short-term, project-based jobs; furthermore, the establishment of decent neighborhood housing can spur small, local business.

From a management perspective, however, the skills required to start and operate a for-profit business enterprise are quite distinct from those required to develop affordable housing. Organizations engaged in one are not necessarily engaged in the other, and the financing instruments of the one do not automatically transfer to the other. Therefore, in our discussion, while we will refer to the existing capital market for real estate, we will do so to address the availability of funds targeted for the creation or expansion of non-profit business development.

Second, with regard to the labels of Appropriate versus Present Mixture, the figures presented are simply examples. The actual mix of capital support most suitable for any non-profit enterprise will differ in each situation and with each “deal.” The core argument of this chapter is that while for most non-profit enterprises capital support comes primarily in the form of grant dollars, a more effective capital market would provide a mix of grant, debt, and equity support, with all that entails.

Third, just as any small business moves through stages of financial development, non-profit enterprises do so as well. At start-up and within the first years of operation it is not only expected but appropriate that non-profit enterprises rely primarily upon grant support. As the business evolves and gross margins improve, the business should move toward greater self-sufficiency and begin to access other, more sophisticated capital instruments such as loans and equity investments. The “appropriate” mix must be viewed not as some external financial or political determinant, but as a function of the enterprise’s progress through the various stages of development.

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**Funding Instruments in the Non-Profit Capital Market**

**FOUNDATION GRANTS**

While foundation grants to non-profit organizations by private family, corporate, or community foundations range from one-to three-year commitments, the vast majority of this support is in the form of one-time, annual grants. Each foundation maintains its own criteria for selecting grantees.

The process of approval usually takes place along the following lines: submission of a proposal, site visit by foundation staff to meet program staff, internal foundation staff review, presentation by the program or executive staff to the foundation’s board of directors, and then action by the board approving the grant allocation. Since each foundation is managed to achieve its own
program goals within the limits of its giving budget, foundation support for non-profit businesses ranges from a low of $1,000 to a high in excess of $200,000. Program staff for foundations usually operate within a given area with a "generalist" skill set, which enables them to evaluate in an overall manner enterprise development proposals alongside other community initiatives such as job training, education, housing, and any other priority area endorsed by the foundation’s board of directors.

While efforts at collaboration are emerging, the dominant history and present practice of foundation funding in this area has forced practitioners to cobble together necessary support from a variety of sources that employ varying application procedures and reporting requirements. Within this broad, generalist approach there is also a focused, specialist approach. Funders specializing in enterprise development cultivate a unique skill set, often work with larger grants, and create closer relationships with grantee organizations than may be possible in a generalist practice.13

**Government Grants and Loan Guarantees**14

The category of government grants includes categorical funding streams such as Community Development Block Grants or Enterprise grants from the Department of Health and Human Services. Application for federal funds requires the submission of extensive proposals and business plans. Funding is available for a variety of start-up and expansion uses, but competition is extremely fierce. Critics of government funding for enterprise development point to 30 years of funding effort which has resulted in extremely modest success that, moreover, has not been effectively documented. Many government-supported enterprises fail upon withdrawal of government grants and may be said to be public sector, rather than market, directed.

Critics also allege that grant awards at both the local and federal levels have been based more frequently upon political or other non-economic considerations rather than upon the objective viability of any given enterprise. These grant award decisions are frequently made at other levels of government and are not necessarily determined by staff. While there are certainly exceptions, staff of government grant programs often have long histories as government employees and, while skilled at program management, have fewer specific skills in the area of small business finance, marketing, or development.

Grant awards may range from $10,000 to over $200,000. These grants are often leveraged against more substantial investments of local redevelopment agencies or planning departments, which use neighborhood or district strategies to provide significant capital investments in streets, housing, sewage, lighting, and urban design. While these grants often have broad social benefits, they have not been as effective in the support of non-profit business ventures.

**Program Related Investments (PRIs)**

Program Related Investments have become increasingly well-known in recent years, largely as a result of the efforts of several private foundations. PRIs allow foundations to use a portion of their corpus (i.e., long-term asset base) to provide below-market-rate loans to non-profit institutions. Many foundations use the inverse of the “prudent investor” rule when considering a PRI, and approve a loan only if it would be rejected by any prudent investor due to heightened risk of default or lower potential for interest payments. This heightened portfolio risk is then offset by other, more conservative investments to assure the overall risk of the investment portfolio is not radically increased.

It should be understood that the measure of success for a Program Related Investment is twofold: financial and social. The foundation that awards such support will view the loan as successful if the organization not only pays back the funds, but does so through making use of the funds to create affordable housing or other community development projects which would not have otherwise been possible. This dual measure of success is an important one, with obvious implications for the broader question of whether for-profit market rate investments may be used in the non-profit
capital market.

PRIs allow foundations to use not simply the interest income from their assets, but some conservative portion of those assets themselves. While PRIs have been used extensively to support residential and commercial real estate development in low-income neighborhoods, non-profit enterprise creation efforts have thus far been viewed as overly risky investment opportunities. Regardless, a small number of foundations are making such investments to an elite class of non-profit businesses.

**DEBT**

As a result of Community Reinvestment Act (CRA) requirements, the activism of a number of local and national community development groups, the heightened merger activity among commercial banking institutions, and the need to mount some response to civil disturbances such as that which occurred in South Central Los Angeles, increasing efforts are being made to make debt available to non-profit community development organizations and locally-owned small businesses.

By “debt” we refer specifically to the extension of capital from one entity to another through a direct loan with an interest rate ranging from prime plus one percent to as high as prime plus four percent, and with a set payback term ranging from three months to 15 years or, in cases such as mortgages, longer. While the lender may have some authority to influence management behavior, especially if certain enterprise or organizational performance goals are not met, on the whole once the loan is awarded, the issuer has no ongoing involvement in the management of the enterprise or organization.

A continuing problem, however, is the structuring of debt in a manner which achieves the lending institutions’ required rates of return and at the same time provides that debt at a cost which is affordable to non-profit borrowers. In this regard, it is important to understand that the notion of what constitutes a market rate of return on debt is not a single, fixed rate, but rather a range of rates which varies from lender to lender, depending upon the lender’s individual investment goals and perception of risk.

The experience of the Low-Income Housing Fund, a national, non-profit intermediary providing below-market loans to affordable housing developers, is instructive in this regard. In one of its efforts to support the extension of debt to underwrite affordable housing, the fund discovered that credit unions were not permitted, due to institutional restrictions, to place their resources in such a fund. However, the natural allies of such an effort, community development banks, had established fixed rates of return of prime plus four percent—greater than the prime plus two or three percent being required by a number of commercial banking institutions. Some community banks charge higher rates since lenders of their size must make money on everything they do, which to some degree may be viewed as justifying their higher transaction costs. There is also the belief that access to capital is a more significant issue to non-profit borrowers than the actual cost of the capital itself.

This is not to say mainstream commercial lenders are not without their own limitations on the returns they require in exchange for debt issues. One non-profit intermediary approached a mainstream commercial lender with a proposal to use the bank’s loan as a subordinated debt instrument against existing liabilities. This would have freed other resources, which the intermediary could then have injected into the non-profit capital market. It became apparent that while subordinated debt usually carries a higher risk premium (and thus greater total interest rate), the rate of return required by the bank, even with consideration of its CRA commitment, remained in excess of the intermediary's ability to service that debt. These discoveries, however, have opened the door for proposals regarding direct investments by the bank into the loan pool of the lending intermediary.

Beyond the challenges of structuring debt in a manner which meets the needs of the lending institutions, whether for-profit or non-profit, many non-profit social service groups attempting to launch and manage for-profit enterprises have little or no
understanding of how to leverage debt to improve their operating position within the market. For those organizations operating primarily with the support of one-year government or foundation grants, debt is obviously inappropriate; however, for those groups that are managing business enterprises and have some degree of established asset base, debt can be a creative tool in accessing the additional capital needed to grow the business in the future. Non-profit managers should be open to learning about and assuming debt as one important financial instrument in their strategic approach to financing enterprise operation and expansion.

**Equity**

By “equity” we are referring to the use of such financing vehicles as common stock, preferred stock, bonds (junior, senior and high yield), and tax credits. Common stock is acquired through the purchase of shares, and comes with no guaranteed rates of return, but does allow the investor to exercise voting rights and, in some cases, hold a seat on the board or appropriate committees of the corporation. Preferred stock provides a set rate of return per share but does not allow for full voting or other rights. Preferred stock often has a “put” or conversion date when the stock may be liquidated, whereas common stock has no “maturity date” and are usually bought and sold at will. Bonds have a variety of payoff periods, with the bond’s interest and price fluctuating in an inverse relationship to one another. Equity might also include a variety of forms of subordinated debt (thought of as a hybrid of debt and equity) wherein loans are made which take second or even third position and, as such, represent a form of long-term, patient capital similar to bonds and preferred stock. While these instruments may all be considered types of equity financing, due to a variety of legal and financial reasons, the most widely used equity instrument in the non-profit capital market has been the affordable housing tax credit, described at length in the following paragraphs.

There are both positive and negative aspects to the affordable housing tax credit; however, it is important to our discussion of capital investments in non-profit businesses because it is in some ways the closest non-profit financial instrument to a “true” equity investment and in some ways may be applicable to future efforts at expanding the source of capital available to non-profit businesses. In order to understand the tax credit and its potential to expand equity opportunities for non-profit businesses, it is worth presenting some background.

Beginning in 1968, the benefit for investment in affordable housing came in the form of a tax deduction, while in 1986 the deduction was eliminated in favor of tax credits. There are some major drawbacks to this instrument; however, it has also resulted in millions of dollars of investment in the affordable housing market due to a shift in the market’s investment base from primarily individual investors to major corporations in search of opportunities to minimize their tax exposure.

The tax credit for low-income housing serves to support the creation of affordable housing “…primarily when the owners of a project, either profit-motivated or non-profit, ‘sell’ the tax credits to limited partner investors who contribute equity to the development in exchange for the use of the tax credits and other economic benefits. These equity contributions, which can be substantial under this program, reduce the amount of other financing needed to acquire or develop the project. Or they could be used to add an income stream during the years of the project’s operation, and thereby reduce the amount of rent the tenants have to pay for the project to operate successfully.”

Briefly, “[t]he low-income housing tax credit is a credit or reduction in tax liability each year for 10 years for owners and investors in low-income rental housing that is based on the costs of development and the number of qualified low-income units... The tax credit rate in 1987 was four percent for acquisition costs, and nine percent for rehabilitation and new construction... A project must have a minimum of either 20% of its units occupied by low-income households with incomes under 50% of area median income, or 40% of its units occu-
pied by low-income households with incomes under 60% of area median income... States can allocate tax credits up to a total value of $1.25 per resident each year... Non-profit organizations are allocated a minimum of 10% of total credits in each state each year... The amount of credits an investor may effectively use is limited due to passive losses restrictions and alternative minimum tax provisions.17

To better understand how the tax credit system functions, one must first realize there are four primary ways to make a profit from housing investments: appreciation, cash flows, tax write-offs, and principal pay-down. (Because principal paydown takes place primarily in the later years of the mortgage period, we will not address that benefit as fully.) In a traditional housing investment deal, one attempts to maximize returns in each of the three primary areas, while in the better-structured affordable housing deals, one attempts to redirect appreciation and cash flow dollars in exchange for “buying down” the monthly rents paid by low-income residents. There is, then, a constant tension between a strategy for assuring long-term affordability to low-income tenants and the for-profit investor’s interest in generating an internal rate of return, which can range from 16% to 19%. Such returns are standard for the field and provide strong incentives to attract additional players and investors into the affordable housing market.

While this system of tax credits has brought significant new resources to the affordable housing field, it also has drawbacks which should inform any effort to expand the capital market for non-profit business enterprise. The following concerns have been raised:18

1. Not enough money from these tax credit deals makes it down to the community level to support actual creation of additional units of housing. This has occurred in large part as a result of public policies which have sought to provide incentives to the private sector and have not focused strictly upon the need for quality, affordable housing for very low- or fixed-income Americans. Over the years these programs have been in place, administrative, legal, consultant, and other fees have increased annually as more and more “professionals” (including brokerage firms, various types of consultants, attorneys, for-profit developers, and syndicators) have been drawn into the market to package deals and take advantage of the tax credits. Each new player adds their process fee to the transaction costs until we reach the present state wherein it is not unusual if only 50 cents of each dollar remains to support “bricks and mortar.”

2. Because of the high rates of return possible in this arena and the promise of securing needed tax credits, a significant number of large corporations now dominate the affordable housing tax credit market. In fact, if one sits in the lobby of the national offices of the Department of Housing and Urban Development, one witnesses a parade of professionals representing a wide variety of housing industry interests—primarily Fortune 500 corporations seeking to use the system to decrease their tax exposure. While their presence is not in and of itself a drawback, given that they are part of a financial market their interest in substantial economic benefits pressures those who structure the deals to maximize return on investment, and not rental affordability. A minimum investment requirement also makes this option available only to larger corporations.

3. The burden of high administrative fees is exacerbated by the fact that non-profit developers require most of the funds up front to finance project buildout, while the tax credit dollars are made available over a period of years. This forces developers to secure a bridge loan, which creates additional interest costs. Interest rates thus become an additional factor reducing the amount of funds going directly to support the building costs of the project.

4. In a few cases, housing developers have

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17Guggenheim, p. 3.
18Interview with Dan Leibsohn, Executive Director, Low-Income Housing Fund, 3/12/96.
taken advantage of the tax credit and then simply allowed the property to run down over the years, as they wait patiently for the tax credits to expire so they can move their assets into another investment opportunity. While secretary of HUD, Jack Kemp made significant efforts to curtail such practices; while efforts in this area have continued under Secretary Cisneros, abuse of the system continues.

There are a number of proposals for addressing the flaws in the low-income housing tax credit program. Some have suggested the government could save as much as 25% of the present administrative costs (and thus increase direct housing support by an equal amount) by abandoning the tax credit completely and simply collecting the tax itself and allocating it to a payment pool to fund ongoing construction of new affordable housing rental units. While such an approach would be more efficient, it would sacrifice the role of the “free market” system in the construction of affordable housing. A second approach would be to simply revise state and federal regulations governing the assignment of affordable housing tax credits. Presently, state housing offices set criteria by which proposals are graded. A revision of these regulations to require increased affordability at more diversified levels of income would pressure the system to hold more closely to its goal of creating additional affordable housing units.

19Though, to be fair, it is a “free market” made possible in large part due to availability of public subsidy.


Other Approaches to Non-Profit Capital Market Financing Strategies

The following two efforts hold significant potential for expanding the capital pool available to non-profit businesses.

Economically targeted investments, or “ETIs,” may be used to expand non-profit capital funds. Much of the general work on conceptualizing and advocating for the creation of ETIs has been done by the Center for Policy Alternatives, located in Washington, D.C. In broad terms, ETIs have three main characteristics: They pay a market rate of return, produce corollary benefits to society, and provide capital for investment opportunities without adequate capital support.20 The basic strategy of ETIs is to create policy and investment structures which allow for the placement of pension funds and other large sources of capital into expansion of financing available to community development groups and small business lenders. Through the use of intermediaries and other entities, the transaction costs of such investments can be covered, and the funds can be used at the local community level. ETIs often require legislative action by state assemblies to permit state pension funds to participate in an ETI investment strategy.

While most ETIs appear to be loan instruments of one type or another, groups such as Community Reinvestment Fund (presented below) are pursuing such ETI strategies as purchasing small business loans from local community development financial institutions (CDFIs) in order to create a “secondary market” for such debt. This strategy allows new, liquid capital to then be injected into the CDFI, thus bringing added dollars into the local community. The CRF, then, holds those secondary notes as a form of patient capital investment.

While ETIs are still not widely known outside limited community development investment circles, they hold great potential as financing instruments to address many of the concerns raised in this chapter regarding the non-profit capital market’s need for mechanisms which are more significantly oriented toward an integrated capital market, as opposed to one which is exclusively fluid or dedicated.

Community Reinvestment Fund is the second approach to specifically addressing the emerging needs of the non-profit capital market. It is located in Minneapolis, Minnesota, but operates nationwide. The CRF “purchases development loans from community-based development organiza-
tions and government agencies. CRF then pools the loans together and issues bonds backed by the loan pools to private investors. CRF purchases economic development loans, affordable housing loans, and other loans originally funded under a variety of public programs. It also purchases loans originally funded by private foundations or local contributors. The primary types of loans bought and packaged for sale to the secondary market are real estate-supported loans or loans bought from micro-lending funds. While there is certainly potential for the CRF to package and service loans originating from non-profit business enterprises, the number of organizations able to participate in this type of transaction is still relatively limited at the present time, although the CRF is currently evaluating how to expand its work in this area.

One of CRF’s especially interesting initiatives is its “Qualified Loan Sellers” program whereby organizations which have participated in CRF’s training seminars complete applications for certification, making them eligible for future sale of loans to CRF, and qualifying them for loan discount assistance and matching grants. While targeted primarily at micro-lending institutions, such an approach holds promise for expansion to the non-profit business enterprise arena, as well as a possible framework for approaching the creation of a national ranking entity, as proposed below.

Having presented the basic financing instruments available in the non-profit capital market, we are now in a position to examine how that market compares in operational terms with the for-profit market.

**A Thin Green Line: The Fluid Attributes of the Non-Profit Capital Market**

In assessing the present allocation mechanisms for capital movement within the non-profit sector, it might first appear evident that the current system may be labeled, in Porter’s terms, a fluid capital market presently dominated by foundation and government grant dollars. For-profit, fluid capital markets have the following characteristics which are reflected in the non-profit capital market. The specific labels are taken from Porter’s framework presented earlier in this article; however, the accompanying narrative addresses how those terms play out in the non-profit market.

**Transient Owners:** In the fluid market, investors buy and sell stock on a frequent basis, with constant reference to the next best stock and highest periodic rates of return. This creates a system in which the owners of companies turn over with some frequency. Recognizing they are not “owners” in the strict sense of the term, the foundation funding community often includes players “owning” a wide array of non-profit issues, seeking to create, on an annual basis, the non-profit equivalent of a widely diversified stock portfolio. In effect, this means funders “own” stock in one organization one year and then “invest” in another the next. While there are certainly organizations which are “favorite” grantees of both program officers and trustees, for the most part general foundation investment in non-profits constitutes “churning ownership” and translates, for the most part, to short-term and transient commitments.

**Transaction-Driven:** Transient ownership is closely connected with a high volume of transactions. Again, while there are exceptions, many foundations and government grantmaking sources rate their work by the number and perceived innovation of the grants awarded. Most grantmaking staff make a good faith effort to maintain high quality standards for the grants approved by the foundation; however, the emphasis on transactions over the quality of the investment prevents both investor and practitioner from focusing on the task at hand as opposed to immediately turning their sights on the next funding cycle.

**Fragmented Stakes:** It is not unknown...
for the larger investment institutions in the for-profit capital market to hold as little as a .71% share in a company’s equity.\textsuperscript{22} The same can also be said of foundation grants, which in one cycle may range across a huge spectrum of amounts provided to a wide array of organizations. At issue is not whether a small grant to a small organization is of critical significance to that group, but whether such fragmented allocation of resources runs the distinct risk of spreading those resources too thin to have any meaningful impact on an organization’s real, long-term effectiveness. Furthermore, by spreading grants over a wide area, foundations are not “invested” in any single group of efforts. If the grant is not successful, the program officer needn’t take responsibility in that they weren’t really involved in the effort. In this way, the potential sense of ownership is diluted.

\textbf{Outside Information:} Investors in the for-profit market track information on their corporations through a variety of means, including SEC 10-K filings, annual reports, and other methods. This type of information constitutes outside data filtered to the investor from management or board members.

In the non-profit funding community, program officers and trustees are seldom privy to the significant, strategic discussions of the organizations they support. Their view of the non-profit is often skewed by a variety of tangential considerations and an inability to plumb the internal workings and mind-set of the agency. A number of foundations seek to compensate for this danger by meeting with board members, making use of outside consultants, or extending the review period for proposals to allow greater time for in-depth evaluation. However, it remains debatable whether foundation staff and board deliberations regarding non-profit enterprise are based largely upon accurate information or on perception and reputation. In our experience, we have observed a number of organizations which maintain significant grant and other support, and yet upon closer examination of financials and actual program impact are frequently found to be lacking the economic success to which they lay claim.

Two major factors seem to contribute to the current lack of “solid” information. First, because many foundation program officers are generalists, they do not have the specific technical skills necessary to enter into discussions regarding debt instruments or fiscal ratio analysis of the enterprise. This places them in the difficult position of having to rely on the interpretations of others, either grantee staff or consultants, rather than on their own assessments of the financing and capital structures of many non-profit enterprise proposals. This issue is explored more fully below. Second, many foundations are often perceived as “having tons of money,” actually operate with fairly tight staffing capacity. A program officer responsible for bringing major dockets to a board of directors on a monthly basis simply does not have the time to delve into the intricacies of the non-profit capital market and fully involve herself in the same manner as a venture capitalist or loan officer. Regardless, the inability to access “good” information is one barrier to effective investment in non-profit businesses.

\textbf{Valuation Driven by Buy/Sell Choices:} An additional factor which prevents investments in the non-profit capital market is the lack of commonly endorsed measures of value and return. In the for-profit fluid capital market, determinations of value are made based upon “easily measurable company attributes, such as current earnings.”\textsuperscript{23} Given the difficulty of measuring such qualitative outcomes as “number of lives changed,” the non-profit equivalent measures service units using evaluation instruments that vary from setting to setting and institution to institution. The lack of commonly endorsed measurement tools makes cross-organizational comparison between various social purpose businesses extremely difficult and, despite the good efforts of some organizations to evaluate their programs, the potential for comparing the relative success of many enterprises is limited.

This has led by default to the non-profit

\textsuperscript{23}Porter, p. 70.
A more complete understanding of the market must acknowledge that there are in essence two levels of the non-profit capital market: the general market and the enterprise-specific market. The general market is fluid, while the enterprise-specific market is dedicated.

equivalent of “index funds,” wherein funding decisions are made in an effort to beat the general market value and not to build upon specific organizational knowledge and commonly shared practitioner standards. Furthermore, investment decisions of many funders are not made based on an assessment of financial return (a fluid market attribute), but on social measures of valuation (a dedicated market attribute).

OWNERS WITH LITTLE MANAGEMENT INFLUENCE: Within the fluid market, managers of investment funds rarely sit upon the corporate boards in which they have holdings. Because of this fact, which is compounded by the quick turnover of investments and comparatively small size of holdings, management has not historically viewed investors as having any truly significant power to influence or affect management behavior. One may make the same observation in the non-profit arena. Granted, non-profits cannot operate without foundation support, and many foundation staff are made to feel they are the center of the universe for their grantees. However, foundation staff and most trustees are considered to be far removed from the actual deliberations of the organization and are usually accommodated in terms of “how do we get the grant” rather than “how do we respond to the issues raised by the funder, regardless of the money on the table.” In sum, it would seem the “power” of the funder centers upon transaction influence, not behavioral influence.

Fluid or Dedicated? The Dedicated Attributes of the Enterprise Market

As presented above, one may make a fairly convincing argument that the non-profit capital market has significant attributes of a fluid market. And based upon that analysis, one could conclude that the dedicated attributes of that market must be increased. This would be a mistake. A more complete understanding of the market must acknowledge that there are in essence two levels of the non-profit capital market: the general market and the enterprise-specific market. The general market is fluid, while the enterprise-specific market is dedicated. Not surprisingly, there is also a difference between the two means of providing foundation support to the general market and specific segment: the “generalist” approach and the “specialist,” or enterprise development, approach.

To date, those foundations that provide serious, specific support to non-profit enterprise are fairly limited, relative to the total number of foundations active in the United States. Nationally, there are a handful of such foundations; at regional levels, one or two foundations may direct both significant staff and funding resources to non-profit enterprise creation. These foundations develop closer relationships with their grantees, are privy to “better” information, and make larger investments (i.e., grants) in their work. This means that the current non-profit capital market available to the New Social Entrepreneur could be viewed as essentially a dedicated market, while the larger, national markets for both foundation funding and mainstream capital are more fully fluid markets. For example, while the fluid
market may present the “danger” of too many investors with too high a turnover rate, at this stage in its evolution the present market within which non-profit enterprise functions is actually hindered by too few investors upon which non-profit enterprise is too dependent.

This has been true in our experience working with homeless organizations, in that the Homeless Economic Development Fund’s approach has been to take a limited pool of organizations, provide single source funding for business planning and development, and support the long-term efforts of grantees through the cultivation of a direct relationship, with few of the “limitations” of the mainstream approach to foundation grantmaking. The fund’s method demonstrates several attributes of the dedicated market. While certainly other funders in addition to The Roberts Foundation have supported Bay Area enterprise development, in recent years none has plunged into the practice as completely and maintained such focus as the HEDF. In addition, it may be said that the evolving practice of using intermediaries and other “pooled” funding vehicles to support non-profit enterprise also reflects elements of the dedicated market approach.

A second attribute of the dedicated market, which flows directly out of the first, is the limited availability of good information upon which to evaluate a funding opportunity and assess the degree of risk inherent in a given “deal.” In a dedicated market, information is provided to the key players in the board room and those within a limited circle just beyond. A fluid market, on the other hand, provides what is deemed “objective” information upon which a large number of investors may base their decisions. For this reason we have insider trading laws and other regulations that promote an even playing field in the stock market.

The present capital market for non-profit enterprise, however, does not allow objective and easily accessible information to move throughout the market and inform the decision-making of potential investors. Each funding opportunity must be evaluated on its own merit. Few objective criteria or standardized reporting formats have been developed; each funder develops their own checklist to assess the risk of the venture. The dedicated relationships of the current market block other players from easily entering that market to bring their capital to the table simply because the current market structure requires a significant amount of time for full evaluation and understanding of each proposal. While there are certainly other factors involved, it may be said that within the current structure, a funder with limited time and expertise cannot gather enough information to make an informed investment decision to meet docket deadlines; therefore the decision is often made, by default or design, to simply not invest in enterprise creation efforts.

The evolution of an enterprise-specific segment within the larger, non-profit capital market is fully understandable given the state of the field as primarily predevelopment and start-up. Despite 30 years of community economic development and a variety of approaches to non-profit enterprise, the field of non-profit business development has, in many ways, been frozen at a very early stage. The primary investor currently active in the field reflects the non-profit equivalent of the “angel” role found in the for-profit business arena, wherein an entrepreneur or inventor finds an individual

It may be said that within the current structure, a funder with limited time and expertise cannot gather enough information to make an informed investment decision to meet docket deadlines; therefore the decision is often made, by default or design, to simply not invest in enterprise creation efforts.
of wealth to underwrite the early stages of business development in return for a significant stake in the financial outcome. In this way, the HEDF has been the “angel” to many of our grantees.

We may now draw two conclusions:

First, if additional non-profit organizations are to engage in predevelopment and start-up for-profit venturing, the enterprise-specific segment of the non-profit capital market must be expanded and continue to offer the benefits of the dedicated market. There is clearly a role for regional funding initiatives which help organizations move through the key stages of feasibility studies, business plan development, and initial implementation. To date, the HEDF has played this role in the Bay Area which, in the future, may be augmented or assumed by other foundations or intermediary organizations.

Second, if those enterprises which thus far have experienced a degree of success are to grow in the future, they must have access to a broader, more fluid capital market with greater connection to both the wider resources of the foundation community and mainstream business financing.

The reader should not underestimate the “radical” nature of our basic premise: that we need to move our approach from dedicated to more fluid strategies for successfully operating within an expanded capital market.

Implications for the Expansion of Capital Investment in Non-Profit Business: A Call To Arms

At this point in our discussion, the next obvious question becomes: “So, what does all this mean for non-profits attempting to capitalize their business enterprise?” Good question.

To be sure, the presently existing dedicated market has seeded a variety of innovative efforts over past years. However, if we are to bring those promising efforts to fruition, we must move from an exclusively dedicated market to one which incorporates greater aspects of the fluid market. We must seek to create an integrated market which offers the focus and support of the dedicated market and the fluid market’s diversity and breadth of financial offerings. We should move toward the creation of an integrated market because by encouraging the more focused investment of human and financial capital found in the dedicated market, we will continue to provide a better context within which to pursue the long-term goal of increasing asset and overall wealth creation in low-income communities. At the same time, this is simply the jumping off point, for if non-profit enterprises cannot fully transition to the higher levels of financial diversification, they will either continue to rely upon the dedicated support of foundations and the charity of strangers, or they will do as they have in the past, and die, since they will never be able to find their way into the fluid markets of America’s mainstream economy.

A shift toward a more fluid capital market is not without its risks, nor will it be without its opponents for the very simple reason that at its core, the dedicated capital market has more in common with the history and values of the non-profit community than those of the fluid market. As presented earlier in this chapter, the dedicated capital market includes what may be viewed as socially valid elements: the permanency of its owners, its emphasis upon relationship building, the significant size of...
The process of change will be slow; it will occur in fits and starts. It will not be fully independent nor self-supporting. But our approach must shift from the practice of the past, because that practice, having brought us this far, can now go no further.

Investments made, and the fact that its process of valuation is not simply based upon a “buy/sell” choice. Of perhaps greatest importance to the non-profit community is the fact that dedicated markets—which expand the definition of value to include not simply short-term, financial return, but long-term benefits of training, capacity building and other investments in human capital—entail higher social returns on investments made. And finally, non-profits involved in business development need huge amounts of time—not just to grow the enterprise, but also to develop the capacity necessary to effectively manage such ventures. This “dual demand” simply cannot be appropriately addressed in an exclusively fluid market. And this is in large part why what success there has been in the arena of non-profit enterprise to date has been largely as a result of the dedicated capital market’s evolution—a market-based upon grants, personal relationships and political connections.

The non-profit market consists of a wide variety of players on both sides of the checkbook who pride themselves on their insightful, cutting-edge critiques of popular economics and the systems that perpetuate poverty in this nation. One would think they would heartily embrace a movement from grants to equity. However, the reader should not underestimate the “radical” nature of our basic premise: that we need to move our approach from dedicated to more fluid strategies for successfully operating within an expanded capital market. Such a proposal entails shifts in power, changes in roles, and the commitment to a common agenda which will force us to surrender our provincial approach to the financing and practice of community economic development in general and non-profit business development in particular.

Without this radical re-visioning of current thought and practice we are doomed the people for whom we profess concern to continued lives of poverty and unfulfilled promises. We must smash the institutional structures (both foundation and practitioner) which maintain the current poverty industry and create new ways of relating to each other which more effectively capitalize upon our collective assets, whether financial or human. We must be open to surrendering our conceptual and practice frameworks to new approaches which more aggressively integrate for-profit business tools and community agendas by blending the power of the one with the potential of the other. After more than three decades of new initiatives, campaigns, and programs, we must move from a system based on charity transfers from funders to CBOs to one of equity and asset development that does not rely upon the largesse of donors or politics of government. The process of change will be slow; it will occur in fits and starts. It will not be fully independent nor self-supporting. But our approach must shift from the practice of the past, because that practice, having brought us this far, can now go no further.

Specific Actions Required: Stepping Into The Future

Porter developed his set of recommendations for the for-profit market, some of which were presented earlier in this chapter and we will do the same. These recommendations are not the result of months of deliberation by committee, but come out of side-bar conversations and debate between the author and various other actors in the field. They are offered here in order to stimulate further discussion among those active...
in enterprise development. To more specifically target the needs of our community, we would propose the following recommended shifts in the areas of public policy, foundation/government/religious institution funder, and community-based organization. These recommendations are suggested as a means of moving the current primarily dedicated market of non-profit enterprise toward that of the more fluid mainstream market, which provides greater social and economic returns for investors, residents of low-income communities and social entrepreneurs.

**Public Policy**

**Possible Creation of a New Legal and IRS Category for Non-Profit Enterprise.** The idea of re-examining the core legal premise and expectations of non-profit organizations was first proposed by Ed Skloot, executive director of the Surdna Foundation, and speaks to the reality that for years, practitioners, IRS auditors, and for-profit business people have fumbled through the process of determining what is unrelated and related business activity and, thus, taxable income. Of perhaps greater importance is the fact that 501(c)(3) non-profits are by definition prohibited from being used as direct investment vehicles to provide “private inurement” to any individual or institution. This limits their ability to structure equity investments as a for-profit would. While we may open ourselves to direct assault from an unsympathetic small business community, it is time to reaffirm the role of non-profits and even consider the potential for creating a third organizational entity which is neither for-profit nor non-profit social service, but a hybrid of both. Such an entity should be structured to receive direct investment, adhere to Generally Accepted Accounting Procedures (GAAP) and FASB criteria developed especially for their needs, and operate within the dynamic tension of both for- and non-profit goals.

**Revise Current Legal Prohibitions on Direct Equity Ownership of and Participation in Non-Profit Enterprise.** To maximize opportunities made available through new forms of enterprise organization, we must make it easier for capital to move into community-based ventures. Either through limited partnerships, stocks, and non-profit bonds, or other more appropriate vehicles yet to be designed, individual (socially or strictly market-oriented) investors must be allowed to channel funds directly into the expansion of non-profit enterprise in return for a financial return on that equity.

**Endorse Legislation to Encourage Foundation, Intermediary, Community Bank, or Other Institutions to Hold Joint Ownership of Both Debt and Equity in Individual Non-Profit Enterprises.** As is true of the for-profit capital market, current regulatory statute prohibits a foundation or intermediary from holding debt from a non-profit enterprise if it also has a direct stake in the organization’s equity position. These limitations should be removed in order to maximize the potential impact of financing instruments available within the non-profit capital market.

**Foundation/Government/Religious Institution Funder**

**Support the Creation of National Funding Standards and Formats for the Evaluation of Non-Profit Enterprise Funding Opportunities.** The present system for funding non-profit enterprise is categorical and
fragmented. By forcing practitioners to tailor each request for funding to the idiosyncratic needs of each funder (whether private, community, corporate or public), precious resources are used to meet the needs of funders as opposed to those of a broader market. At a bare minimum, a common template including core information and financial data must be developed and used by those operating in the non-profit capital market. Such a report could be based upon the IRS-990, but would be more similar to the SEC’s 10-K filing required of all publicly traded corporations. While efforts to modify the foundation grantmaking process are taking place in various forums, they have not targeted the particular area of community enterprise development, and should be modified to do so. Such efforts should also take into account that such information may be of significant interest to a wider array of potential investors than simply the foundation community; the input of those potential investors should be sought before any particular format is adopted.

SUPPORT THE CREATION OF A NATIONAL RATINGS FIRM, SIMILAR TO MOODY’S, TO RANK, RATE, AND CRITIQUE INDIVIDUAL ENTERPRISE ORGANIZATIONS. When bonds are issued, they receive commonly endorsed ratings. When IPOs are made, analysts examine and recommend the stock offering. When individual enterprise initiatives are discussed, it is extremely difficult to move beyond the “smoke and mirrors” to gather and evaluate reliable information on an organization’s approach, successes, and shortcomings. If the non-profit community is serious about seeking equity and other significant forms of investment, there must be an independent entity rating these opportunities. Such an effort would build in part on the immediately preceding recommendation, but would operate as an independent ratings board providing objective information to practitioners, intermediaries, funders, and the general public. In addition to developing numeric valuation instruments, such an entity should also devise non-financial methods of valuing social purpose enterprises and make those available to potential investors as a way of increasing the market’s understanding of how value and wealth are created within a social context. Rather than directly adopting the bond ratings of the for-profit world, such an entity could develop “enterprise risk ratings” which take into account measures of both financial risk and community reward. While this is obviously well beyond the current system available to for-profit, small business managers attempting to raise capital, the geographic spread, heightened risk exposure, and social purpose of the non-profit enterprise require a higher level of due diligence and flexible information dissemination. Such an entity could be initially supported through foundation or other funds.

FOR ORGANIZATIONS IN THE EARLY STAGES OF ENTERPRISE DEVELOPMENT, COMMIT TO AWARDING SIGNIFICANT, LONG-TERM SUPPORT TO NON-PROFIT ENTERPRISES. When a venture capitalist decides to support an emerging entrepreneur, she does not provide a one-time check of $50,000 and ask for a report in six months. Funders do and then are disappointed when the ventures they fund are failures. While there are exceptions to this rule, on the whole, foundations tend to approach business development as some weird mutant of human services program development. The only way we will see a significant return on our investment is if that investment is large and long-term. Funders who, for whatever reason, are not able to participate in this manner should be encouraged to

PORTER, p. 81.
invest in these emerging opportunities through collaboratives or through direct, general grants to those organizations provided with “enterprise risk ratings” through the system proposed above.

**THE SOCIAL ENTERPRISE TAX CREDIT:**
**A PROPOSAL FOR THE CREATION OF AN INSTRUMENT FOR NON-PROFIT ENTERPRISE EQUITY**

Assuming we can enact some of the structural and organizational changes outlined in this article, the non-profit business development field would be in a much stronger position to advocate for the extension of market-based tax credits providing direct incentives for investors to place investments in non-profit enterprises. In the same way the non-profit affordable housing market came to scale only after the infusion of significant private sector investment, one may assume that an infusion of investment into the non-profit business arena, when combined with the non-profit capacity building efforts already underway, could also lead to major expansion of both the market and the investment opportunities available within it. Any effort in this area must be built upon solid, non-profit enterprises presenting reasonable investment opportunities. With those entities in place, tax credits could be used to target investment into enterprises which meet a standardized set of criteria established through joint deliberation by non-profit practitioners, for-profit investors, and state/federal regulators monitoring the use and assignment of tax credits.

The concept of using non-profit business tax credits raises four central challenges:

**First,** that of how to restructure the investments at the close of a 10-year term in order to provide long-term investors with not simply the rate of return required, but the actual ability to liquidate their investment for other uses, without requiring the non-profit to drain its own equity to repay its investors. If one assumes the business grows over the 10-year period, as its assets increase, and paydown of the principal is approached (thus representing the increasing value of the investment), either the non-profit or its employees would have to “buy out” the investor at the conclusion of the term period. While it has been generally believed that IRS regulations required “economic substance” (what is known in legal terms as “consideration”) to be present in any tax-related partnership, the IRS has issued at least one private letter ruling which “permitted a limited partnership with non-profit organizational involvement to prohibit the payment of cash flow profits to investors, and to arrange in advance to sell the project to the non-profit at the end of the 15-year compliance period at a low, predetermined price (such as the remaining mortgage balance plus taxes due on sale).” Such a ruling demonstrates there may be ways to structure these partnerships that assure economic development benefits are retained by the community and do not simply flow outside the population, organization, or neighborhood of concern following the end of the investment period.

Second, strategies would have to be created for assuring that at the same time the balance sheet of the enterprise was improving, the employees and managers could save adequate funds to, in essence, “take the business private” at the termination of the tax credit allowance.

Third, any strategy for utilizing tax credits to support a business application would have to
school, but it is reasonable to expect those who process and interpret key information, advise donors, and otherwise assist in the decision-making process have a solid skill set in finance and small business development. Structuring the financing of an enterprise launch or non-profit IPO is not the place for on-the-job training. We are moving toward a new form of non-profit/for-profit capital investments and entering an extremely competitive marketplace. We expect the managers of our enterprises to have fundamental business skills; we should expect no less of ourselves.

COMMUNITY-BASED ORGANIZATIONS

OPEN BOARD AND MANAGEMENT STRUCTURES TO BETTER ACCOMMODATE OUTSIDE INVESTORS.

While allowing each significant investor to serve on the board of directors may open the organization up to concerns of “mission drift” away from its primary focus on people and toward a greater commercial orientation, mechanisms must be developed to provide for more direct participation and input from both social and market investors. Many non-profits seem to find it unreasonable for individuals from the outside to demand a degree of control over their investment, yet without that control or at a minimum the opportunity for directly influencing management behavior, potential investors are not likely to invest at all, much less evolve the greater sense of ownership necessary for the maintenance of long-term, high-risk investments.

MOVE FROM NON-PROFIT, PROGRAM-BASED BUDGETING TO NON-PROFIT “TRUE-COST” ACCOUNTING.

Ultimately, non-profit enterprises should consider moving toward “position-based” financial controls (wherein assets include valuation of the overall competitive position of the enterprise which may include both its social and economic market position).27 As a first step, however, non-profit organizations must endorse a standard for financial management which allows for the separation of social from enterprise costs in order to more effectively manage the overall enterprise. The role of subsidy, excess training costs, and other factors must be clearly delineated, as well as more traditional factors such as depreciation. One such accounting framework is presented in this report; others may be designed as well. The non-profit community’s reticence to establish and adhere to more stringent financial controls blocks our ability to pursue and secure additional mainstream equity and other financial support. This reluctance has been due, in part, to the wide array of reporting requirements currently placed on CBOs by a myriad of outside entities. With the endorsement of the first recommendation in the “Funders” section above, these requests could become more reasonable and supportive of the CBO practitioner.

COMMIT TO THE PURSUIT OF MORE FRANK AND HONEST EVALUATIONS OF ORGANIZATIONAL POTENTIAL AND LIMITATIONS.

The current lack of honest, public interactions between funders and practitioners is in many ways rooted in the establishment of often unrealistic performance measures at the start. Subsequently, “achievement” of such measures comes to determine whether an organization will receive continued funding, and the evaluation of the funder’s success also becomes tied to such measures. With the current structure of goal setting, expectations, and poor evaluation practice, we have created a system that shrouds discussions between funders and non-profits in double-speak coming from both sides. Funders talk of empowerment, while closely holding the purse strings; grantees talk of significant success, while knowing their actual impact is significantly modest. Long-term funder and investor commitments to expanding the non-profit capital market must be accompanied by a willingness to engage in less rhetoric and posturing, and more honest evaluation and discussion of the current status of the field.

The experience of the HEDF has been that with three- and five-year funding commitments, we have benefited from a funding relationship which is very open to the honest discussion of ideas and evaluation of outcomes. This does not mean the funder knows everything about the business or
organization and is provided with all the information he might like, either good or bad. However, the degree of honest exchange and mutual support is thought to be greater than that observed in many other foundation relationships. This has established the HEDF experience as unique for virtually all involved. While the dialogue must flow from both sides and the basic changing of the rules may have to come from the funders, the core information upon which foundation and other funding decisions are made comes from the practitioner's street and market experiences. Until full and open discussion regarding actual outcomes and limitations is possible, true investment and asset development will not take place.

Conclusion

We acknowledge these are but thumbnail sketches of the type of changes needed to move us toward a more fully integrated non-profit capital market. They are presented as simply a jumping-off point to engaging in the real discussion yet to come. That discussion should address the critical, outstanding issues and questions for the field, including the following:

- In the same way that affordable housing tax credits have been used to attract equity investment in the affordable housing market, would it be possible to “capture” enterprise zone tax credits for job creation for resale by non-profits to for-profit limited partnerships and in this way inject new equity capital into the market?

- How do we address the perceived conflict between supplying capital loans (with certain set payback expectations) and maintaining equity relationships (which entail a different set of financial performance expectations)? Is it possible to expand the definition of "value" to include measurable social outcomes, or will value always be viewed with strict reference to the projected financial rate of return received for the use of limited resources?

- In some ways, the present use of grants to subsidize affordable housing development has meant those grants and investment instruments with below market rates of return, such as PRIs, are being used to provide market rates of return for private equity investors. This raises two issues: First, should foundations and other sources of "charitable" capital be subsidizing investments so that private sector investors may receive their maximum return? While this succeeds in leveraging private funds not otherwise available, is it an appropriate use of charitable resources? And second, how could a business application of the capital model used by the affordable housing community be effective for our purposes?

- Should profits go to increase base salaries of the poor, decrease the price charged to local low-income folks for locally sold products, into expansion of the enterprise itself, or into increased profits to cover investor paybacks? Also, how does one maintain long-term affordability of a product or service while also providing individuals with the opportunity to participate in the market? In the same way that there may be a tension between the maintenance of long-term affordable rental housing, the development of low-income, owner-occupied housing, and the for-profit housing market, is there a tension between a market-directed community enterprise and the need of low-income people to have access to affordable products?

- And, as an extension of the comment above, in its most strict sense, the purpose of capital markets is to provide funds necessary to support expansion of business and economic growth, not primarily to serve as a “casino” in which individuals can bet their future savings. These two interests are in many ways in...
conflict. How does the non-profit capital market address this?

How do we determine whether the barrier to growth is simply access to capital or access to affordable capital? While in many ways it is no doubt an issue of both, resources and strategies to move in either direction may at times work at cross purposes.

And finally, should we move to create secondary markets for non-profit, small business debt, just as we are developing those markets for affordable housing financing? Such markets exist through the Small Business Administration and a limited number of other institutions; however, by virtue of their 501(c)(3) status, non-profits are prohibited from participating in such secondary and guaranteed markets. Could the creation of such markets expand the overall amount of capital available to support non-profit business development by providing investors a way to get their money out earlier and to consolidate debt?

While without a doubt many critical issues remain to be addressed, it is not unreasonable to imagine the potential for creating a more formal capital market for the support of non-profit business enterprise based upon a blending of dedicated and fluid capital market structures. Such a market could include a variety of investment allocation mechanisms, both currently existing and yet to be conceived. We are on the edge of a new century of effort to correct the failures of the market to include all the members of our society. Those involved in shaping our nation’s approach to poverty must take responsibility for reconceptualizing the tools and strategies we bring to that task. There is simply too much at stake for us to pursue the future call to economic empowerment armed only with the thought and practice of the past.
Introduction

Both the strengths and weaknesses of non-profits are lodged in the name: Community-Based Organization. By definition, Community-Based Organizations (CBOs) are non-profit corporations working to improve a given community, neighborhood, or other geographic area. CBOs may also direct their efforts toward target populations, as opposed to physical areas, but a grassroots, building by building, block by block, or population by population orientation remains the central focus of many community development non-profits active in the nineties.

It is logical that these groups are called CBOs. In many cases, they were founded by area activists working to build local infrastructures from which to address neighborhood problems: drug abuse, homelessness, unemployment, the lack of quality affordable housing, and any number of other scourges which contribute to making large areas of our nation places where people live behind locked doors, don't allow their children to play outside, become trapped in cycles of poverty, and live in very real fear for their lives. While it is presently popular to malign the work of non-profits (regardless of what success they do achieve against withering odds), it cannot be argued they don't play a significant role in America's inner cities and throughout the country. The ability of non-profits to serve as islands of refuge in the midst of poverty, to provide residents with services and programs which act as launching pads for the creation of better lives and healed neighborhoods, to lend a voice to those who most often go unheard—these are, perhaps, the greatest strengths of Community-Based Organizations.

When it comes to engaging in business...
development activities, however, these strengths can easily turn into significant weaknesses. Historically, non-profit businesses have failed for a variety of reasons, but mainly because of their inability to truly understand the difference between the mind-set and practice of managing an effective non-profit organization versus that of operating a thriving business. Non-profit organizations of the past have not understood how to operate with reference to both; they have not known how to manage against the “double bottom-line” of social and financial measures.

New Social Entrepreneurs: The Success, Challenge and Lessons of Non-Profit Enterprise Creation documents the experience of those who seek to blend the two approaches to achieve the common goal of expanding economic opportunity for homeless and low-income individuals. In this book the reader will find discussions of accounting approaches, evaluation strategies, the dynamic tension found in the pursuit of the “double bottom-line,” and many other issues of concern to the manager of a community-based business enterprise. For the most part, however, these discussions, and much of the available literature, address questions internal to the organization and its managers. While local, neighborhood market position or regional markets may be touched upon, most resources on non-profit business development do not address the challenge of how to best position non-profit enterprise in the global economy.

While many are no doubt aware that community-based activities take place within a global market and world-wide economy, current organizational and conceptual limitations have prevented non-profit managers from cultivating a deeper understanding of the challenges presented by a changing world economic order. We must understand at least something of the steps non-profit managers must take not simply to survive, but to move ahead and thrive in the future. New Social Entrepreneurs must learn to identify opportunities within their communities, as well as thousands of miles away, which may help expand their non-profit businesses, increase the number of local resident hires/trainees, and successfully sell expanded product lines, all within an increasingly competitive international marketplace. The non-profit is challenged to adopt the business equivalent of that well known exhortation, “Think Globally, Act Locally.”

This chapter will introduce the reader to three aspects of global economic competition as they relate to the practice of non-profit enterprise creation. The first is a general discussion of globalization and how local enterprise should respond to it. The second is an assessment of the notion of “competitive advantage” and the potential role of New Social Entrepreneurs. And the last is an evaluation of the factors that have brought success to visionary corporations presently thriving within the global marketplace, and how many of those same elements are found within non-profit organizations. The challenge is to learn to bring those elements to the fore and to more successfully operate competitive, community-based enterprises that provide supported training/employment opportunities and bring wages and capital into our communities, back into the pockets and bank accounts of our constituents.

**Local Implications of a Global Economy: The Non-Profit as Worldwide Player**

Those seeking to understand the huge changes taking place in the global economy will find a multitude of both “pop” and academic books available from which to choose. Two primary competing visions are presented by Michael Porter and Robert Reich. Porter’s work, and its relevance to community enterprise creation, is addressed later in this chapter. He focuses on the notion of competitive advantage as it is played out in regional “clusters” of mutually supporting economic activity. Robert Reich, on the other hand, presents a
framework which rests upon the notion of a “global web of commerce” which respects no national boundaries or identity. The reader will benefit from further exploration of their writings, and of the latest work by Stanford University Economist Paul Krugman, who has something of the reputation of an astute curmudgeon. He challenges many of the assumptions and basic analysis of the global economy's “leading thinkers” in his new book, Pop Internationalism. Together, these authors present useful tools for the non-profit manager attempting to understand a changing global context.

However, one recently published book which provides interesting insights into the effect of globalization on local communities is World Class: Thriving Locally in the Global Economy, by Rosabeth Moss Kanter, Professor of Business Administration at the Harvard Business School, author of numerous books, and former editor of the Harvard Business Review. In researching her latest book, Kanter interviewed hundreds of people in a variety of settings. She sought to explore such central questions as how the shifts in the operation of large corporations affect the lives of people and neighborhoods; what the concept of community means in this shifting global arena; and how those from all sectors of our society who share a concern for our collective future can work to assure we become the “masters, not victims, of change.”

The answers to these questions are central to the future of many community-based organizations in general, and community-based enterprise in particular. Kanter’s discussion calls for deeper evaluation by those concerned with “community” in a time of globalization. This review will not outline her entire thesis or findings, but rather attempt to present several of her thoughts which are particularly relevant to non-profit business enterprises.

Kanter begins her discussion by outlining four broad processes presently driving the forces of globalization: mobility (the idea that capital, people, and ideas are constantly in motion and able to jump national borders, much less regions or neighborhoods), simultaneity (the fact that similar and/or identical goods and services may be found in numerous places around the world at the same time), bypass (which “implies numerous alternative routes to reach and serve customers”), and pluralism (the notion that the old system based upon centers of power and control, whether corporate, political, or social, is increasingly becoming decentralized).

Traditional strategies of community organizing, advocacy, and neighborhood development become increasingly difficult to implement in a world with no walls, boundaries, or limits to the flow of capital, resources and personnel. Make no mistake—this is not to say we are entering some glorious, global, free market world where prices will be bid down for all or, on the other hand, wages will go to the lowest bidder. A great many channels and limitations guide this flow of capital, people, and talent; some will work to a community’s advantage and some will not. It is to say that for those engaged in the anti-poverty movement in the United States, for those who seek to expand economic opportunities for the residents of their communities, there must first be an understanding that the playing field has significantly expanded and now includes a variety of players our frameworks did not consider 20 or 30 years ago.

Kanter addresses this issue directly and in language worth quoting at some length, because her distinction between the producer and customer mentality is critical for the non-profit business manager to understand. In the past, many community-based enterprises operated strictly within the “producer” mindset. The future, however, lies to a large degree in the non-profit manager’s ability to approach the business community as our potential customers as well. With large corporations outsourcing more and more formerly internalized operations, the non-profit enterprise is uniquely positioned to help meet their needs, retaining local entry level and training jobs in the process, which provide stepping stones to career paths for employees.

While Kanter’s comments may actually offend some traditional ideologues, they reflect an emerging understanding of cus-

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3Kanter, p. 45.

4Kanter, pp. 41-48.
customer and producer relations of which the non-profit community must be aware:

Among many now discredited ideas of the industrial economy is the theory that power comes from control over the means of production. In the global information economy, power comes from influence over consumption. As mobility and alternatives give customers more choices, power shifts from those producing goods and services to those buying them... “Producer” logic differs from “customer” logic in fundamental ways.

Producers think they are making products. Customers think they are buying services.

Producers want to maximize return on the resources they own. Customers care about whether resources are applied for their benefit, not who owns them.

Producers worry about visible mistakes. Customers are lost because of invisible mistakes.

Producers think their technologies create products. Customers think their needs create products.

Producers organize for internal managerial convenience. Customers want their convenience to come first.

Thinking like the customer requires companies to develop an abundant stock of the three primary assets for global success:

► concepts—the guiding premises behind the company’s work, including leading-edge ideas, designs or formulations for products or services that create value for their customers;

► competence—the ability to execute to the highest quality standards, to run routine production effectively, as ideas are translated into applications for customers; and

► connections—close relationships with partners that can augment resources, join in creating still more value for customers, or simply open doors and widen horizons.

Possession of these three C’s make companies and people world class. They are the basis for business excellence.

Unlike tangible assets tied to particular places—facilities, equipment, product inventory—these intangible resources are portable and fluid. They decline in value rapidly if not replenished constantly. Therefore world class companies are more entrepreneurial, continuously seeking even better concepts, investing in customer-driven innovation. They are more learning oriented, searching for ideas and experience through informal inquisitiveness as well as formal education, holding their staffs to a high performance standard, and investing in their people’s knowledge and skills. And they are more collaborative, valuing relationships and willing to work closely with other companies as their partners in achieving a common objective. (emphasis in the original)\(^5\)

The implication of these words for non-profit business managers is clear. Many non-profit managers have, as a result of their own history in community and political organizing, developed significant skills in forming collaborations and connections with other partners with whom they share common goals. These skills can be put to effective use in community/business partnerships and joint venture projects.

Furthermore, non-profit managers increasingly understand the need to improve the competency of both their employees and themselves. This is reflected in the increasing numbers of non-profit managers who are improving their skill levels by pursuing graduate degrees in business, and in their participation in other continuing education opportunities to improve their ability to manage ever more complex business enterprises. This effort to improve non-profits’ management skills is complemented by an evolving commitment to “work force development” as a broadly conceived strategy to enhance the skill base of community residents and those entering the workforce for the first time. Such strategies target the creation of a continuum of educational and training...

\(^5\)Kanter, p. 52.
opportunities provided through traditional, community-based non-profits, or in the environment of community colleges and universities, or even within corporate settings themselves.

Additional work is needed in these areas of connections and competence, to be sure, but the area that presents the most significant barrier to non-profit enterprises is that of concepts: the ability to consistently and aggressively pursue ideas which will create value for the customer. Often when a non-profit organization interested in engaging in some sort of enterprise activity approaches a corporation, it is not with an eye toward the needs of that corporation, but in terms of what the corporation can do for the non-profit.

For example, the non-profit approach is frequently “we need access to your training equipment” or “please give us one (just one!) of your set-aside contracts” or “please commit to hiring 20 of our program graduates.” This approach has provided the non-profit community with table scraps in the past—a few jobs here, a commitment to a possible community project there. But if the non-profit community is serious about its interest in creating meaningful training opportunities with living wages, if we truly want to be at the table instead of at the door trying to get into the board rooms, then we must reconceptualize our understanding of the value we bring to corporations, and the standards to which we will hold ourselves in the pursuit of a meaningful, full-equity relationship with the business community.

Too many non-profit managers appear content with achieving some degree of marginal success, but do not aggressively pursue the ultimate success that may be within their reach. While there are exceptions, non-profit business managers usually ignore the market mandates to maintain focus on constantly improving performance. It is not so much a question of whether the business community actually achieves the levels of performance to which it lays claim (critics have wondered whether businesses actually achieve their alleged success rates), but of why so many non-profit managers do not embrace even the most basic concepts of managerial excellence or the non-profit equivalent of a customer orientation upon which such excellence must rest.

Perhaps this is because non-profit enterprises have experienced such failure in the past that any degree of success today seems adequate. Regardless, our inability to operate under the same concepts of quality, pursuit of market share, and concern for customer satisfaction (in this case, that of our corporate partner) remains a significant barrier to our success as completely competent managers and suppliers with whom business may enjoy regular, reliable commercial relationships.

Take as an example of this inability to operate at the level of “concept” presented by Kanter, an incident which occurred following a meeting between representatives of a major bank in the San Francisco Bay Area and the managers of several community-based enterprises. The question of financial competence had been raised in the meeting and the issue of managerial performance and financial competence was debated by the group afterward. The non-profit managers and the director of the Homeless Economic Development Fund engaged in a lengthy discussion regarding the use of fiscal ratios to evaluate performance of non-profit enterprises. While most of the managers discussed the importance of being able to “speak that language” when meeting with bank representatives (maybe even speaking it better than they did), one manager objected to the need to develop more sophisticated financial controls and measures of their enterprise activities, saying, “We know our financial ratio: it is to sell as much product as we can.” Such a comment reflects an understanding of quality standards which is satisfied with the norm, rather than with how to discover new ways to exceed the norm. To a certain extent, for non-profit enterprises to succeed, we must succeed completely—and that means no allowance for mediocrity in the commitment to maximizing value for either customers, formerly homeless personnel, or non-profit enterprises as a whole.

These issues of concept, competence,
and connection become critical when one realizes that the potential of non-profit enterprises to remain competitive is tied directly to the capacity to create and sustain these partnerships with the corporate community. In a recent conversation with the director of a large, non-profit home health care organization, the point was made that while the non-profit had been very successful in establishing itself in several local markets, the industry's consolidation toward managed care meant the dominant HMOs were consolidating their home health care service contracts by partnering with a few major, nationally positioned home health care provider organizations—inevitably, for-profit entities. While non-profit practitioners may be able to survive in small, localized niche markets, if they are to truly flourish they must negotiate outsourcing contracts with these HMOs at a scale and competence which adequately meets the needs of the HMOs for home health care services. Anything less will mean decreasing market relevance for non-profits and potentially lost employment opportunities for their workers.

What this all means is that the non-profit community does not have to engage in net new job creation or compete directly with huge, for-profit businesses. For example, in the above scenario, we are not advocating the non-profit attempt to “take on” the HMOs. But focus must be aggressively pursued on excelling at areas of expertise and making non-profit enterprises central to the needs of customers, whether that customer is the person buying a scoop of ice cream at a local store, the corporation across the bay with which an outsourcing contract is maintained, a national provider of health services, or the broker importing a non-profit’s finished product into foreign markets.

It may sound fanciful, but it’s true: if the non-profit entrepreneur is successful in managing her enterprise in a way that benefits her economic network and its actors, she will find herself part of an interlocking web of opportunity which will allow her to maximize job creation and training possibilities. This commitment to being solidly market directed is critical to positioning of non-profit enterprises in the global economy, for as economic structures and relationships shift, non-profits must be positioned to secure the place at the deal table they deserve—not by virtue of political force alone, but because their products and services are second to none.

If the non-profit entrepreneur is going to achieve significance, it will come only through holding his managers and employees to internationally competitive standards. Whether it is securing ISO-9000 manufacturing certification or simply commanding the lead in a given area of service activity, non-profits must strive to achieve greater levels of managerial and operational competence, and to promote that competence at home and abroad.

Why bother to make this effort to achieve excellence if the decision-making process takes place far away from the local community or if fewer purchasing decisions themselves will be made? How can non-profit entrepreneurs even hope to compete in a global playing field that supports fewer competitors? The answer is that those activities which will remain present in domestic markets form perfect springboards for non-profit enterprise development. Again, we quote from Kanter’s observations:

Companies increasingly contract out for ancillary labor-intensive services once performed in-house.
occurs primarily in low value-added, labor-intensive jobs and services that remain local purchases while other high-ticket purchases are globalized. Low value-added services are outsourced and performed locally, whereas high value-added purchases of both goods (such as manufacturing components) and services (large contracts for consulting or advertising) come from national or international suppliers more likely to be outside the region than in it. For 42 representative Boston-area companies, the most commonly outsourced activities are food services, payroll, cleaning services, building maintenance, incoming and outgoing mail, security, local transportation, travel arrangements, public relations, child care, training, technical writing, and printing. Manufacturing companies are also outsourcing parts of the production process to cut costs: metal fabrication, painting, die cutting, and even assembly.\footnote{Kanter, p. 150.}

Naturally, some will rightly point out that this is precisely the problem with globalizing domestic economies: that all that will be left "on shore" will be low-wage, low-skilled jobs. These concerns are valid and should be addressed, but we must not ignore the fact that for many non-profit organizations and their potential trainees/employees, the service-based and light-manufacturing businesses outlined above are well-suited to non-profit enterprise creation efforts. Some of these activities (such as assembly and light-manufacturing, which are increasingly outsourced) represent significant employment opportunities for homeless and chronically unemployed Americans. Meeting the needs of corporations for such services provides a perfect foundation upon which non-profit entrepreneurs may build future businesses.

It would be naive to ignore or downplay the negative impact these global economic changes may have on significant segments of America's workforce. That is not our desire or intent. However, this document is concerned with emerging opportunities and potential for enterprises operated by non-profit organizations to provide training and employment opportunities for homeless and very low-income individuals. In that light, it cannot be denied that there are indeed potentially positive prospects for establishing such businesses in the midst of this transition. Obviously, such efforts should not be pursued at the expense of already existing businesses or well-paying jobs. However, if history is any indication, many of these positions will not be deemed "worth" by the mainstream workforce. Rather than lose these jobs to off-shore operations, efforts should be made to harness them as employment opportunities for those working their way into the mainstream.

Furthermore, Kanter, Reich and, in fact, most players in the emerging movement in "workforce development," point out that job security will not be found with individual employers, but with the ability of employees to remain competitive in the labor market. Indeed, much of the current discussion regarding economic development has shifted from a popular emphasis on the promise of non-profits managing for-profit enterprises, to the goal of creating educational and training opportunities across a continuum of levels which may be accessed by individuals seeking to improve their skill base and expand their marketability in an increasingly tight job market. It is our position that in addition to managing educational and certain training organizations, the non-profit community is uniquely positioned to manage such investments in human capital through the operation of non-profit enterprises which meet the local needs of business while simultaneously providing transitional employment to those on the margins of the labor pool.

In describing a situation faced by the Gillette Corporation, but shared by many potential employers, Kanter states that "[o]ne big problem department managers faced initially was worker computer and numeric literacy. Longtime Gillette employees and new hires alike took training programs for the sophisticated, computerized work systems and measurements techniques that would come with Sensor technology. People were comfortable with
an entirely visible operation; now the operator’s job is one where the product and process are machine controlled and not visible—for instance, 13 laser welds in a millisecond for a single part and 150 parts per minute... So Gillette stepped back to teach computer language and math classes in the plant.”7 Again, working with the business community to create in-house training and skills development programs is a natural role for non-profit organizations seeking to retain existing jobs, create new positions, and generate revenue to help support other community activities within their charitable mission.

This process of change and potential evolution is inevitable, and will not be easy. The worldwide forces already in motion are too powerful; while they will not be turned back, they must be managed and directed to the best advantage possible for those on the margin of the economic mainstream. The New Social Entrepreneur can see how in many ways she is the linchpin between the old world order and the emerging global economy. As Kanter observes, the challenge for local communities is not globalization, but rather how to respond to attempts to isolate our communities from the realities of a shifting world economy. The issues for local leadership quickly emerge as envy, loss of control, affronts to sense of pride, scapegoating, stereotyping others, and peer group pressure to support the local agenda at all costs.8

As the needs of local communities for institutions to serve as “glue” grows, business and government will increasingly be forced to validate the true value brought to this equation by the non-profit organization and its community-based enterprises. Non-profits are often the only civic structures wherein these social needs are fully met, explored and built upon. Though the form and staffing will no doubt change significantly from what we know today, the need will remain constant. As CBOs continue to move to fill this void, those in the business community who have historically viewed them with suspicion will increasingly be forced to acknowledge non-profits’ contributions to making our society more whole, healthy, and, ultimately, competitive on the world scene. If we are to remain viable in the new economy we must all work together at local, regional, national, and global levels. We must identify our strengths as communities and build upon those talents.

In the next section we will address ways of building upon the competitive advantage of our inner cities and the non-profit enterprises active in our nation’s neighborhoods.

Our Competitive Advantage: The Non-Profit Underdog

The individuals who make up our country’s community economic development and social service organizations understand, perhaps too well, the implications of the changes taking place around them. They see jobs leaving their neighborhoods for other regions or, even worse, nations miles away from their constituencies. They observe the debates taking place in Washington, DC, and clearly see the impending cutbacks and declining political support for their traditional approach to addressing human service and community needs. Yet, at the same time, many members of the non-profit community find it difficult to realize what real economic power they do have, what potential lies within their reach which could be mobilized to their own advantage and for the benefit of people seemingly locked in poverty. While no one would debate that many inner city neighborhoods and low-income people enter the competitive marketplace at some significant disadvantage, many feel that change will come not by focusing on those deficits, but on the attributes also present in these individuals and their neighborhoods.

Michael Porter is the nation’s leader in understanding the dynamics of competitive advantage. His book, The Competitive Advantage of Nations, was the culmination of many years research into the nature of competition and the factors that bring a country

7Kanter, p. 69.
8Kanter, pp. 108-144.
or corporation economic success in an increasingly difficult international business environment. His writings are used extensively in business schools across the country, and corporations use his models to evaluate how to develop the best strategies for improving market share and increase profits. *Harvard Business Review* Reprint #90211, a summary of the basic analytical framework presented in his book, serves as a concise introduction to the fundamentals of his approach and should be required reading for non-profit managers studying issues of competitive advantage in markets at all levels.

Recently, Porter has turned his attention to America's low-income communities and in June 1994 published "The Competitive Advantage of the Inner City," as well as an article of the same title published in the May/June 1995 issue of the *HBR*. Since he first published his assessments on the competitive advantage of the inner city, Porter has caused something of a stir in the community development field. Many practitioners have criticized his work, in whole or in part, and have found themselves in a "defensive" posture with regard to their own efforts and outcomes. Initial responses to his article were published in the July-August 1995 issue of the *HBR*. And the launch of his Initiative for a Competitive Inner City has resulted in further controversy.

It is not the intent of this paper to enter into a full-blown critique of Dr. Porter's analysis, but rather to focus upon its implications for managers of non-profit business enterprises. The reader is referred to the *Journal of Black Political Economy* (Atlanta, Georgia) for a comprehensive presentation of the broader issues raised by Porter, as well as a more up-to-date presentation of his latest thinking based in part upon the feedback he has received and the actual experience of the Initiative over its first two years of operation. In a 1996 issue, the *Journal* will present Porter's most recent thoughts, as well as an array of responses to his "model." The following analysis will be based upon both his paper and subsequent *HBR* article, both of which are built upon Porter's submission to the *JBPE*. Our goal is to evaluate the implications of Porter's analysis for new social entrepreneurs, and to respond to the extremely limited role envisioned by him for non-profit managers.

Let us make no mistake about it—Porter is an ardent believer in the power of free enterprise to turn around third world economies, whether domestic or overseas. He states,

> We believe a sustainable economic base in inner cities will only come about the same way that it has elsewhere—through private, for-profit initiatives and investment based on economic self-interest and true competitive advantage—not through artificial inducements, charity, or government mandates. The central task, then, is to identify the unique existing and potential competitive advantages of inner cities which can translate into genuinely profitable businesses that have the potential not only to serve the local community but also to "export" outside it. The inner city must become an integral part of the regional and national economy, rather than an island surrounded by it.

As presented below, Porter believes the effective model for turning around low-income areas uses the tools of business and economics to create not simply a "business-friendly" environment, but one which mobilizes its resources most effectively to maximize the impact of those resources and talents within the free market.

His position is that previous models of economic development have not adequately exploited these resources and, perhaps more importantly, have been based upon assumptions of how economic expansion is created which at times have contradicted basic tenets of free enterprise. He divides past strategies of community economic development into six types:

- real estate (which "seeks the development of commercial and industrial real estate projects in the inner city as driving economic development");
- location incentive (which "seeks to use
tax and job credits, sales tax relief, and other financial inducements to attract business"; 

- social conscience/philanthropy (a model "based on exhorting firms and individuals to support the inner city economy through giving money, locating facilities, purchasing inputs and products, and providing economic opportunities, although they would otherwise not do so"); 

- mandate model (which makes "use of government mandates, minority set-asides, and other minority preferences to foster economic development"); 

- community entrepreneurship (that "seeks to revitalize the inner city by creating many small businesses (or microenterprises) owned and operated by inner city residents themselves"); 

- migration model (which "rests on the premise that the other models will fail. Jobs will never be created in sufficient numbers in inner cities, but are plentiful in the suburbs, where blue collar manufacturing and service jobs are increasingly concentrated...").

The Porter Model For Inner City Economic Development

Porter then presents his model, which appears in sharp contrast to the others he has described. It is economic, as opposed to social, in its orientation. It relies upon the private, not the public or non-profit, sector. It seeks to create genuinely profitable enterprises instead of subsidized ones and positions these enterprises as “export-oriented” instead of neighborhood focused. And it “engages skilled and experienced minorities in wealth creation,” rather than relying upon an incentive based upon a “social service motivation.”

To understand the basic premise of a model based upon competitive advantage, one must first understand the central assumption of competitive advantage itself: that it is specialized. "Competitiveness emerges out of unique local conditions, and occurs in business where a region can create areas of distinctive specialization." These areas of distinctive specialization form “clusters” of economic opportunity around which core businesses gather and to which other, support businesses contribute. This process is dynamic. In Porter’s words, 

Competitive advantage cannot be static; it rests on the capacity of firms based in a particular location to continually improve and innovate. If firms produce the same products, using the same methods, and targeted at the same market segments as those based elsewhere, they will be vulnerable to lower-cost locations or firms with greater resources and scale. Successful competitors, then, are those that can address needs that have been poorly served by others or perceive new market segments, while having the motivation to continually improve their products and processes...

The competitive success of a location does not normally arise in isolated companies, but in clusters of firms in the same industry or linked together through customer, supplier, or other relationships. Clusters represent a critical mass of skill, information, relationships, and infrastructure relating to a particular field in a location that become self reinforcing.

Based upon his model of competitive advantage, Porter presents the following four elements central to the competitive advantage of inner city communities. Porter submits these elements as the foundation of “advantages” upon which any community economic development strategy must be based:

- Physical Location. “There is the view by some that advances in transportation and communication have eliminated the importance of location. However,
the evidence makes it clear that proximity remains a critical advantage in many types of industries. Indeed, the increasing importance of regionalized clusters, and the growing acceptance of concepts such as just-in-time delivery, high customer service, and close partnering between suppliers and customers, are making proximity arguably more important than before. ... Inner city areas may be able to lure back activities of firms based in the region that have been outsourced to faraway locations such as Korea or Mexico. The logistical, administrative, supplier access, training, and absenteeism costs of such locations are often high, and go far to offset wage differentials with moderate-waged inner city residents in those businesses and activities where proximity is valuable.  

- Demand conditions. "The most obvious opportunity is in serving the immense inner city market. Even though average incomes are relatively low, high population density translates into substantial purchasing power and a large market. ... The needs of the inner city market remain poorly served at a time when most other areas are saturated, especially in retailing, financial services, and personal services. In Los Angeles ... retail penetration per resident in the inner city is 35% of the rest of the city in supermarkets, 40% in department stores, and 51% in hobby, toy and game stores. The result of this underpenetration is profit and growth opportunities. ... The major opportunity comes not only from the size of the market but from its character... Inner city communities have distinctive needs—many of which are unmet—for a wide array of products and services... Firms based in the inner city should have a unique ability to understand these needs and address them... The creation of tailored retailing concepts in areas such as food, clothing, pharmacy, toys, books, and restaurants would, in turn, create major opportunities for manufacturers of specialized products catering to inner city and other minority consumers... Companies that get started with focused strategies can broaden their focus over time as their skills and resources grow."

- Access to regional clusters. "Competitive clusters in the surrounding area create two types of potential advantages. The first is for business formation. Proximity to highly competitive nearby industries can be a major competitive advantage in providing supplies, components, and supporting services to multiple, nearby customers... Inner city firms can also draw on the presence of competitive firms in their region to compete in downstream products and services."

- Human resources. "Human resource advantages... arise today in the inner city in several forms. First, inner city workers are often more motivated and more loyal... Second,... most legitimate inner city entrepreneurship has been directed at community activism and the provision of social services... Behind the creation and building of these organizations is a whole cadre of minority entrepreneurs who have responded to intense local demand for social services and funding opportunities provided by government, foundations, and private sector sponsors. The challenge is to redirect some of this talent and energy towards building for-profit businesses and creating wealth." Third is the "...large and growing pool of talented minority managers, many of whom have been trained at the nation's leading business schools..."  

While Porter focuses on those elements he feels are the strengths of inner city areas, he is not unrealistic about those factors which inhibit economic growth and ongoing community health. In particular, the major disadvantages of inner city neighborhoods cited by Porter are:

- Land (which, while available, is often not in appropriate parcels for development);
Building costs (often significantly higher due to “logistics, restrictive zoning, architectural codes, permitting, inspections, negotiating with community groups, and government required union contracts and minority set-asides”);

Other non-wage costs of doing business (such as “water, other utilities, worker’s compensation, health care, property, unemployment, liability insurance, permitting and other fees, real estate and other taxes, OSHA compliance, neighborhood hiring requirements, and “linkage” payments…”);

Security and crime concerns;

Infrastructure problems (which inhibit the flow of goods and people);

Poor employee skills and a lack of training opportunities for managers to develop skills; and

Lack of available capital to support business expansion.  

Finally, Porter cites bad attitudes as also serving to block new business development in the inner city. He feels individual workers have a negative approach to work, community leaders too often reinforce those bad attitudes by viewing corporations as a negative presence in their communities, and local companies, having relied upon government subsidy and preferential programs for so long, have become opposed to operating with true reference to the real needs of the marketplace.

Based on his analysis and model for competitive advantage, Porter presents these recommendations for government, community-based organizations and business:

GOVERNMENT SHOULD:

> Direct resources to those areas with the greatest economic need;

> Increase the economic value of the inner city as a business location;

> Deliver economic development programs and services through private sector, mainstream institutions instead of through new, special purpose or social service institutions;

> Align the incentives in government programs with true economic performance; and

> Mobilize the private sector.

COMMUNITY-BASED ORGANIZATIONS SHOULD:

> Continue to focus on social service and housing issues, where their unique expertise lies;

> Create a hospitable environment for business: work to change community and workforce attitudes help improve public services assist with job referrals

> Facilitate development of commercial space integral to residential housing sites; and

> Avoid direct investment and involvement in businesses.

OUTSIDE BUSINESS AND INNER CITY COMPANIES SHOULD:

> Treat the inner city as a distinct market;

> Tailor product mix and operating practices to unique community needs;

> Develop strong ties with the local community;

> Consider separate subdivisions or business units for urban operations;

> Move beyond philanthropic support of social service organizations to strategic, business-to-business support for inner city companies;

> Create business linkages with inner city firms in similar clusters;

> Participate in developing inner city-focused cluster-based training programs and hire from them;

20Porter, pp. 25, 30-32.
Focus strategies around unique competitive advantages;
Upgrade management sophistication;
Join and participate in trade groups and industry associations; and
Forge relationships and linkages with appropriate regional clusters.²¹

Reflections on the Porter Model From the Perspective of the New Social Entrepreneur

Since the audience for this document consists primarily of those with an interest in the New Social Entrepreneurs, we will not address Porter’s advice to government and business sectors, restricting our observations instead to the implications of his recommendations for the non-profit community. In addition, we will not critique Porter’s framework in general, leaving that to the sources cited above, but will respond specifically to his proposed role for non-profit organizations.

At the start of our discussion we must clearly state that the non-profit community should take seriously the economic analysis and vision presented by Porter as well as his advice to businesses interested in locating in the inner city. If the reader has any interest in seriously engaging in community-based business development, he would benefit greatly from a closer reading of Porter’s work and its implications for entrepreneurs, whether social or traditional. While not a cookie-cutter model for non-profits, the basic business tenets are sound. Porter’s framework for analyzing the attributes and weaknesses of any enterprise, while not definitive, can be extremely useful in understanding how one is positioned in the broader market. New Social Entrepreneurs can learn from this analysis and, as with all business tools, should modify it to accommodate their own situation in order to make full use of Porter’s original model for evaluating competitive advantage.

Having said that, Porter’s assessment of the future capacity of the non-profit sector to participate in driving the economic agenda of the inner city is seriously flawed. Many of us are critical of the non-profit community’s track record in economic development. And Porter is correct in stating that “[w]hile there have been a handful of notable CBO business development successes, there have been many more failures. The vast majority of CBOs lack the skills, attitudes, and incentives to advise, lend to or directly operate businesses.” He is wrong, however, in concluding that, “[e]ven though many CBOs were able to master low-income housing development, investing in building their capability to tackle for-profit business development is unlikely to be successful or the best use of their or society’s scarce resources.”²²

Before addressing this conclusion, it should be acknowledged that Porter is not known as a champion of the non-profit sector and has only recently seemed to view non-profits in any sort of a positive light. In an article copyrighted by the Washington Post Writers Group (1994), Neal Peirce asks, “But what about the existing network of community-based development promoters, especially the nation’s some 2,000 community development corporations with their stellar record in quality low-income housing?... Porter started out disparaging CDCs, identifying them with local activists who viscerally oppose major business development... But after viewing actual neighborhoods and talking with...prime CDC advocates... Porter’s started to come around. He now respects CDCs’ formidable deal-making skills to put complex housing deals together. He still believes most CDCs should leave the big commercial projects to developers and qualified entrepreneurs.” If Porter is “starting to come around,” it would be hard to tell from some of his other writings. In an article copyrighted by the Goldhirsh Group and published in Inc. Magazine’s The State of Small Business—1995, Porter presents the basic elements of his model for the revitalization of the inner city.

²¹Porter, pp. 35-43.
²²Porter, p. 39.
and does not even bother to include any reference to the role of community organizations, save that they should “work to improve the business climate in the inner city. They might, for instance, create referral networks to help companies screen potential employees, help educate the community to the needs of business, and facilitate commercial site development.”

And this in an article which spans 12 pages... It will be of great interest to see how Porter’s future writings reflect his increasing exposure to non-profit managers and their ventures.

To back up his assessment of the non-profit sector’s poor potential to successfully operate business enterprises, Porter submits these three main criticisms:

- Staffing costs are too high to hire economic development staff for all the non-profit organizations that might desire them;

- “CBOs, when they think about economic development, naturally tend to focus on small retail and service businesses that are often owned by neighborhood residents...however, the community entrepreneurship model must be supplemented with major focus on more substantial companies, especially those that ‘export’ goods and services;”

- And “[t]here are inevitable short-term tensions between economic development and social needs... Given that most CBOs have their roots in social activism and in meeting the social needs of their neighborhoods, we are skeptical that most CBOs will put profit ahead of their traditional mission. Turning down local residents in favor of better-qualified outside entrepreneurs, supporting dismissals of poorly performing workers, and approving large salaries to successful entrepreneurs and managers—to cite just a few examples—are inevitable choices that most CBOs will be unlikely to make.”

The following narrative will address each of his concerns; however, to appreciate the present state of the community economic development field and Porter’s critique of it, one must first understand something of its history. While other resources are available to provide a more comprehensive overview, for this discussion it is important to know that most community development corporations now active across the nation have their roots in the early War On Poverty programs and the publicly-funded efforts which followed. Many of these programs included business creation strategies that, once public dollars were withdrawn, collapsed—in no small part because their managers were more oriented to meeting the needs of the public grant system than that of the markets within which they operated. As public funding for these efforts decreased, and the community development corporations themselves began to develop better track records in other areas of activity, non-profit managers redirected their efforts away from enterprise creation and toward the replacement of affordable housing stock lost by low-income neighborhoods as a result of urban renewal (referred to by many as “urban removal”) and the gentrification of inner-city communities. Private foundation dollars, though significantly more scarce than those available from public sources, also supported these efforts.

Porter admits that the non-profit sector has evolved significant expertise in the area of affordable housing development, but does not appear to appreciate that this expertise did not simply materialize, but resulted from years of capacity building supported by public and private funding. The past two decades have seen the creation of a complex infrastructure made up of “intermediary” organizations, such as the Local Initiatives Support Corporation, the Development/Training Institute, and the Enterprise Foundation, to name a few, which work with local community development organizations to augment the capacity of these groups to successfully blend a complex variety of public and private financing instruments to underwrite the cost of drafting, building, and maintaining the thousands of units of affordable hous-
Non-profit organizations in increasing numbers are launching and successfully managing for-profit business ventures with a market orientation never before seen in this nation. These initiatives take heed of past failures, yet are realizing new achievements today and will continue to do so in the years to come.

Six Responses To Porter

First, Porter is correct in one observation of non-profit business development: It is foolish in the extreme for anyone, whether non-profit manager, public policy maker or academic, to claim that the solution to the lack of jobs in the inner city is for non-profits to run businesses. There is no way the non-profit community can replace the jobs lost due to restructuring of the American economy and the abandonment of the inner city by mainstream businesses responding to changing markets. If we are to see any significant job creation, it will come only through the effective functioning of market forces as opportunities are created and businesses act to capture those opportunities. The ultimate engine for job creation will be housed in the business—and not in the non-profit—community.

Having said that, we must acknowledge that there nevertheless remains a large gap between the needs of the business community for employees and the employment capacity of homeless and inner city residents. This gap will not be filled by traditional businesses for the same reason they...
have not met the challenge to date: namely, they must maintain their commitment to a positive financial bottom-line above and beyond any social commitments. They are not educational institutions, training centers or treatment programs. They are exclusively for-profit businesses and should be treated as such.

However, when it comes to homeless and very low-income Americans, many who work with people on the margins of American economic life have found that getting a formerly homeless person a job is often not as significant a problem as helping them keep it. While some would argue that the only challenge to finding a job is getting out of the house to get one, others of us must face the fact that individuals who have not worked for years or have never held full-time employment must often learn the basic skills of how to contribute to a work setting. This is not some "bleeding heart" cop-out. This is the conclusion of business people themselves.

In his Wall Street Journal op-ed piece entitled, ‘The Poor? I Hire Them!,” Richard Barclay, Vice President of Barclay Enterprises, states that in his experience “…[f]or the lower-echelon, unskilled positions, companies don’t need ‘trained’ applicants nearly as much as they need people of character. I can train a person to disassemble a phone; I can’t train her to not get a bad attitude when she discovers that she’s expected to come to work every day when the rest of us are there. I can train a worker to properly handle a PC board; I can’t train him to show up to work sober or to respect authority.”26 The New Social Entrepreneur can teach formerly homeless and very low-income individuals the basics of work readiness. However, basic work skills cannot be taught exclusively in a classroom. They are best developed in the workplace as one learns how to take supervision, how to improve on production and service systems, and how to operate as an effective, contributing employee in the context of a real business environment—not just in a training classroom or computer literacy program.

Filling this gap between unemployment and employability is precisely the role the non-profit community is called upon to play. Through the creation of enterprises providing meaningful employment opportunities, some of which will be permanent, non-profits are developing particular expertise at providing individuals with transitional employment wherein they work for a real, market-based wage, develop an employment history, and are then referred to openings in mainstream, traditional businesses. This is not "coddling" or "sheltering" individuals from the market.

This discussion of transitional employment opportunities does not assume that the lack of "soft" and "hard" skills is the sole barrier to employment. Clearly a variety of social, racial, individual, educational, historic, and other issues keep extremely poor people out of the economic mainstream. Regardless, transitional employment does play a critical role in providing homeless and other historically marginalized individuals with the real skills and confidence needed to successfully compete for and retain a job in today's economy. Due to its exclusive and rightful emphasis on profit, the business community—as presently constituted—cannot afford to perform this task. While there are emerging numbers of for-profit businesses which attempt to pursue profit with reference to social needs,
the mainstream business community on the whole can not be said to actively pursue the "double bottom-line" of profitability and community service. And due to their ability to meet the double bottom-line, non-profit organizations are uniquely positioned to take on this task.

Second, over the last decade, in pockets here and there, we have seen the emergence of a new type of manager. This individual comes from two worlds—the worlds of business and non-profit management—but lives in neither. There are growing numbers of non-profit managers who know how to operate an effective social service organization. More than anyone besides the clients themselves, these people understand the limits of a traditional, human services approach to the problems of the inner city, namely that you can’t "serve" people out of poverty. These are the managers who, with limited start-up capital, have launched small businesses in communities of need. They run cafes, laundromats, landscaping businesses, recycling ventures, and temporary placement enterprises. No, they are not changing the face of poverty as we know it and they are not replacing jobs lost overseas. But they are proving to themselves and others that small business development can provide part of the answer to the problems confronted in low-income communities. What some may consider the “scary” part is that they are returning to school, at night and over weekends, to develop advanced skills in business management and finance. These newly minted MBAs (but street-hardened social workers and program directors, nevertheless!) are returning to their communities to build many of the small businesses upon which neighborhoods rely, and they are employing many who have not held a job in years.

This new wave of social workers is increasingly augmented by others who join them directly from the business community. As growing numbers of people who had sought their fortune in large corporations decide to take on a community challenge, they come to non-profit organizations with solid business skills and the experience necessary to help show others the way. These are not well-meaning idealists harboring unrealistic dreams, but are the type who have contributed to the success of many of America's leading corporations. And now they are contributing to the double bottom-line in neighborhoods that are in dire need of their skills. These two types of individuals join together in a powerful combination of human capital which increasingly turns the odds in favor of non-profit, business success.

Porter argues that there are not the financial resources available to appropriately compensate these managers. Naturally, if one seeks a salary and benefit package comparable with the for-profit sector, it is probably not a wise move to seek employment in the field of community development. However, many professionals who could command top dollar in the private, for-profit sector find the salaries offered by non-profits adequate to their compensation requirements. And for increasing numbers of formerly for-profit managers, they come to their non-profit practice with some type of “nest egg” from their prior employment to support what they may feel are their long-term needs for income security. In the final analysis, our experience is that not every non-profit must hire and retain a top caliber business manager. Each region seems to have a relatively small number of organizations which might require managers salaried at levels of $50,000 and above. While it may not make sense for “everyone to get one,” it most assuredly makes sense for some of our limited resources to be directed to this use to retain appropriate talent to achieve non-profit enterprise objectives.

Third, many of the community-based enterprises launched in prior years have been "place-based" businesses—a local restaurant or service venture targeting extremely small, often low-income neighborhood markets. Such efforts often found they could not generate enough business to keep their doors open. Increasingly, the successful enterprises of the New Social Entrepreneurs are not tied to a single geographic community, but create employment opportunities for a given population, which
may then happen to reside in a targeted neighborhood.

Consider Rubicon Building & Grounds maintenance venture operated by a homeless agency based in Richmond, California. Home to many working and middle-class families, Richmond is also well known as a low-income community with the crime and drug abuse one often finds in such areas. Rubicon bids on contracts throughout the San Francisco Bay Area, sending self-supervised work crews miles away from its home base in the East Bay. Rubicon is one of the best employers in Richmond, providing wages ranging from $9 to just over $20 per hour, and generated nearly $3 million in gross revenues in 1995.

Or consider Larkin Business Ventures, an enterprise development effort providing training and employment to “at risk” youth. LBV spent 11 months searching for the right location for its Ben & Jerry’s Partnership before deciding on a site in the Marina District of San Francisco, a neighborhood of in-line skaters and young professionals. LBV is now one of only two Partnerships nationally that consistently operate in the black.

And, of course, there is the San Francisco City Store which recently opened for business on Pier 39, a major tourist destination near Fisherman’s Wharf. The store sells surplus City of San Francisco memorabilia ranging from parking meters to municipal bonds issued in the early years of this century to bricks from Lombard Street (the “crookedest street in the world”). The City Store is run by a small non-profit providing housing and support services to formerly homeless men and women and accepts referrals for transitional employment from a number of non-profits in the City.

These are just a few examples of the businesses which bring wages and capital to a segment of our community that typically has few employment options, all the while maintaining their commitment to their charitable, community-oriented missions. However, none of these enterprises has made the mistake of tying its business activity to a single locale.

FOURTH, in addition to freeing itself from strict geographic constraints which may limit success, the modern community enterprise exploits opportunities to expand into new markets outside its region and, increasingly, beyond our borders. Pioneer Human Services of Seattle, a $25 million enterprise-based homeless organization which receives virtually no foundation or government grants, operates a wholesale food distribution enterprise active in five states west of the Mississippi. In addition, Pioneer’s sheet metal fabrication division is ISO-9000-certified, allowing it to bid on projects worldwide. San Francisco’s Asian Neighborhood Design ships residential furniture to transitional housing programs, group homes, and institutional living centers across the country and is currently expanding production capacity to the eastern United States through community partnerships. The Santa Cruz Homeless Garden Project (an organic garden run by and with homeless people which produces top-quality dried flower wreaths and other arrangements) and the San Francisco City Store are, through the HEDF, both exploring export arrangements to ship product for sale in Japan. As these enterprises take root, they increasingly operate with reference to the market potential of our world and not our ghettos.

FIFTH, the development of these and other enterprises is not without consideration of the past failures of non-profits which burdened community enterprises with a multitude of goals and objectives, only one of which was to function as a sound business. Today’s community-based businesses are just that: businesses. Of course, there is a tension between the social and financial goals of the enterprise; that’s what makes it a non-profit enterprise! But to say non-profit managers are somehow unable to operate within the dynamic tension presented by the “double bottom-line” of fiscal and social accountability is simply wrong. Too many enterprises are doing it and too many formerly homeless people are finding supported employment in such ventures to deny the validity of their experience. Naturally there are exceptions; however, increasingly the rule of thumb is that if you...
are out of business you will have no jobs and no training, whereas if you err on the side of prudent business management, you will be laying the foundation for even greater job creation in the future.

SIXTH, a main drawback to the traditional approach to non-profit business development has been the idea that there is one way to approach economic opportunity for individuals and communities out of the mainstream. Government and private funders have often sought to identify “the model” for business creation in the same way there is “a model” for affordable housing or child care services. Porter falls into this same trap by arguing for his own model—a seventh model we may now add to his list.

In reality, though, innovation comes from the fringe—from those who stand at the edge and can, from that perspective, see new connections to the whole, or conceive of new applications of emerging technologies and structures. It is precisely from “trying everything at once” that the new discoveries and best practices emerge. This is the tradition of creativity and innovation in which our economic success as a nation is grounded. To sterilize and compartmentalize this process not only contradicts that experience, but extinguishes the very fire which continually forges the creation of our communities’ common future of economic success.

There can be no “lighthouse model,” no single approach. There is only the anarchy of the market within which individual entrepreneurs (both social and traditional) see opportunities and risk failure to pursue them. Part of the failure of the past is rooted in the assumption that a model conceived in Washington or Boston or Sacramento can simply be implemented elsewhere. Markets don’t work that way and community-based business creation certainly won’t either.

Each of the various models (and a dozen other approaches not labeled as such) hold some element of truth. The successful New Social Entrepreneur keeps them in a toolbox and pulls them out when appropriate. She is bound less by ideology or conceptual frameworks than by what works in a given community’s environment or market. New Social Entrepreneurs are not bound by the self-righteousness of many of those who have claimed to “speak for the poor” and are equally unimpressed by the bold arrogance of some of those within the business community who, having fled the inner city thirty years ago, now conclude they know exactly how it should be rebuilt today. New Social Entrepreneurs seek out and build upon relationships with innovators such as Porter and others from the ranks of business, while at the same time assisting non-profit organizations to become active in taking control of their own economics and the economics of their program participants. They are fully committed to the goal of economic self-determination for both individuals and CBOs. They will work with virtually anyone (Left, Right or Center; Social Worker or Business Person) able to move the agenda forward toward the realization of its ultimate potential. And as such, they are truly the New Social Entrepreneurs.

Before moving on to our next area, it is important to close our discussion of competitive advantage and Porter’s assessment of non-profit enterprise by recognizing one final point: In many ways, what Porter identifies as the elements of a new model for economic development are not that at all.
What he presents is the actual evolutionary experience of those presently engaged in the practice of social entrepreneurship. He calls for a model that creates wealth, is based upon the operation of profitable businesses, positions those businesses with an export orientation within a regional economy, builds upon the talents of local entrepreneurs and mainstream, private (in our case, non-profit) organizations, and seeks to champion the power of a market-based approach to confronting poverty and unemployment. This “new model” is already being practiced by non-profit managers, especially over the past five years.

Porter is advocating a paradigm shift, a much overused term that implies a completely new understanding of place, potential, and practice on the part of those who are moving on an economic agenda within a social context. His model of where we should move the debate on community development is based, quite simply, on the knowledge and practice of those who have spent years struggling to make markets work to the advantage of our society’s marginalized members. What he has concluded from research, others are learning from experience. Together the two create a powerful praxis which promises to become a synthesis of the conceptual and practice frameworks which will guide much of the anti-poverty agenda in the new century.

Yes, Porter’s economic analysis is essentially sound, and community-based business people can no doubt learn from his observations. But the bus has left the station and we are already traveling to a time and place when non-profits can and will increasingly operate community-based ventures that are both market oriented and responsive to the needs of marginalized people who require supported employment opportunities and career paths out of the ghetto. In this new conceptual and practice framework, non-profit managers must develop a greatly sophisticated understanding of capital, its costs and movements within and, largely thus far, out of our communities of concern. The non-profit manager of the 21st century must be fluent in two languages: First, she must speak finance (with the ability to work the numbers, understand capital costs and interest rates as payments for risk); second, she must complement her numeric fluency with a conceptual fluency and vision which understands not simply how commerce creates systems of exchange, but how these systems, operating across communities, regions and, ultimately, the world, may be channeled toward the fulfillment of local, human needs.

For the present Porter’s challenge remains: Do the social managers of today have the capacity to be effective, market-directed social enterprise managers of tomorrow? The final section of this chapter will argue that non-profit managers are not only capable of success at such a task, but are uniquely positioned to excel in those areas which make for excellence in the management of visionary business enterprises.

Built to Last: The Non-Profit Enterprise as Visionary Corporation

If non-profit organizations engaged in business development have learned one thing, it is that the establishment of a social purpose enterprise will forever change the basic organizational structure of the sponsoring non-profit entity. Starting a small business is not a casual undertaking. When asked what single lesson he would provide those considering small business development, the executive director of one such enterprise responded, “I would tell people that if they like their current staff, board and program design, they should not do it, because in the course of the past five years we have almost completely turned over our board, many of our staff have moved on to exclusively social service opportunities, and our general approach to human service delivery has evolved as we understood more about what we were actually doing and why we are doing it.”

If non-profits are to successfully man-
age these ventures, they will do so only by continually revisiting who they are, how their enterprise activities contribute to the fulfillment of their mission, and how they will remain true to their community purpose while operating within the realities of the market. Some would say this task of balancing organizational change and conflicting values is impossible. Others would more correctly observe that non-profits that undertake such a path have a great deal in common with businesses which have gone on to become the world leaders in a wide variety of economic sectors. And it is this second perspective we will address in our closing discussion of how non-profit enterprises must position themselves for the 21st Century.

ARE NON-PROFITS “BUILT TO LAST?”

Many non-profit managers feel they have little in common with their for-profit counterparts. They operate with limited resources, are paid less, and attempt to achieve goals which must be evaluated in qualitative, as well as quantitative, terms. While this attitude is highly debatable, in many ways non-profit entrepreneurs are charting a new course in the creation of social purpose ventures and therefore must learn from whatever guides are available. The most obvious strategy is to examine the factors that make for success in the traditional business world and then see what lessons there may be for those who would re-direct business efforts for the achievement of community goals.

The question of what makes for a successful business enterprise is analyzed by every business school, reflected on by every CEO, and debated by every board of directors. Obvious elements of any answer are competent management, good stewardship of resources, high quality standards, aggressive product pricing, a customer orientation, and a number of other factors which may be easily recited by any business student, much less a successful entrepreneur. However, in evaluating how non-profits may learn from this body of knowledge, we must first assume that the non-profit has a commitment to those values. While the merits of the points listed above may be argued individually, few would deny they are the elemental building blocks for a basic level of effective organizational operation and are pursued by any manager with some degree of skill and functional intelligence.

Less clear are the elements of the really outstanding business enterprise. If we are going to support a movement in the non-profit community to create what many have called “hybrid” organizations, we must focus not only upon the most basic elements of success, but on the broader, more significant factors which make for the truly innovative, growing, and ultimately most successful enterprise. If we set our sights upon the average, we will be doomed to mediocrity. If we are going to break the mold and attempt to blend two seemingly contradictory types of organization, we should, as we used to say in church school, “sin boldly, if at all.” What, then, makes for the difference between a good corporation and an excellent one? How do non-profit managers and their organizations measure up? And do non-profits have the potential, by following the “best practice” of such outstanding corporations, to position themselves not simply to survive into the new century, but to excel and rise above the current parameters which limit them to the “appropriate” way to manage non-profit or for-profit organizations?

In 1994 James Collins and Jerry Porras, both professors at Stanford University Graduate School of Business and well-regarded advisors to leading corporations, published their book, Built To Last: Successful Habits of Visionary Companies.28 Their findings were the end result of a lengthy evaluation and reflection on what makes for success in corporate America. They evaluated 36 corporations, reviewing reams of material and supporting documentation. Their findings make for excellent reading and discussion, and are an important addition to the library of any non-profit manager. For the purposes of our discussion, however, five of their findings in particular stand out as meaningful for non-profit managers growing emerging social purpose businesses.

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First, Collins and Porras observe that in many cases what became the visionary company of today often started as the failed effort of yesterday. While it is easy to believe that today's visionary corporations have always been successful, they were often developed without the benefit of significant early success. In the words of the authors:

[W]e found a negative correlation between early entrepreneurial success and becoming a highly visionary company. The long race goes to the tortoise, not the hare...the evidence suggests that it might be better to not obsess on finding a great idea before launching a company. Why? Because the great-idea approach shifts your attention away from seeing the company as your ultimate creation...we had to reject the great idea or brilliant strategy explanation of corporate success and consider a new view. We had to put on a different lens and look at the world backward. We had to shift from seeing the company as a vehicle for the products to seeing the products as a vehicle for the company. We had to embrace the crucial difference between time telling and clock building.29

It’s tempting to observe that given the track record of failure in the arena of non-profit enterprise creation efforts, there must be a huge number of visionary organizations poised to spring forth!

In truth, the experience of many Bay Area organizations has been that their early difficulties managing revenue-generating ventures provided them time to learn the practice, make contacts, understand the limitations of their employees and managers, and cultivate a more sophisticated understanding of the task before them. This period of slow growth and misfires also provided them the time required to build the organizational foundation needed for future success. Over the past five years, during which many of these enterprises have been formed, the thinking has moved from that of “time telling” to “clock building.” This shift is reflected in an increase in not only the number of successfully launched enterprises, but in their continuing success and solid prospects for achieving near-term profitability.

The second significant finding from which non-profit managers may learn is that the process of building a successful corporation rests less on specific steps taken and objectives achieved, than on transformations made and horizons broadened. Again, from Built To Last,

One of the most important steps you can take in building a visionary company is not an action, but a shift in perspective... We’re doing nothing less than asking you to make a shift in thinking as fundamental as those that preceded the Newtonian revolution, the Darwinian revolution, and the founding of the United States...we’re asking you to see the success of visionary companies—at least in part—as coming from underlying processes and fundamental dynamics embedded in the organization and not primarily the result of a single great idea or some great, all-knowing, godlike visionary who made great decisions, had great charisma, and led with great authority. If you’re involved in building and managing a company, we’re asking you to think less in terms of being a bril-

The New Social Entrepreneurs’ commitment to the double bottom-line of both financial and social outcomes is perhaps their greatest strength. It forces them to live within a dynamic tension which understands the false nature of such choices and creates a higher order set of skills that fosters more competent and effective management in the long-run.

29Collins and Porras, p. 28.

Launching a company. Why? Because the great-idea approach shifts your attention away from seeing the company as your ultimate creation...we had to reject the great idea or brilliant strategy explanation of corporate success and consider a new view. We had to put on a different lens and look at the world backward. We had to shift from seeing the company as a vehicle for the products to seeing the products as a vehicle for the company. We had to embrace the crucial difference between time telling and clock building.29
liant product visionary or seeking the personality characteristics of charismatic leadership, and to think more in terms of being an organizational visionary and building the characteristics of a visionary company.\textsuperscript{30}

This finding is especially relevant for non-profit enterprise creation. Many non-profits approach this process with the belief they have only to find the right product, business, or service, hire the perfect manager and they will be able to build future success around that winning combination. They often do not realize true success happens the other way around.

In the case of Larkin Business Ventures, initial conversations among the board, staff, and clients focused not upon what type of business should be launched, but on whether and why any business should be undertaken. They sought their commitment to “clock building” first in order not to fall into the trap of “time telling.” These discussions went so far as to call for a complete redrafting of their corporate mission which, following months of discussion and debate, came to clearly state that the commitment of the organization was to the creation of value and that “value” would be created through its work with individuals in crisis and its operation of social purpose enterprises. LBV spent over two years in planning and design before finally launching three separate enterprises all framed around various aspects of ice cream sales. In their first quarter of operation they created 27 positions for formerly homeless and “at-risk” youth, as well as closing their first eight months of operation with only a modest loss against significant first-year sales. In the following months they have continued to grow, are scheduled to open their second franchise site by June 1996, and have a very promising future. None of their efforts would have met with the success they have, however, had the organization and its members not taken the time to adequately reflect on the “visionary” aspects of their task, namely their commitment to the creation of value.

A third finding of Collins and Porras speaks directly to the question of whether non-profits have the capacity to make the “tough decisions” when they find a conflict between their social mission and their financial responsibilities. In truth, the New Social Entrepreneurs’ commitment to the double bottom-line of both financial and social outcomes is perhaps their greatest strength. It forces them to live within a dynamic tension which understands the false nature of such choices and creates a higher order set of skills that fosters more competent and effective management in the long-run. Again, the authors state,

Visionary corporations do not oppress themselves with what we call the “Tyranny of the OR”—the rational view that cannot easily accept paradox, that cannot live with two seemingly contradictory forces or ideas at the same time. The “Tyranny of the OR” pushes people to believe that things must be either A OR B, but not both... Instead of being oppressed by the “Tyranny of the OR,” highly visionary companies liberate themselves with the “Genius of the AND”—the ability to embrace both extremes of a number of dimensions at the same time. Instead of choosing between A OR B, they figure out a way to have both A AND B... We are not talking about mere balance here. “Balance” implies going to the midpoint, fifty-fifty, half and half. A visionary company doesn’t seek balance between short-term and long-term, for example. It seeks to do very well in the short-term and very well in the long-term. A visionary company doesn’t simply balance between idealism and profitability; it seeks to be highly idealistic and profitable... [A] highly visionary company doesn’t want to blend yin and yang into a gray, indistinguishable circle that is neither highly yin or yang; it aims to be distinctly yin and distinctly yang—both at the same time, all the time.

Irrational? Perhaps. Rare? Yes. Difficult? Absolutely. But as F. Scott Fitzgerald pointed out, “The test of a first-rate intelligence is the ability to hold two opposed ideas in the mind at

\textsuperscript{30}Collins and Porras, p. 41.
the same time, and still retain the ability to function.” This is exactly what the visionary companies are able to do.31

What could be more irrational than the practice of homeless economic development? In 1989, when we first started using the phrase to describe our efforts to expand economic opportunity for homeless people through the creation of community-based businesses, many said it was an oxymoronic undertaking. Many felt that almost by definition, the two goals were not compatible. We felt they were. And today increasing numbers of non-profit managers and social workers are understanding not simply the potential for such an approach, but the actual need for it.

This is not to say one simply gets up one day and decides to operate within this realm. It is a constant battle fought by managers and employees on an almost daily basis, not without its costs to the organizations and their personnel. However, through these debates, through living in this tension between the yin of profitability and the yang of a social mission, our organizations are stronger, more flexible, and increasingly more successful as business enterprises.

This is particularly true when one considers the supposed conflicts between profit and social goals. It is clear that without a profit there will be no jobs and no training opportunities. However, profit is simply a measuring stick which both supports work and tracks progress. As Collins and Porras have written, “Profitability is a necessary condition for existence and a means to more important ends, but it is not the end in itself for many of the visionary companies. Profit is like oxygen, food, water and blood of the body; they are not the point of life, but without them, there is no life... Visionary companies like Motorola don’t see it as a choice between living to their values or being pragmatic; they see it as a challenge to find pragmatic solutions and behave consistent with their core values.”32

The final lesson we might take from the work of Collins and Porras is in the maintenance of community values simultaneous with the maintenance of a forward momentum to achieve our social/economic goals. They posit five methods used by the exceptional corporation of which we should be aware:

**Big Hairy Audacious Goals:** Commitment to challenging, audacious—often risky—goals and projects toward which a visionary company channels its efforts (stimulates progress).

**Cult-like Cultures:** Great places to work only for those who buy in to the core ideology; those who don’t fit with the ideology are ejected like a virus (preserves the core).

**Try A Lot Of Stuff And Keep What Works:** High levels of action and experimentation—often unplanned and undirected—that produce new and unexpected paths of progress and enable visionary companies to mimic the biological evolution of species (stimulates progress).

**Home Grown Management:** Promotion from within, bringing to senior levels only those who’ve spent significant time steeped in the core ideology of the company (preserves the core).

**Good Enough Never Is:** A continual process of relentless self-improvement with the aim of doing better and better, forever into the future (stimulates progress).33

One can easily run down this list and see the relevance of these methods for the non-profit enterprise manager:

**First, Big Hairy Audacious Goals:** The very notion of non-profits operating and building business ventures which are market-based and profitable is perhaps the hairiest, most audacious goal one might imagine. It is exactly the audaciousness of the goal which keeps top talent involved and draws heretofore mainstream business people to non-profit enterprises. You think it’s hard to run a profitable business? Try doing so with recovering substance abusers and homeless people to whom you’ve made the commitment of a livable wage. Now that’s a challenge!

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31 Collins and Porras, pp. 56, 62.
32 Collins and Porras, pp. 56, 62.
33 Collins and Porras, p. 90.
SECOND, CULT-LIKE CULTURES: Cult-like may be a bit strong to describe the environment of today’s social purpose enterprise, but it’s true that those who cannot cut it or can’t internalize the commitment to the double bottom-line, are quickly looking for other opportunities. There is some truth to the “cult” label in that the connection felt between those pursuing this path may border on cult-like. New Social Entrepreneurs speak a blended language of economic justice and fiscal accountability which keeps many others out. And share information and support amongst the anointed which helps keep those who are committed to the cause within the loop of the “faith.” (One very real difference, however, is that the dress code is less prescriptive than in many cults!)

THIRD, TRY A LOT OF STUFF AND KEEP WHAT WORKS: While not every social purpose enterprise starts this way, many of the best have experimented with a number of small-scale efforts before finding one which fits the needs of the organization and its developed capacity. Just as “porcupine-on-a-stick” never quite found its market niche, we have had our share of failed “sure things.” However, the field is also witnessing its share of successes which often rise from the ashes of such experimentation. And for many non-profits, the cost of entry for that experimentation is fairly modest and well worth the investment.

FOURTH, HOME GROWN MANAGEMENT: Many of the finest social purpose enterprises presently operating in the Bay Area are managed by former caseworkers or program directors. Certainly, as these ventures develop more complex needs, staff skills are complemented by those of MBAs from the outside. The leadership and values of these entities, however, remains home grown and closely nurtured. Almost every non-profit maintains a strong commitment to hiring from within; many of those currently supervising others came from the ranks of those workers and, in many cases, from the ranks of the homeless themselves. This commitment carries greater costs for the organization, but it is also quite clearly a great strength and at the heart of the social enterprise’s charitable mission.

FIFTH, GOOD ENOUGH NEVER IS: If there was ever a time when “close enough for rock and roll” was the operating mantra of the community non-profit, it is long since gone. After nearly 15 years of uncertain government funding and annual cutbacks which have recently been accelerated, non-profit managers are increasingly sophisticated in their ability to manage funds, steward human capital, and move institutional mountains. As our grassroots knowledge of how to “make do” becomes increasingly honed by hard-core skills in financial management, our commitment to high quality/low cost services for residents in low-income neighborhoods might naturally be converted to a commitment to customer oriented services with significant value added. This commitment to self-improvement undergirds, in part, our desire to open our work up to public scrutiny through this document. And it will make us truly competitive in the global markets in which we seek to grow in the coming decades.

In conclusion, Collins and Porras make the point that visionary companies stimulate evolutionary progress. “The word ‘evolutionary’ describes this type of progress because it closely resembles how organic species evolve and adapt to their natural environments. Evolutionary progress differs from [other] progress in two key ways. First, where Big Hairy Audacious Goal progress involves clear and unambiguous goals...evolutionary progress involves ambiguity... Second, whereas BHAG progress involves bold discontinuous leaps, evolutionary progress usually begins with small incremental steps or mutations, often in the form of quickly seizing unexpected opportunities that eventually grow into major—and often unanticipated—strategic shifts...The real question to ask is not ‘Is this practice good?’ but ‘Is this practice appropriate for us—does it fit with our ideology and ambitions?’”

Collins and Porras, pp. 145, 214.
The Community-Based Enterprise in the 21st Century: Closing Thoughts

The New Social Entrepreneur is the product of a changing environment. For years those in the business community complained that social workers needed to take a "business perspective on things." As the markets which have supported our work in the past have changed, as our own experience has forced us to revisit our approach, we have emerged as new creatures, neither fish nor fowl. We are the natural outgrowth of the policy decisions made in Washington and Sacramento. And we are the end result of thirty years of efforts to address the persistence of poverty in our cities and rural areas. We have survived by understanding new relationships between old ideas. We are creating the visionary community institutions of tomorrow. We are built to last.

It is clear we cannot go back. Our communities are forever changed by the economic realities of globalization. The role of the non-profit, community-based organization must change as well. As Kanter correctly observed, the future rests not with those who would seek to hold back the tide, but with those who would act to channel its waters. As Porter suggests, the inner city is not without attributes and resources which can be mobilized in support of our efforts. While he does not share our vision of the role non-profits might play in our changed world, his tools for analyzing competitive advantage provide a useful framework within which non-profit enterprise managers may assess their position relative to the market and other competitors.

The real challenge is not how to proceed, but rather whether we have the commitment and ability to successfully take on the task before us. As Collins and Porras so clearly understand, the corporations that will take our society into the coming century are those with the vision and the organizational capacity to aggressively pursue what can be, as opposed to remaining fixated on what was or appears to be our present circumstance. The non-profit community is searching for tools to apply in a radically changed environment. The New Social Entrepreneurship will not end poverty, or radically increase the GDP, or significantly replace jobs already lost to other nations. It will, however, provide those on the margins with routes into the mainstream. It will allow non-profits to practice what they preach and take control of their economic future. And it will allow those who were without hope to pursue their version of the American promise of justice and opportunity.
A truly representative sampling of the global perspective would include a balanced presentation of the world's diversity and regional variation. The following authors are simply those who have come to the attention of our office in recent months. Their thoughts are included in an effort to share their perspective with the reader and close our discussion of the “global” non-profit entrepreneur’s experience.
When thinking about homelessness, many Americans may be unaware of the increasing ranks of the homeless in Japan. The first question one must ask is, “About how many homeless people are there nationwide?” Unfortunately, even this most basic piece of data is unavailable in Japan today.

Homelessness is handled on a local level by prefecture, county, city, and town, and the government just doesn’t seem to recognize homelessness as a problem to be addressed nationally.

What exactly, then, is the situation? Signs of homelessness are evident in every major city in the country. Urban residents are well aware that there are homeless people in their cities. The media have also highlighted “the homeless” from time to time since the early part of this decade. The faces of “those men” have appeared on the national networks’ television programs and in the pages of magazines with nationwide circulation. In short, a look at the homeless situation in Japan today indicates that homelessness can be considered a societal problem that has reached the level of nationwide consciousness.

Thus, while homelessness continues to increase, there is a discrepancy between “government awareness” and “public awareness.” Let us take a look at the data presently available. First, according to a survey finally conducted in 1995 by Tokyo authorities, the number of homeless persons living within Tokyo proper is believed to be approximately 3,300. In Osaka as of 1993, there were 692 homeless people. Fukuoka City counted 169 people in 1993. This gives us a total of more than 4,000 people in just the three largest Japanese cities. If we include cities where homelessness has been recognized for some time, such as Yokohama, Kobe (naturally, this does not include the victims of the 1995 earthquake, but rather those people who work in the construction business and camp out when they cannot find work; these people have been in the area for a long time, and will be referred to as “street people” from here on), Nagoya, and other such metropolitan areas, it is readily apparent that this number will be not in the thousands, but in the tens of thousands.

Let us also examine the data from the Shinjuku* Ward Office, where the “homelessness problem” is more pronounced than anywhere else in Tokyo. While many

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1 Translated from the original Japanese by Polyglot International, San Francisco, California.

2 These documents and Mr. Morikawa’s other publications may be ordered through Takashi Konuki, Sandokei Publishing, Kurihara Bldg., 4-48-13 Honcho, Nakano-ku, Tokyo —164, Japan.

*Translator’s Note: The largest train station in Japan, and a hub of Tokyo.
different types of people come to the Welfare Department for counseling, the group classified as those with “no permanent address” receives the most cases of counseling. Using this as an indicator, the total number of counseling cases for fiscal 1990 (April 1990 to March 1991) was 1,322. There were 1,938 cases in 1991, 2,199 cases in 1992, and 3,708 cases in 1993; in 1994 this number shot up to 31,315 cases. (Figures are as of January, 1995; this number will likely increase further in the remaining two months of this fiscal year).

Incidentally, quite a few volunteer groups are active in the Shinjuku area, working to improve the lives and protect the human rights of homeless people. One of the most typical of these groups, the Shinjuku Federation, conducted an independent survey which found that more than 850 people were homeless as of May, 1995. This number was only 310 when this group was first organized in February of 1994, meaning that the homeless population has more than doubled in a mere 15 months.

Having established that homelessness exists in Japan, the second question one asks is, “Why is the number of homeless people on the rise?” Again, this is an extremely basic question to which no one has given a definitive answer. The reason most often cited is the bleak situation in the wake of the bursting of the economic bubble. Clearly, the weak economy is the greatest single contributing factor. However, there were also homeless people in the 1980s, when Japan’s economy was booming. Therefore, the economy alone cannot be blamed for this situation.

What, then, is the cause? We can only hypothesize. In Japan, however, no one is even guessing. One hypothesis has been proffered by a professor from Tokyo University at the behest of the Tokyo government in 1995, but a proper sociological analysis has yet to materialize. At any rate, I will offer my own personal hypothesis, which comprises the following four main points:

**JOB-LESS:** This, of course, means a person is unemployed. In light of the economic downturn, restructuring has begun here in Japan as well, and many of the homeless have been the victims of the resulting layoffs.

Also, in the case of the Japanese homeless, a disproportionately large number seek employment in construction work. According to the Shinjuku survey, the last job of more than half of the homeless was in construction. The construction industry is declining along with everything else, and the number of jobs in this field has dropped. Furthermore, advances in building materials and methods have reduced the amount of labor required. In other words, technological advances mean not as many workers are needed as in the past.

Moreover, physical strength is the key when it comes to this line of work. Workers above the age of 50 almost never find work. This is not only the case with construction work; middle-aged workers are becoming expendable in every field. We have seen the birth of a trend whereby middle-aged employees are laid off, a trend whereby various types of work have become labor intensive, and a trend whereby re-employment is difficult. These trends constitute one of the causes for the rapid rise in homelessness.

**HOUSE-LESS:** This is the literal sense of “homeless,” someone without a place to call home. The price of land is exorbitant in Japan, and while it has dropped precipitously in these hard times, and the housing problem is a cause for concern internationally, when it comes to an average citizen buying a house, the prices are still unbelievably high by U.S. and European standards.

House-LESS: This is the literal sense of “homeless,” someone without a place to call home. The price of land is exorbitant in Japan, and while it has dropped precipitously in these hard times, and the housing problem is a cause for concern internationally, when it comes to an average citizen buying a house, the prices are still unbelievably high by U.S. and European standards.

If a person decides to rent, then the time-honored customs of deposit money and rental fees that are unique to Japan become a problem.* If, for example, a person were to consider renting an apartment for ¥100,000 per month, the deposit and fees together would usually total ¥500,000 to ¥600,000, which would be paid to the landlord or his agent. Thus if you lose your place of residence or plan to rent one for the first time, a house or apartment becomes an exceedingly expensive proposition in Japan.

* TRANSLATOR’S NOTE: A lump sum equal to 3 to 6 months’ rent, much of it nonrefundable, is required up front in Japan.
Another major factor is the change in construction practices in metropolitan areas. As mentioned above, the last job of most of the Japanese homeless was in construction, and when these workers land a job, they live in a dormitory called a hanba [workmen's temporary quarters] that is built at the construction site. If they are able to land one job after another, they live in hanbas in various locations, but this is usually not the case. Even back in the boom days, these men needed a place to sleep when they were between jobs. Many of them would go to temporary lodgings known colloquially as doyas [flophouses]. This means that, unlike salaried employees and entrepreneurs, the construction worker never had a fixed residence. Renting an apartment or the like was far too costly for these men. Therefore, among those people called “homeless,” a considerable number feel that “it’s cheaper to live on the street than to go to a doya.”

So what is meant by “changes in construction practices in metropolitan areas”? There used to be countless “doya towns” in Tokyo, consisting of blocks of eateries and shops that catered to the inhabitants of the doyas, but these areas have become much scarcer in recent years. In Japan, where families of salaried husbands make up the vast majority, urbanization is equated with large multi-unit housing, parks, and modern shopping centers. This urbanization moved ahead by leaps and bounds during the boom period, resulting in the dying out of the doya towns that had been havens for poor people.

There were always many people who lived on the street in the doya towns, but the residents of the doya towns tolerated the situation without much concern because they knew these people would leave as soon as they found work. When the same thing happens in a neighborhood that has been tidied up through urbanization and in which salaried employee families are overwhelmingly prevalent, the residents disdain such street people. The government begins to get complaints, such as “these people are not good for the safety or education of children,” “they scare me,” “there is no law and order,” or “they’re dirty and they stink.”

The street people are inexorably driven out of the neighborhood, and find some place where they will be left alone. As a result, places such as the underground passageways at Shinjuku station are attractive to these men. The number of homeless people grows one or two at a time, with homeless people congregating in limited spaces through the above process. This is another factor behind the cries that “the homeless population is exploding.”

**Family-less:** I have read in books that there are entire families that are homeless in the United States. In Japan, however, the majority of homeless people are single. Even so, many of these people say that they used to have a family. Almost none of them say that they have been alone their entire life. In other words, every one of these people have suffered the loss of home and family. Why?

Ever since the end of the war, the nuclear family has become more and more the norm in Japan. Economic growth has created the philosophy that “our house is small, but we live in splendor.” Today, families have separate rooms for each member, there is a television, and many young people have portable telephones and pagers. What does this mean? It means that when people are at home, they don’t converse with family members, but instead talk with outside people on the telephone, watch television, and immerse themselves in the world of computer games. In the U.S. and Europe it seems that many people are under the impression that in Asia and Japan, Confucian principles endure, and family ties are strong, but nothing could be further from the truth. It sounds great to say that everyone—the father, the mother, the husband, the wife, the children, the brothers and sisters—is singing the praises of their “freedom,” but put another way, the notion that members have a responsibility is waning even in the family.

Among the homeless people with whom I spoke, there were many elderly men who said that their wife asked for a divorce as soon as the children were raised and the oldest son had found work. One physically handicapped man said, “Since my daughter
was old enough to have a job, I left home so that I wouldn’t be a burden.” In other words, “home” and “family” in Japan have become nothing more than a machine for childrearing. It is increasingly common for a family to disintegrate as soon as the children meet their goal of finding employment. In a country such as Japan, if you should happen to be beset by something negative—say, becoming unemployed or falling into debt—you can’t necessarily count on help from your family.

At any rate, a growing number of people in Japan “don’t want to be a burden to anyone,” regardless of age or sex. There is a tendency to think of someone who will leave you alone as a “good person,” in contrast to someone who is so friendly that they intrude on the privacy of the family or another person. It comes as no surprise, therefore, that a family whose ties have already been weakened should disintegrate when it feels the pressure of difficult economic times.

WELFARE-LESS: In January, 1996, a homeless roundup was conducted in the underground passageways around the west exit of Tokyo’s Shinjuku station, and a temporary shelter was constructed to provide an “alternative” to sleeping in the subways. This shelter had a capacity of 200, corresponding to the number of homeless living in the subway, and could be only utilized for two months—long enough, insisted Governor Aoshima, for workers to deal on an individual basis with each homeless person who came into the shelter. However, only 77 people ended up entering the shelter; of these, only four or five succeeded in finding a job. The cost of this slapped-together construction was nearly 200 million yen.* With this amount of money, 200 people could have been housed and fed for eight months.

Since 1994, similar limited-time shelters have been built and then torn down in Tokyo’s Oita ward. Here again, large sums of money are used each time for construction and operation. The Governor’s office says that “opposition from residents” is the reason for the time limits on the facilities, but in Minato ward, where a facility was recently constructed, it was expressly promised from the outset that “the facility will only be operated for two months, and after that no more facilities related to homeless care will be built in Minato ward.” This highlights the dilemma faced by the government, which finds itself caught between local residents who do not want homeless people in their area, and the homeless themselves who demand that their human rights be observed.

At the present time, however, the government is not providing a place for the exchange of opinions and discussion. All it is doing is haphazardly excluding people, putting time limits on facilities because of “opposition from residents,” and being tightfisted with funds for assistance. Because of the piecemeal nature of this work, useless expenses are sucking up tax money, without yielding any results whatsoever. This is the current state of Japanese welfare. So far, Japan has not given rise to as many homeless as has America. However, in the near future, when the miserable level of government welfare has its full effect, the problem will be worse than it is in America. Upon this you may take my word.

The above is my own hypothesis. In summary, I believe that economic factors (most significantly, the recession) are the greatest contributor to the situation, but the most direct cause of the increase in homelessness is in the societal framework described above. The economy has collapsed, there is no love in society, and the government is not functioning; these are the causes of the increase in homelessness in Japan.

* TRANSLATOR’S NOTE: About $2,000,000.
THE CANADIAN PERSPECTIVE: THE COMMUNITY OPPORTUNITIES DEVELOPMENT ASSOCIATION

BY PAUL BORN, ET AL

(Paul Born is the founding director of CODA—the Community Opportunities Development Association, located in Ontario, Canada—a community economic development organization operating a variety of enterprise creation programs.)

The Community Opportunities Development Association (CODA) grew out of a community response to the deep recession of the early 1980s. With unemployment reaching 20% in the district in 1984, the Cambridge Labour Council set up CODA’s predecessor, the Unemployment Help Centre (UHC). The Centre’s activities brought together representatives from labour, business, government, churches, and the unemployed to search for solutions in the Cambridge region of Ontario. The Centre started a retraining and skills development program in 1986, implemented its Self-Employment Program for social assistance recipients in 1988, and two years later became the Community Opportunities Development Association in recognition of its expanded mandate. During the past ten years CODA has developed a project-based Community Economic Development (CED) approach to creating real work for the underemployed and the long-term unemployed.

CODA views community economic development as a search for grassroots solutions to persistent problems in the local economy. Simply put, CED means bringing people together to plan the economic future of their own community. Partners in the CED process identify workable community projects and then mobilize the resources needed to create new jobs and new economic activity at the grassroots level. Project-based CED is premised on the belief that projects focus energies and bring visions to life; it is a means to identifying and implementing projects. CODA further believes a project orientation is more effective in developing communities than a process orientation. Project-based CED is entrepreneurial and recognizes entrepreneurs have little time for cumbersome process. CODA’s approach to CED emphasizes the development of small to medium-sized owners, worker, or community-managed wealth creation units which are accountable to the community within which they operate. CODA itself is accountable to the community through its board of directors which has balanced representation from labour, business, professional and community organizations as well as the people served by CODA’s programs. It remains community-based by involving almost 1,000 volunteers, staff, partners, donors, and supporters in various aspects of its work.

Capacity building involves developing systems, values, and a philosophy appropriate to and effective in achieving results; it also develops individuals’ and communities’ ability to recognize opportunities. Currently CODA is involved in the following activities:
A neighbourhood community planning effort;

The creation of an Entrepreneur Store, providing various services to small, start-up businesses;

The creation of its third loan fund capitalized with Class A shares, fully secured by the provincial government;

The establishment of a Career Action Centre which provides information, training, and seminars to individuals seeking to improve their skills and career strategies;

The creation of social purpose businesses. The As You Like It Cafe and Catering Kitchen trains up to 80 long-term social assistance recipients (out of work over three years) to enter the food industry.

Going to Work, a welfare-to work-initiative which has helped 314 participants secure employment, assisted 106 participants to create their own businesses, and resulted in savings of $2.2 million in taxpayer dollars on an investment of $1.3 million (a return of 63%). These results are especially impressive when one considers that, on average, Going to Work participants have been on social assistance for two years and that only 52% of them are high school graduates.

**Canadian Issues**

It is hard to say how economic issues facing Canada play out differently than they do in the United States, although we have found that our ability to make independent economic decisions is influenced by our dependence on the American economy through trade and the need to borrow to service our debt. More than 30% of every tax dollar in Canada goes to service our debt. When a federal or provincial government sets a budget, the acceptance of the budget by U.S. credit rating agencies is looked to with great respect. Governments in Canada are therefore consumed with bringing the debt under control, affecting our ability to implement social policy.

One of Canadians’ great fears is that Canada is becoming like the United States. Most of our social programs, like Medicare, Old Age Pension, and Unemployment Insurance, are being revamped. The over-riding issue is that we simply can no longer afford to be the caring society for which we have such a reputation.

CED in Canada has helped local communities take control of their own future. CED helps cities and towns to monitor their economic activity and is used as a vehicle to temper economic downturn. Government has actively promoted CED in rural communities in Canada but has preferred traditional forms of economic development in urban areas.

**Learning From the CODA Experience**

CODA has recognized that healthy communities cannot rely on government mega-projects, foreign ownership of resources and production, and a lot of good intentions. It is when the people of the community plan, form partnerships, and implement community-based projects that we will create an environment for responding to rapid and ongoing change. We have realized that as local economic development gains legitimacy (clout) and the people gain the understanding and skills to develop local economic development (capacity), they can access the capital required to implement local projects.

CODA believes that local economic development can be summed up as People, Planning, Partnerships, and Projects. We also believe that local economic development is achieved through Clout, Capacity, and Capital.
1. People

People are at the core of local economic development. People who want to create a better future for themselves, their children, and their neighbors are much better at identifying projects which will benefit the entire community than are organizations. CODA has adopted the raison d’être “People Creating Opportunities” to exemplify this principle. We have always recognized that people, not organizations, effect positive change.

People working together need leadership. We have recognized the leadership and vision in our community. Community leaders have a real love for their community and have a vision to make things better. These leaders work collectively within the community regardless whether they are representing labor, businesses, political viewpoints, or a religious orientation. They believe in the people of their community and are typically result-oriented doers.

2. Planning

CODA has learned that planning is essentially a process by which to capture the obvious. The obvious is most often found through listening and being present. We have learned that the closer we are to the real needs and hopes of members of our community, and in particular the participants within CODA, the better chance we have of understanding the obvious. Opportunities Planning brought together 12 social assistance recipients and 12 community/neighbourhood organizations. In listening to stories and working collectively, we developed a proposal that was so obvious that it was the first one selected of 230 proposals submitted to the provincial government. After its first year this project has more than 100 individuals actively involved in the ongoing management and implementation of the project.

We have also recognized that planning is an ongoing process. We often sum this up by saying, “We build the road as we travel.” This statement recognizes that innovation requires risk and trust. Community innovators recognize that solutions are within the collective, and that mutual reliance means we have many resources by which to implement the obvious. We do not need to know exactly how the road will be built or where it will lead. Much more important to us is that we know what we want to accomplish and have the collective commitment and capacity to get there.

3. Partnerships

Local economic development is probably best summed up as a strategic partnership. Partnerships grow out of an understanding of a community’s limitations and in the context of its strengths. It is only in knowing and accepting our weaknesses and strengths equally that we can partner effectively. Effective partnerships are therefore those which happen most naturally. Partnerships are developed to provide a realistic synergy for project development. CODA has 10 public sector partners and 20 community partners which work strategically and collectively to deliver projects.

4. Projects

It is through projects that people, planning and partnerships live. We believe projects focus energies and bring visions to life. CODA is a project-based community economic development organization. We believe that process is purely a means to identify and implement projects. We further believe that a project orientation is more effective in developing communities than a process orientation. A process orientation attempts to develop broad-based community ownership for a project before it is started. A project-based orientation brings people together to test project ideas and to modify individual visions. Project-based CED is entrepreneurial and recognizes individual leadership and vision. It further recognizes that broad-based community ownership of local economic development is best fostered through those who are benefiting directly from the projects. We have learned that community buy-in is best achieved best when examples of CED are at work in the community. Project-based CED further recognizes that entrepreneurs are doers and have little time for cumbersome process.

CODA has learned that people, planning, partnerships, and projects in them-
selves do not achieve the scale required for meaningful local economic development. It is through Clout, Capacity, and Capital that scale can be achieved.

5. Clout

A community must see local economic development as a legitimate form of wealth creation. Traditionally, communities have embraced government mega-projects, large multi-national corporations, and other large scale initiatives to create jobs. We have found this particularly true in southwestern Ontario. Communities often see real economic development as a new industrial park filled with large companies. The role of many municipal business development departments has become to sell industrial land.

If local economic development is to receive the priority it requires and become an effective economic development force, the importance of locally-owned and managed wealth creation units must be enhanced. This is best accomplished by supporting the development of small business, co-operatives, and credit unions. Communities must have, as a first priority, growing local companies and organizations. We must recognize that it is more desirable to attract outside investment in the community through creating a positive business environment in which local companies can grow than by providing concessions and subsidies by which to attract investment.

6. Capacity

The skills required to achieve local economic development are not new. They are practical skills which must be relearned. Effective local economic developers are general specialists skilled in networking, planning, listening, organizing, and creative thinking. They are quick to learn, entrepreneurial, and know how to make money. They have learned to know the community through experience and a key interest in the people of the community and the issues which affect them. They are good at developing and implementing projects and are excellent problem solvers. Most importantly, they have a positive attitude. CODA brings together people with the above skills to implement its projects. We have found the synergy of these individuals working for the betterment of our community can be a powerful force in economic development.

7. Capital

Money is central to effective community economic development. It is not only essential for organizations like CODA but also for the development of local projects. We have found that many local companies are unable to access the capital required from traditional banks. There are also limited vehicles by which to raise the required capital for community economic development. CODA has started three loan funds: A Micro-Enterprise Loan Fund which provides loans to low income entrepreneurs; an Innovation Loan Fund for social assistance recipients to overcome the barriers they face to finding or creating work; and a First and Last Month’s Rent Fund to help people secure affordable shelter.

Within the next two years, CODA intends to develop a Community Investment Share Corporation to assist existing businesses and a Community Bond Corporation to support community or worker-owned companies.

Conclusion

CODA is a relatively young organization with only 11 years of experience. During these 11 years we have learned that there is an alternative to traditional economic development. A community is healthier if it relies on the people living in their community to create jobs. The communities we serve have for too long relied on foreign-owned branch plants to employ our citizens. Though CODA has relied heavily on government-supported projects to date, it is learning to develop and implement projects which have broader community input. The organization, through the broad range of skills of the people and partnerships within it, has embarked on an exciting future. It is
our belief that CODA will have a meaningful impact on the economic development of our community over the next 10 years.

It is our hope that CODA will work on behalf of the many citizens of our community who are struggling to adjust to the rapid restructuring of our economy. We will work in tandem with traditional economic developers with the goal of ensuring all members of our community have equal access to opportunity. We will continue to advocate for local economic development as our community adjusts to the reality of a global economy.

CODA will strive over the next 10 years to ensure that double digit unemployment does not become systematic and thus acceptable. We believe through grassroots local economic development there will be significant opportunities for all members of our community. CODA's role in the overall economic development continuum will be to ensure that our community, as part of Canada, does not need to pay out millions of dollars in social benefits to citizens unable to adjust to the new economy. It is our belief that we have developed a model which can harness the energy and visions of those on the economic margins of our society.

CODA will continue to create opportunities by bringing together more people to develop more partnerships and projects. We will ensure local economic development is a legitimate economic strategy by creating more capacity and accessing more capital in its development.

THE NEW ZEALAND EXPERIENCE

BY WARREN SNOW

(Warren Snow was a founding member of the Kaitaia Community Business and Environment Centre (CBEC) in Aukland, NZ, and currently serves as senior staff with a private family foundation supporting efforts at expanding local economic opportunity in New Zealand.)

This report discusses the role of the non-profit sector in the creation of employment opportunities in New Zealand. It begins by outlining the changes in New Zealand society brought about by economic reforms and restructuring since 1984, the impact of those changes at the community level, and how one community fought back and created jobs and opportunities for local people.

Background

In the early 1980s, a bold experiment was embarked upon that changed New Zealand forever. It was launched in 1984 by a new guard of right-leaning, free market politicians within the new Labour Government. They challenged New Zealand's complacency and satisfaction derived from the nation's costly “cradle to the grave” social welfare system. Within a few short, tumultuous years one of the world's most controlled, protected, and regulated economies was reshaped and transformed into one that is among the world's least regulated, most competitive, and market directed. As market theory became the single determinant of all aspects of public and private sector planning, no seg-
ment of New Zealand society was unaffected. The process was even given the name "Rogernomics" after Roger Douglas, the then-minister of finance and champion of the market reforms.

What happened over the next few years may be viewed as either the unthinkable, or as a painful but necessary process that saved a nation from sure decline. Regardless of which is correct, the two opinions represent diverging views of a nation which receives international acclaim for its vital competitive economy, on the one hand, but has the fastest growing gap between the wealthy and the poor on the other.

Before 1984, state trading activities (railways, telecommunication, airlines, insurance, television, shipping, road construction, radio, forests, ports, airports, and more) handled 20% of the total investment of NZ, and produced only 10% of the country's economic output. As a rule, they were all hugely overstaffed, inefficient and operated at a loss. Beginning in 1984 they were turned into State Owned Enterprises—or "SOEs"—that had to make it in "the market." They were set at arm's length from government interference so they could act as normal businesses.

"Privatization"—the selling of state-owned enterprises to the private sector—was the next step, leading to the disposal of telecommunications, television, railways, forestry, oil exploration, long distance passenger and freight services, shipping, airlines, government printing, and even the Post Office Savings Bank and the Bank of New Zealand. Many passed to overseas ownership, a much-debated issue now. The transfer from public to private ownership has continued until the present, with many local utility companies being privatized.

Big changes also occurred in the private sector as takeovers and downsizing changed the economic landscape. With import controls and taxes removed, competition from cheap imported goods put pressure on whole industries, especially the most protected and inefficient. Many companies seized the opportunities presented by deregulation. The freer commercial environment, along with innovation, good management, and new technology has enabled them to take on overseas competitors in a way previously not imagined possible.

**Implications of These Shifts for New Zealand's Society**

The new economic environment, with the "brakes off," so to speak, has created a new elite of those who can decide which schools to send their children to, pay for private health care, invest in property, the stock market and generally, as one bank extols, "seize the day." Conversely, there are the new poor, many of whom previously had secure and comfortable lifestyles and now find themselves economically marginalized, squeezed into low socioeconomic areas where crime and fear are on the increase and schools have few resources.

Everyone was affected in some way by the market reforms, either by more opportunity or through lower wages, higher rents, or lost jobs. In response, the phrase "trickle down effect" was often used by some politicians and free market exponents. They believed that by creating opportunities for economic growth, wealth and opportunity would eventually trickle down to those disadvantaged by the reforms. Increased immigration led to more pressure on employment and real estate markets and came to be blamed for many of the country's woes. By the mid 1980s, unemployment reached record and unacceptable levels. It was highest amongst the indigenous Maori people, who had traditionally held many of the jobs that were being eliminated. Even skilled workers found themselves applying to receive government handouts alongside low-skilled people who were the first victims of the reforms.
A Community Profile

The market reforms had huge effects on Kaitaia, a small town in the far north of New Zealand, where the restructuring of many large companies and government agencies or their relocation to larger centres left many without work. Even fewer opportunities were available for people without high school diplomas. A number of successful local companies were bought out by national and international corporations, or simply closed down to suit wider corporate objectives. Many who had previously been secure in government or private sector jobs became unemployed and increasingly reliant on the state welfare system to meet their basic living requirements. Along with high unemployment came increases in crime, alcohol and drug abuse, gambling, and domestic violence. The main new commercial growth areas were “unemployment accessories”: new pubs and liquor outlets, a booming marijuana industry, gambling venues, flourishing new video outlets and game parlours, and a huge new social welfare office to dispense the weekly social security payments.

At the same time, local businesses came under pressure from highly organized chain stores and franchises providing lower prices, more consistent quality, and new levels of customer service. Ironically, local businesses that remained could often not attract employees, because wages were not as attractive as those being paid by welfare.

In 1989, a small committee of people decided to set up a company to develop and operate businesses to create employment for local people—but this time, the company would be owned and operated by the community. Inspiration came from the “Community Business” concept which had recently been introduced to New Zealand by a group of Scots, as well as from an early New Zealand tradition of cooperatively owned business.

A Community Business is a “trading” organization owned and controlled by the community through a member-elected voluntary board of directors. Staff are employed by the board to implement policy and to run the day-to-day operations of the business. Any profits are reinvested in further initiatives of community benefit or as incentives or bonuses for employees.

In 1988, the Kaitaia Community Business and Environment Centre (CBEC) was formed and within a short period was operating the following initiatives:

1. A comprehensive district-wide recycling program on contract to local government, including a curbside collection scheme, and subcontracts to operate six garbage transfer stations and the local landfill.

2. A forest establishment business providing planning, planting, and aftercare management of forestry business, including a wholesale hardwood forestry nursery.

3. A retail nursery offering a range of landscaping services.

4. Managed workspace. CBEC manages a large building complex, formerly owned by the railway, and owns another site where workspace is leased to local businesses.

5. A general contracting business providing a flexible labor hiring service that contracts to the local council and the private sector in the areas of town beautification, new developments, flood protection, and management of the local public swimming pool.

6. Two 10-member “Conservation Corps” training programs funded by government and aimed at developing youth through conservation activities.

7. A major habitat protection project protecting a series of lakes adjacent to 90 Mile Beach that have been seriously degraded through farming activities and the stripping of natural vegetation.

By winning contracts that would otherwise have been won by companies from outside the area, CBEC has been able to
provide new opportunities for unemployed people to participate in the local economy. This in turn has raised the capacity, skill level, and confidence of people who otherwise would have been living on government handouts. Moreover, CBEC management positions have been made available for good local talent that would otherwise have had to leave the area for other opportunities.

By the early 1990s, CBEC provided work for 50 full-time employees, a similar number of part-time jobs and had become a significant player in the local economy. Long term unemployed people were given the chance to prove their worth and grow into responsible management roles. The board of directors was made up of local people from all walks of life including business, farming, and education, and also held seats for the unemployed. Local people offering differing skills have been attracted to CBEC from the outset, which has created a momentum and vitality arising from “a sense that we are doing this for ourselves and at the end of the day the profits go back to our community or into more jobs.” CBEC has in turn provided a platform for local energy to act and intervene in the local economy.

**Fundamental Lessons From CBEC**

After six years of trading, CBEC is quite a different organization from the opportunistic, widely focused one it was at the beginning. Management and decision-making skills have been learned out of necessity. Good business practice and commercial imperatives have replaced the initial raw idealism and desire to do something good for the community. And hard business decisions have had to be made to keep the organization afloat.

This has put managers in the unenviable position of paying what are recognized as low wages to some staff to remain competitive in some areas of operation. Some in the community sector have criticized this practice. It would be nice to pay more; however, not only are these people receiving training and becoming more qualified for jobs that may arise in the future, but they benefit from the increased self esteem that comes, especially in a small community, from being employed. And many staff previously on the dole have gone on to better paid work or self employment after working with CBEC.

Some of the key lessons learned follow:

> **Board and paid staff have distinctly different roles which should not be confused.**

In CBEC’s case, the relationship between the board and management has always been good. This is because the board concerns itself with policy and management, whereas the staff is responsible for implementation. Board members are not at worksites on a daily basis telling staff what to do and not do. Instead they receive reports from management and address problems at monthly board meetings.

> **Planning is critical.**

CBEC has an annual strategic planning process that involves the board and key staff. All members and staff may attend the annual meeting, and staff are encouraged to put ideas forward to improve the whole organization’s effectiveness.

> **Hiring long-term unemployed people is costly.**

But someone has to do it. Any business creating work for long-term unemployed people has costs that normal companies do not have. For CBEC, profit is measured by the number of jobs created, not just in dollars generated. People who haven’t worked for long periods, or ever, simply do not have good work habits. For example, even with government subsidies of up to 50%, previously unemployed workers hired by CBEC in some projects such as forestry could not match the work output of competing companies from out of town that operate without subsidy. This may mean the business will have insufficient funds for reinvestment.
in plant, equipment, and new technology that can keep it competitive. People will pick themselves up given the chance, but often they still need to learn very basic skills before they can perform even the simplest of tasks at economical rates.

Overfunding and underfunding will bring failure.
Either way it’s the same. Groups providing training and creating jobs for previously unemployed people need support, but it must be accurately targeted or it will cause failure. If there’s too much, inefficiency will be built in. If there’s too little, projects will be undercapitalized and will fail. It is important that funders understand this concept.

It pays to support and work with local businesses.
Perhaps the most important lesson learned in Kaitaia is the value of working alongside existing businesses and government structures. At first most were suspicious, but managers have found there is always someone who understands what they are trying to achieve and is willing to help. CBEC has tried to create new opportunities and not compete directly with local businesses. Local and even large out of town corporations have used CBEC’s expertise in a number of areas rather than employ people directly themselves. This has resulted in a number of subcontracts in road paving, waste management, forestry, and landscaping.

CBEC and other similar initiatives in New Zealand have shown that the concept of community-owned enterprise has a place in the economic development of areas with large numbers of economically marginalized people. With the right support from industry and local or central government, many development opportunities can be joint ventured with all stakeholders benefiting.

Communities must organize to grasp opportunities.
There is a huge stream of contract and employment opportunities in any community or neighborhood that are often taken by out-of-town companies, often using out-of-town employees. People with business experience can identify the opportunities and know how to take the right risks to get the contracts that will provide the jobs. A structure is also required that can act as a platform to harness and focus the energy of the community to act in its own best interest. Although CBEC has social and environmental objectives, it has combined them with tough management and business objectives. As Cliff Colquhoun, the current manager, says, "If you are going out there to compete, you have to foot it on the same basis as everyone else. Your work rate and reliability have to be even better than your competitors', because coming from the community sector the world expects you to fail."
The Non-Profit Franchise

The Ben & Jerry’s Partnership Program: A Strategic Alliance Between For-Profit and Non-Profit Organizations

Introduction

In recent years, non-profit organizations have struggled to find new ways to accomplish their missions. This search has included efforts to develop the financial means to support agency operations in a climate of uncertain philanthropic and government support, as well as the development of innovative programs for a growing client population. Many non-profits are examining the option of forming business partnerships, which can range from classic customer/supplier relationships to forms of strategic alliances in which the non-profit agency forms a long-term partnership with a for-profit company. This chapter will discuss the Ben & Jerry’s Partnershop program as one example in which a corporation has sought to work with the non-profit community to expand economic opportunity.

Many corporations are involved in efforts to support worthwhile community causes. Traditional corporate philanthropy includes “give aways,” sponsorships and financial contributions. Increasingly, however, corporations are looking for ways in which they may have a more significant, long-term impact upon an issue or in a given community. Efforts which meet that goal while also allowing the corporation to sell its product are becoming increasingly popular. These strategic alliances may take different forms in addition to the franchise initiative described below. One example is corporate outsourcing to non-profits to meet various service or production needs. Regardless of what form it takes, in many ways these approaches are the essence of what it means to “do well by doing good.” The Ben & Jerry’s Partnershop program should not be viewed as an isolated effort, but as the first step in what we hope will be an array of new corporate-community business partnerships to be created in coming years.

It should be understood at the outset that this effort is part of a developmental process for both Ben & Jerry’s and its non-profit partners. What is presented in this chapter is merely a snapshot of that process. Ben & Jerry’s should also be com-
mended for its commitment to providing New Social Entrepreneurs with an opportunity to launch a Partnershop. It is hoped that other corporations will learn from their experience and pursue their own profitable, community-based business ventures.

The Concept of Strategic Alliances

Non-profits are increasingly seeking to form alliances with individual corporations in the business community at the same time that corporations are increasingly attempting to find more significant ways to contribute to communities. Strategic alliances may be seen as voluntary cooperative arrangements involving two or more independent organizations that agree to work together toward a common goal. Many organizations enter into different types of voluntary arrangements with other organizations. For example:

- short-term contracting relationships between customers and suppliers;
- contracting of professional services such as those provided by accountants, consultants, and attorneys; and
- contracting of support functions such as janitorial service or food preparation.

Strategic alliances differ from these types of inter-organizational arrangements in their emphasis on the long-term, “strategic import” of the relationship. Organizations enter into strategic alliances to better accomplish long-term goals and objectives. In the case of the Ben & Jerry’s Partnershop program, the goals of the corporation were to pursue their social mission while the goals of the non-profits are to provide employment and training opportunities to their program participants. Strategic alliances also include agreements between organizations to contribute resources, knowledge, or expertise in exchange for the capabilities of another organization.

Factors which make for successful strategic alliances can be linked to the notions of strategic fit, organizational fit, and perceived mutual benefit of the relationship. Jemison and Sitkin (1986) defined strategic fit as the degree to which a firm augments or complements the other firm’s strategy and, thus, makes identifiable contributions to financial and non-financial goals. Organizational fit is defined as the match between administrative practices, cultural practices, and personnel characteristics of the two firms. Perceived mutual benefit can be defined as the degree to which the two firms perceive the relationship to be beneficial to both parties.

The For-Profit/Non-Profit Alliance

In 1986, Barragan & Freedland suggested community-based organizations might benefit from joining the business franchise movement. The authors specifically recommended that restaurant franchises could serve as a vehicle for providing economic support for the social mission of these community-based organizations. Of course, this strategy of aligning with a for-profit enterprise through the franchise structure is not limited to the restaurant industry. It may work equally well with other business sectors that function through networks of franchise locations (for example, clothing outlets, automobile repair/maintenance shops, specialty retail stores, etc.).

Regardless of the sector in which the organizations operate, these types of working relationships tend to be of long-term importance to the accomplishment of the goals of each organization. In other words, they may be viewed as strategic alliance relationships. These arrangements pose difficulties as well as rewards for both organizations. It is important to examine the issues that arise in these alliances so that other businesses and agencies can under-

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stand the challenges of this type of program before committing to such a strategy.

In an effort to appreciate some of the intricacies of the franchise approach, we investigated a specific program of alliances centered around Ben & Jerry's Homemade, Inc. (Ben & Jerry's), a for-profit company with a strong commitment to serving a social purpose. This investigation explored the Ben & Jerry's initiative, known as the Partnership Program, which has formed strategic alliances with independent social service agencies in several communities as a means of accomplishing the social missions of both organizations.

BACKGROUND

Ben & Jerry's enjoys a reputation for high quality products, and is known for its support and interest in social causes. The company has evolved a network of franchise, retail outlets for the sale of its premium ice cream products. Over the past nine years, the company has also used its franchise operations to support community-based social service agencies. This program was developed as part of an effort to implement the company's mission statement which includes the goal of using its business operations as a vehicle for social change. The program has evolved over the years as significant learnings have taken place, but has always centered around granting franchises to selected non-profit agencies for the purpose of supporting their social missions through the employment of their clients. Community-based organizations in cities from New York to San Francisco currently operate six Ben & Jerry's scoop shop franchises—about five percent of the franchises in operation. As of this writing, one of the six has temporarily closed for relocation, and a second is planning to exit the program due to a change in their approach to their target population. Ben & Jerry's is committed to expanding the Partnership program.

The Partnership initiative can be interpreted as a series of strategic alliances between a for-profit business corporation and several non-profit social agencies. The strategic alliance approach offers an appropriate framework for evaluating the program, predicting the challenges most likely to be confronted, and making suggestions for improvement.

For this evaluation, interviews were conducted with corporate executives of Ben & Jerry's who are intimately involved in aspects of the Partnership program and with representatives of five of the six community-based organizations that are alliance partners. In addition, financial statements, annual reports, and media coverage were reviewed to gain an overall picture of how the program developed and is functioning.

ORIGIN AND MOTIVATIONS

Ben & Jerry's operates under a formal mission statement with three central goals:

1. producing a premium product;
2. successfully selling that product through retail outlets and franchise specialty stores; and
3. using their business as a vehicle for improving the social conditions of the communities in which they operate.

As stated above, Ben & Jerry's franchise activities represent an extremely small part of their overall operation. And the origin of the Partnership program is widely attributed to the efforts of a single individual to combine the social mission component of the corporate philosophy with the business component. Jeff Furman, a member of the board of directors at Ben & Jerry's Homemade, Inc., was assigned the task of developing the franchise program at Ben & Jerry's. He first suggested the idea of working with a non-profit agency to open a franchise shop in 1986. Furman reasoned that this arrangement would provide Ben & Jerry's the knowledge and experience of managing a franchise operation location while also providing an opportunity for a local community-based organization to fulfill its goal of providing training to margin-
alized people. The proposal was adopted through an agreement that Ben & Jerry's would waive the normal franchise fee and would provide the agency with expert product advice, training, and guidance on managing the shop. On their part, the agency would raise financing for the operation, provide management and staffing, and handle day-to-day operations. The parties started referring to this type of franchise as a Partnershop because it was perceived as a joint venture between Ben & Jerry's and the non-profit agency.

The first Partnershop generated a great deal of publicity. Community-based organizations in other cities heard of the venture and approached Ben & Jerry's with their own Partnershop proposals. To paraphrase one corporate member, it wasn't like there was a strategy for a whole program, it was simply that there was an opportunity that looked like a good marriage of the company's mission to sell ice cream and be a positive force in local communities. While they have moved to create a more formalized selection process, their informal approach in some ways made it possible for them to pursue the Partnershop initiative. If they had engaged in a serious evaluation of what might lie ahead of them, they may have decided the risks were not worth the potential rewards.

The non-profit social service agencies participating in the Partnershop program are local, community-based organizations seeking to provide employment opportunities, job skills development, and educational opportunities for marginalized individuals. Among the problems addressed by these agencies are homelessness, behavioral problems, and physical, emotional, and developmental disabilities. The agencies, which operate in large cities and in small to mid-sized communities, serve distinct populations within their communities, ranging from single adults to teenagers.

Whereas Ben & Jerry's may have initially been fairly informal in its approach to its work with non-profit franchisees, the more effective Partnerships have been the result of tremendous effort and work on the part of the non-profits involved. In greater detail in the Larkin Business Ventures case study, the launch of the Partnershop came about only after a lengthy planning process made possible through the support of the HEDF. Without that investment in pre-development, the success of the LBV experience would no doubt be significantly more modest and their present prospects less bright.

The non-profits' motivations for opening Partnershops seem to follow a few common themes. Each organization saw the program as a vehicle for providing meaningful employment to their clients that offered clients the opportunity to work in a comfortable setting with a high quality product line. As one respondent reported: "... we wanted to create the type of business that has a potential to send the message that you are good enough to sell premium products. It had to be high quality, it had to be something young people could engage with, it had to be 'cool' to young people."

Partnership representatives stated that they were aware of Ben & Jerry's reputation as an organization interested in social causes, and that this was a big attraction. With the exception of the initial Partnershop, the social service agencies stated they initiated the contact and made proposals to become participants in the program. It was their experience that Ben & Jerry's was responding to interested parties with worthy social programs, rather than actively seeking partners. For example, in 1994, Ben & Jerry's received more than 2,000 requests from non-profits interested in launching Partnerships; only two were selected from the pool.

**Strategic Fit**

The most important components of a successful alliance are the strategic fit between the participating organizations, the level of cultural fit, and the degree to which the separate organizations perceive the alliance as mutually beneficial. Strategic fit is usually the easiest com-
ponent to evaluate, and provides the most objective measures of success or failure. In our analysis of the data, we looked at the degree to which both parties were achieving their strategic goals. The program brings together organizations seeking to accomplish two sets of common goals:

1. achieving a social mission; and
2. operating the shop in an economically successful manner.

The social mission component can be considered successful if the alliance enables the social agency to achieve its mission to help its clientele and its community, and if Ben & Jerry's can use the scoop shops as vehicles for social action. The economic mission concerns the extent to which the franchise is able to successfully operate as an economic enterprise. Ben & Jerry's and the individual social agency both have a stake in seeing that these dual goals are achieved.

To assess the degree of success attained in meeting the social mission component through the program, we asked each Partnershop executive how the alliance arrangement had helped their organization accomplish its social mission. Respondents stated they have been able to put more of their clients to work, the work environment has led to improvements in the self esteem of their clients, and the work has improved the lives of their clients through increased job skills and experience. Respondents made the following comments:

- “One of the best things about the program is that the clients feel really proud that they are working for a Ben & Jerry's store and serving a well-known, high-quality product.”

- “[I]t has given our clients an opportunity to advance, to earn some income, to build job skills, to progress from working at our franchise location to working in management positions.”

- “The program has given clients an opportunity to excel at customer service.”

- “They are really proud that their paycheck comes from such a prestigious company.”

In addition, respondents stated that the franchise has given their agency a positive public image in their community. As one noted; “… it's kind of a joke around here that we manage 650 units of affordable housing ... and what are we known for? We are known for running an ice cream store.”

The consensus among the interviewees is that the social missions of the Partnershop organizations are being achieved. However, there is no formal procedure in place for evaluating this component. Corporate executives at Ben & Jerry's state they are considering the development of a social mission audit report to evaluate whether the Partnershops are achieving their social goals. It is recognized that it is very difficult to approach this sensitive issue, however, and the participation of Partnershop management will be critical in the development of successful evaluation procedures.

The economic mission component has been somewhat more problematic for some of the partners. The efficient running of a small business is a difficult task under any circumstance. According to Barragan & Freedland, nearly half of all small businesses do not survive past the fourth year due to factors such as undercapitalization, inexperienced management, and a lack of marketing skills. Franchises generally offer a higher success rate than stand-alone small businesses because they can build upon the public image of national chains and often rely upon the franchiser for management training. The Partnershop program offers the added benefit of intense media coverage of each new opening due to the unique nature of a collaboration between a well-known, for-profit corporation and a local non-profit agency working on local problems. Still, the program is predicated on the expectation that each shop will operate within the same parameters as the typical for-profit franchise operation.

A review of a limited set of financial reports gathered from four of the six alliance partners for the three most recent
quarters indicates they had poorer financial performance than the average, for-profit franchise. Because the sample size was so small, we could not perform an extensive financial analysis. Therefore, we chose to look at a simple calculation of profitability to get an idea of how well the Partnerships were meeting their economic mission. Profitability analysis is an attempt to quantify management’s effectiveness in using the resources, both human and capital, to earn a return on investment.

In general, it was found that the Partnerships do not achieve the same level of profitability as for-profit franchises. A closer examination revealed this finding may be attributed to two key factors:

1. **Location:** Critical to the success of any retail operation is the location of the store. One of the partners is located in a small community that, according to its management, would not have ordinarily been chosen as a site for a franchise store. The local population is too small and business traffic too light to adequately support the operation, and the store is not open during the winter. This was a case where the good intentions of Ben & Jerry’s to help a worthy social agency, and the enthusiasm of the social agency for the program, appear to have outweighed fundamental business considerations. The result has been a store that struggles financially to meet its goals.

2. **Program Focus:** The partners are deeply concerned with providing assistance to their clientele. The result is that in some instances employment practices are not linked solely to financial and business considerations. Whereas a standard franchise operation might lay off workers due to seasonal fluctuations in sales, the social service agencies appear to take extraordinary steps to maintain employment levels even at the cost of driving profitability below generally acceptable levels.

The importance of Partnership financial performance is reinforced by the comments of Ben & Jerry’s executives and Partnership managers. One corporate executive stated that the partners must succeed first as a business, which means selling product. They felt that, in the early years of the program, basic business issues were sometimes overlooked in opening Partnerships.

One of the significant lessons learned from the program is that basic business principles, such as the importance of location to the success of a retail operation, are just as essential to the success of a Partnership as they are to a traditional franchise store. The more recent Partnerships have been planned with these considerations in mind. In addition to being well managed, they have good retail locations and, as a consequence, are doing much better financially.

Several of the franchise managers agreed that basic business considerations were essential to the success of their Partnership operations and found no conflict between this position and their role as a non-profit organization. The Partnership role does place an additional workload on the managers in such areas as training, work scheduling, and financial planning. Several of the Partnership managers stated it was difficult to balance the social mission goal with the economic goal, but they added that they were accustomed to managing to a bottom-line and understood the need to live within their budgets.

Among the lessons to be derived from the Partnership experience, with regard to strategic fit, are the following key points:

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One of the significant lessons learned from the program is that basic business principles, such as the importance of location to the success of a retail operation, are just as essential to the success of a Partnership as they are to a traditional franchise store.
Basic business considerations, such as location, are just as important to the success of non-profit alliances with for-profit companies as they are to any business venture.

The added publicity that accompanies the opening of a Partnershop is, potentially, a double-edged sword: it is promotes the new business, but also draws close scrutiny from the community. An important consideration is the potential for bad publicity if a Partnershop fails. The closing of a Partnershop due to financial problems may expose both the for-profit company and the non-profit agency to harsh criticism.

Operating in a competitive business environment places significant operational and planning demands on any organization, which it must address if it is to survive. Non-profit organizations must budget sufficient resources to cover the added costs of operating a social purpose enterprise and not underestimate the amount of time necessary for predevelopment.

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Shared values, however, are not the only component of organizational fit. Other factors are management style, communication style, and the basic assumptions under which the organization operates.

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Organizational Fit

While strategic fit deals largely with matters that can be evaluated in advance (e.g., the business plan, the ability to sell a product, or the attractiveness of a particular social mission), organizational fit between the participating organizations (also referred to as cultural fit) is much more difficult to judge in advance. By organizational fit, researchers mean the degree to which the organizations can create common understanding, share common goals, and communicate effectively. Whereas the level of strategic fit may be roughly determined through specific data, organizational fit involves the resolution of ambiguities and nuances to allow two organizations to develop a common understanding and way of working together. To do so, they must know each other’s administrative practices, management styles, and communication practices. Because conflicts in these areas may not become apparent until after an alliance agreement has been made, they often bring significant tension to the alliance relationship. Many strategic alliances fail because the two parties cannot work effectively together to overcome differences in management style or reach a common understanding of how to manage the business.

The Partnershop managers interviewed unanimously reported a good fit between their organizations and what they perceived to be the corporate culture of Ben & Jerry’s with regard to shared social values. Each manager felt positive about Ben & Jerry’s emphasis on the role of social purpose in their business. There is a widespread belief among the Partnershop respondents that their social mission is supported by Ben & Jerry’s. The corporate respondents also made it clear they feel a sense of shared values and goals with each of the alliance partners.

Shared values, however, are not the only component of organizational fit. Other factors are management style, communication style, and the basic assumptions under which the organization operates. It is highly unlikely that any strategic alliance will be free of some difficulties in these areas.

In conducting these interviews, we discovered an interesting discrepancy between the Partnershop managers’ expectations of Ben & Jerry’s on one hand, and the Ben and Jerry’s executives’ expectations of non-profit agencies on the other. This line of inquiry revealed a conflict between how the non-profit partners desire to be viewed and how they perceive they are viewed by some of the corporate executives at Ben & Jerry’s. The expectations held by several corporate executives at Ben & Jerry’s about the nature of non-profit agencies could be seen as a potential problem of organizational fit. Several of those executives interviewed believed they could not deal with the non-profit partners in the same manner they dealt with regular franchises because the alliance partners came from a different mind-set. When asked if the alliance fran-
chises were achieving the program’s business goals, one executive stated that he did not feel that they should be held to the same standards as regular franchises. In his words, “...it’s like comparing apples and oranges.”

One company executive felt that Partnershop managers resented that they had to pay attention to the bottom-line, which required them to change their mind-sets from operating as a non-profit. However, another corporate executive stated that one of the biggest myths to be contended with within Ben & Jerry’s was the idea that non-profits can’t operate at a profit. This executive felt the biggest problems confronted by the Partnershop program were centered around this lack of understanding within Ben & Jerry’s of how the non-profit sector operates. In point of fact, both executives are probably correct. On the whole, many non-profit managers have not yet developed the ability to be “treated like everyone else.” Yet at the same time, if they hope to succeed as social entrepreneurs they will have to learn to be treated like everyone else. Therefore, at the same time the non-profit managers are having to adjust to their new roles, Ben & Jerry’s, as a for-profit corporation, is also having to learn more about how non-profits are managed and help to meet their program goals.

Several of the Partnershop interviewees mentioned they had expected Ben & Jerry’s to take a more active role in instructing them in best business practices for their franchise operations. However, this may be because they would like more guidance with regard to business issues. To paraphrase one Partnershop manager, Ben & Jerry’s is a big corporation and knows how to operate in a highly efficient, businesslike manner and this is one of the attractions of working with Ben & Jerry’s, but it can also cause some problems. Given that no other corporation has attempted to launch as many non-profit managed franchises, in some ways the “idea” capacity of Ben & Jerry’s outstrips its current ability to support the needs of non-profit organizations managing the Partnerships. Several of the alliance partners stated they found the communication from corporate offices to be, at times, more casual than they expected from a successful business, but they also appreciate that they can just pick up the phone and speak with anyone at Ben & Jerry’s when they have a problem.

These preconceived notions on the part of the non-profit managers that Ben & Jerry’s would function in a strict business manner, and on the part of the corporate officers that non-profit managers would be unable to reach the same standards as a for-profit setting, seem to be the source of whatever limited friction exists between the alliance partners and Ben & Jerry’s. If not corrected, this miscommunication between the partners and corporate officers could be damaging to the relationship. Clearly Ben & Jerry’s and the partners have differing assumptions of the nature of non-profit franchises and are probably operating under inaccurate perceptions of each other which may be mutually reinforcing.

Among the lessons to be derived from the Partnershop experience, with regard to organizational fit, are the following key points:

- Shared values and missions can be powerful factors in forming alliances and making them successful.

- Misunderstandings due to preconceptions about the nature of an alliance partner are difficult to avoid, and have the potential for creating disharmonies in the relationship.

- Unless addressed by the partners, misunderstandings about the nature of each other and/or the alliance can reinforce themselves.

**Mutual Benefit**

A strategic alliance must benefit both partners or it will surely fail. It is clear from the interview responses that the managers of the non-profit franchises and the corporate staff at Ben & Jerry’s overwhelm-
ingly feel the alliance is of mutual benefit. When asked for their opinion about the best thing they experienced from the partnership, corporate members all agreed the success stories of individuals helped by the program were the most important to them. A typical response was; ”... the most beneficial part has been the results of some of the programs. We've seen people who normally haven't been given the chance to succeed actually succeed in this environment.”

In addition, when asked how Ben & Jerry's has benefited, executives referred to the great publicity and good public relations generated by the attention their corporate mission receives in the community following the opening of a franchise location with a Partnershop. This publicity has the potential of becoming a double-edged sword, in that the failure of a Partnershop would reflect poorly upon both the corporation and the local non-profit. It cannot be denied that Ben & Jerry's receives a good public relations boost from the Partnershop initiative; however, it is actually a fairly high-risk strategy which others may have forgone in favor of more traditional product promotions.

Ben & Jerry's executives also noted they manage to sell a lot of good ice cream through the stores. In light of the potential for the Partnershops to be viewed as “not real” franchises, it is interesting to note that corporate staff do feel a significant amount of product is sold through the Partnershops. In comparing the first-year performance of Larkin Business Ventures, their first store's performance has compared favorably with that of other for-profit stores. There is still a way to go, but it is clear the non-profit stores can succeed on business terms if managed properly and with the appropriate, business-like expectations in place. And it is clear from the responses of corporate personnel that the Partnershops are helping Ben & Jerry's meet the dual goals of selling high quality product and using their business as a vehicle for social change.

The managers of the Partnershops report they have also benefited in numerous ways:

1. They have been able to employ more of their clients;
2. Their association with a well-known public company has eased their acceptance in their local communities;
3. The relationship has provided social enterprises with a level of credibility they would not otherwise have received. This has made it easier for some of them to establish credit lines with local banks and obtain financial backing for their other projects;
4. The social service agency’s clients have had very positive experiences working with a high quality product with a national reputation; and
5. The partners benefited from Ben & Jerry’s expertise in the ice cream business including advice on what inventory to purchase; in addition, national name recognition made local marketing much easier.

For a more in-depth discussion concerning the types of positions created and the experience of the employees, the reader is referred to the Larkin Business Ventures case study and the chapter which presents the employee’s perspective on work in a Partnershop.

**Conclusions**

The collaboration between the for-profit enterprise and independent non-profits represents a unique type of strategic alliance between a corporate entity and community-based organizations. A successful alliance of this sort offers a possible framework for collaboration between the for-profit and non-profit worlds to achieve common goals and enrich the community.

Though our investigation of this collaboration has revealed some challenges in the relationship, the problems do not appear to
threaten the program. As with most strategic alliances, the bulk of the problems appear to be in the area of organizational fit. These problems stem from the partners’ misunderstandings and misperceptions of each other, which can be overcome through better communication and a process of mutual education. It is clear the managers of the alliance franchises recognize the difficulties of running an operation in a manner that is responsive to the bottom-line. They do not profess to be experts at achieving this objective, but they all understand its importance to the success of the program and are making it a priority.

At the same time, some executives at Ben & Jerry’s appear to have a preconception that non-profit agencies are predisposed to ignore bottom-line considerations. As a result, they are concerned that the profitability levels of the Partnerships are lower than those of their traditional franchises.

These types of misunderstandings are typical of strategic alliance situations, and represent one of the most difficult aspects of successfully managing these business forms. It is common for partners to develop expectations about their counterparts that may not be initially fulfilled. This suggests the need for greater communication and the establishment of improved clarity around the needs, goals, and objectives of each party.

It is clear the Ben & Jerry’s Partnershop program is not for everyone. It works best with agencies seeking to create entry-level, service sector jobs for their clientele. The community-based organization must be prepared to work hard to make a business success of the Partnershop. Therefore, it is essential to determine whether or not the clients served by the agency, and the agency itself, are appropriate for this type of strategy. In addition, with the exception of initial assistance in the decision-making regarding the setup of the scoop shop, the Partnershop must be prepared to manage its business affairs on its own. For some agencies, this may be beyond their expertise; and yet, they would be ill-advised to rely upon their corporate partner to run the “nuts and bolts” of their business. Finally, and most importantly, the Partnershop must be an appropriate vehicle for meeting the social goals of the organization. With these kinds of considerations, it is clear a great deal of planning must go into any process of becoming a Partnershop.

For those who are prepared to attend to the bottom-line and are able to secure a location with good retail potential, an alliance with a viable for-profit such as Ben & Jerry’s may be an ideal choice for pursuing their social agenda. It is hoped more corporations will follow the lead of those like Ben & Jerry’s and commit to improving local communities by organizing programs like the Partnershop initiative. The strategic alliance model for such relationships can assist in identifying important issues before any agreements are signed, and for evaluating the potential success of a new venture.
LEGAL CONSIDERATIONS

OVERVIEW

A non-profit corporation, exempt from federal income tax under Internal Revenue Code (IRC) Section 501(c)(3), may engage in business venture activities either directly or through a controlled subsidiary corporation. A business that is or will become a substantial activity must be related to the corporation’s exempt (charitable or educational) purposes, that is, the business must be conducted as a means to achieve a charitable or educational purpose. “Substantial” is typically defined as exceeding approximately 15% of the corporation’s time or gross revenues.

If not related to achieving charitable or educational purposes, the business must be conducted in a taxable (typically, for-profit) subsidiary. Otherwise, the corporation risks loss of its tax-exempt status. The fact that the revenue generated is used to support the corporation’s other charitable or educational activities does not make the business related. Profits, if any, from related businesses are not taxed. Profits from unrelated businesses are taxed at normal corporate income tax rates.

The income tax ramifications of undertaking a certain business within the corporation are but one factor to be analyzed. Even though the corporation need not form a subsidiary to conduct the business, it may find it desirable to do so. A number of factors, such as liability and financing, often must be considered. No subsidiary should be formed unless a clear, well thought-out reason exists.

Decisions concerning corporate structure need to be reviewed as new circumstances arise and as the corporation and its business develop. Although it may be appropriate to initially undertake a business within the corporation, as the business grows, its management or capital needs, or the potential liability it represents, may necessitate transfer to a subsidiary.

A subsidiary corporation will be treated for tax, liability, and other purposes as a separate legal entity, despite the parent non-profit corporation’s control over the composition of the subsidiary’s board of directors. However, certain precautions must be taken to ensure that the proper balance of separation and control are maintained.
These issues are discussed below in greater detail, but still in general terms. The advice of an attorney should be sought during the planning for a new business. The attorney can conduct a board training on organizational structure options in light of the specific business.

Too often, lacking this kind of information, non-profit corporations self-impose constraints which the law does not impose. The legal structure issues discussed here are not roadblocks but tools to assist the corporation in accomplishing its goals. If a corporation has developed a viable business opportunity, there are no legal structure impediments to its accomplishment.

Step One: Review Incorporation Documents

Before undertaking a business within the non-profit corporation, review its articles of incorporation, bylaws, tax exemption application and determination letter, and other corporate documents such as its mission statement.

Articles of Incorporation. Determine whether the business activity is consistent with the general or specific corporate purposes. For example, if a corporate purpose is to promote employment opportunities for the disadvantaged poor, minorities, unemployed, and underemployed in the community, then a business which will employ a significant number of such persons is consistent with that purpose. Thus, it is generally not necessary to state that business operation is a specific purpose. Also, most purposes clauses have a general catch-all which permits the corporation to engage in any activities which further its charitable or educational purposes, and an insubstantial amount of activities which are not in furtherance of these purposes.

If the business activity is not authorized even generally, amend the articles and send a copy of the amendment to the Internal Revenue Service (IRS) and corresponding state tax agency with the corporation's next income tax filing (IRS Form 990 and corresponding state tax form), or, if not filing, within four-and-a-half months after the close of the corporation's fiscal year. Include a letter describing the new purpose and business activity and why the corporation considers them to be charitable or educational.

Bylaws, Mission Statement, Other Internal Documents. If the articles are amended, corresponding changes might be needed in these internal documents. Also, review them for any statements inconsistent with the operation of a business, or to add references to business activities where appropriate. For example, if a standing business development committee has been formed, it may be necessary to add this to the bylaws.

Send a copy of the bylaw amendments to the IRS and state tax agency with the next income tax filing. The mission statement and other documents such as a strategic plan are internal to the corporation and need not be sent.

Tax Exemption Application and Determination Letter. Determine whether the business activity contradicts statements made in the application to the IRS/state tax agency or requirements imposed in the determination letter from the IRS/state tax agency. For example, the application might state that the corporation will never charge for its services. If the business activity is inconsistent with the application, notify the IRS/state tax agency of the new activity either by letter as part of the next income tax filing, or by ruling request.

A letter alerts the IRS to the business activity without seeking permission or obtaining approval. The letter should describe the business activity and why the corporation considers it to be charitable or educational. The IRS might disagree and require that the corporation cease the activity or transfer it to a subsidiary, but is unlikely to revoke the corporation's exemption as long as it gave notice of the activity. The corporation can also demonstrate its good faith belief that the activity is charitable or educational by obtaining an opinion concerning the activity from its legal counsel.

A ruling request is necessary if the activity is inconsistent with the requirements in the determination letter, and is optional in
other circumstances. For the payment of a fee, the ruling request seeks IRS agreement that the activity will not jeopardize the corporation’s tax-exempt status. However, IRS approval will be limited to the facts presented in the request. If the business changes, the approval might not cover the changed activities.

**Step Two: Determine Whether the Business Is Related or Unrelated**

A business is related to the corporation’s charitable or educational purposes if conducted as a means to accomplish those purposes and not primarily to provide additional funds. Consider the nature and size of the business and whether it is conducted on a scale consistent with charitable, rather than profit-making, purposes. Look at the fees charged and whether goods or services are provided at less-than-cost to the poor, while charging more to those who can afford to pay more. Who is served by the business—the poor, other charitable corporations, the elderly, or other members of a charitable class—or the general public? Ask whether the business operates in a typical commercial manner in competition with other private businesses.

The following cases and IRS rulings illustrate the application of these principles.

In *Aid to Artisans, Inc. v. Commissioner*, 71 Tax Court 202 (1978), the corporation purchased and sold handicrafts from disadvantaged craftspersons. Sales were made to museums and other non-profit shops and agencies. In determining that this business was related to the corporation’s charitable purposes, the court emphasized (1) the business alleviated economic deficiencies in communities of disadvantaged artisans, and (2) the crafts educated the public in the artistry, history, and cultural significance of handicrafts from these communities. A similar conclusion was reached in *Industrial Aid for the Blind v. Commissioner*, 73 T.C. 96 (1979), in which the corporation purchased products manufactured by blind individuals and sold them to various purchasers.

In the preceding cases, the corporation’s business was to find a market for items produced by disadvantaged persons, so that those persons could better support themselves. In Rev. Rul. 75-472, 1975-2 Cum. Bull. 208, the corporation directly employed disadvantaged persons in its business for the same reason, and the IRS concluded that the business furthered charitable purposes.

The business involved the production and sale of furniture made by residents of the corporation’s halfway house for alcoholics. The house was operated for people who needed a temporary home after receiving short-term intensive care for alcoholism. The work at the furniture shop was transitional employment, not occupational training. It was meant to help the residents develop regular work habits and a sense of self-discipline and independence at a time when they were not able to cope emotionally with the outside pressures of the everyday world.

The workers were not expected to continue working in the furniture shop beyond the time when they attained a reasonable degree of self-respect and reliability, and thus became able to secure regular employment elsewhere. Residents usually stayed from six to nine months.

Similarly, in Rev. Rul. 73-128, 1973-1 Cum. Bull. 222, the IRS determined that a business conducted for the primary purpose of providing skills training to the disadvantaged was operated for charitable purposes. In the ruling, the corporation was formed to provide job training to non-skilled persons who were unable to find employment or could not advance from poorly paid employment due to inadequate education.

The corporation manufactured and commercially sold toy products by training and employing residents of an economically depressed community who were unemployed or underemployed. A few skilled persons were hired as managers and trainers; some of the management and administrative staff were unskilled trainees. The corporation tried to place its trainees in permanent positions in the community as soon as they were adequately trained.
This ruling stands in contrast to Rev. Rul. 73-127, 1973-1 Cum. Bull. 221, in which the IRS denied tax-exempt status to a corporation that operated a cut-price grocery store in which a small portion (about four percent) of the earnings was allocated to provide on-the-job training to the hard-core unemployed.

The store sold food to residents of a poverty area at prices substantially lower than those charged by competing grocery stores. The store was operated by an experienced staff. Trainees were selected from the area, and on completion of the training were expected to seek employment elsewhere in the retail food industry.

Although the training program was charitable, the sale of food was not. The size of the food store operation was larger than reasonably necessary to carry out the training program. The food sales, although at low prices, still produced a profit. Food was not distributed free to those who could not afford to pay, or at below cost to those who could not afford to pay more. Although the store was located in a poverty community, it was open to the general public.

Businesses related to charitable or educational purposes may, but need not, be conducted within the corporation, with no income tax on the net profits, if any. Businesses unrelated to these purposes but an insubstantial part of the corporation’s overall activities may, but need not, be conducted within the corporation; income tax must be paid on the net profits. The corporation jeopardizes its tax-exempt status if it conducts a substantial unrelated business. It should form a subsidiary to carry out such a business.

The IRS and the courts have not defined “substantial.” A common rule of thumb is that no more than 15% of the corporation’s time and gross revenues should be devoted to or be derived from the business.

Sometimes, a business will be related at its inception, but will change over time. A business intended as a job training site may decide to retain its trainees and make them permanent employees instead of bringing in a new round of trainees. Thus, it is important to regularly review the business and the decision that it is related to charitable or educational purposes.

A common misperception is that related businesses are “good” and unrelated businesses are “bad.” The corporation should not distort its business with job training to make it related. There is nothing wrong with starting an unrelated business, making profits, and paying income tax.

STEP THREE: REVIEW OTHER FACTORS REGARDING FORMATION OF SUBSIDIARY, AND DETERMINE WHETHER ADVISABLE

Although the business might not jeopardize the corporation’s tax-exempt status, there may be other reasons to form a subsidiary. The major reasons are discussed below. Not all of them might apply in a particular situation, and some that apply should not be given equal weight. The corporation should carefully weigh the advantages and disadvantages of forming a subsidiary before making its decision.

Liability. A subsidiary protects corporate assets from the debts of the business, such as payments owed to suppliers or lenders, or from lawsuits brought by customers or former employees. Similarly, the business is protected from the debts of the parent non-profit corporation.

Liability protection can be lost if the corporation guarantees to pay certain debts of the subsidiary, such as by co-signing a loan. The corporation would be liable up to the amount of its guarantee. Protection can also be lost if the corporation undercapitalized a for-profit subsidiary, that is, did not provide it with sufficient capital to meet its ordinary business needs. Instead of providing too little funds, if the corporation caused the subsidiary to transfer to the
corporation so much funds that the subsidiary was unable to meet its obligations, liability protection again might be lost.

The most common cause of loss of liability protection, however, is due to failure to observe the corporate formalities required of two separate corporations. If a claimant can prove that the parent non-profit corporation and its subsidiary are not two separate entities, the parent may be liable for the claims brought against the subsidiary.

To maintain its separate legal status, the subsidiary must have its own board of directors with separate meetings and minutes; separate books, records, and financial accounts; and must use separate stationery. The subsidiary can contract with the parent corporation for staff, space, and other needs, and the parent corporation can lend money to the subsidiary, without loss of liability protection, as long as the transactions are reasonable and fair to both corporations at the time they are entered into.

Board overlap is possible. Generally, subsidiary board members should be chosen for their expertise, time availability, and sensitivity to the goals of the parent corporation and the subsidiary’s business. It is advisable to have some subsidiary directors who are not also parent corporation directors, especially to approve contracts between the corporations.

The minutes of the two boards of directors should reflect that the subsidiary corporation board made the decisions concerning the day-to-day operations of the subsidiary and its business. The parent corporation can request reports and explanations as to the activities of the subsidiary and any deviation from its business plan, conditions imposed in a loan or other agreement between the corporations, or in meeting the goals established by the parent corporation for the business. The parent corporation can recommend that certain actions be taken or not taken. However, it should not substitute itself for the subsidiary board and directly take those actions.

The parent corporation must be content with its indirect control over the subsidiary through its power to select the board, remove board members and fill vacancies, approve the bylaws and any amendments, and approve any action that would adversely affect its rights. It can also have its auditor perform the subsidiary’s audit, and its attorney serve the subsidiary in a similar capacity.

Since all businesses involve some risk, it would be reasonable to conclude that the corporation should always form a subsidiary to operate a business venture. However, the cost of a subsidiary, both in money and time, can be significant. Instead, the corporation should evaluate the risks associated with the business, determining which are insurable and which are not. It should then estimate the magnitude of the uninsured risk, and weigh that along with other relevant factors.

Board Capacity. Board members cannot guarantee that the business will be successful. If it fails, generally they are not liable for the debts of the business or the loss of invested assets. However, to be protected, they must exercise reasonable care in managing the affairs of the business. Business decisions should be based on information which the ordinarily prudent person would consider. Directors can rely on the reports of experts, but are not excused from making an independent inquiry when reasonable and appropriate.

Perhaps not all of the non-profit corporation’s board members are comfortable with the time commitment and responsibility involved in managing a business. Perhaps they do not have the business expertise necessary to provide guidance to the business. The corporation could form a committee to oversee the business, add new members to its board, or request the resignation of certain board members. Alternatively, the corporation could form a subsidiary with its own specialized board chosen by the parent corporation.

Unlike the board of a non-profit corporation with multiple projects, the subsidiary board could have more focused meetings and make more timely business decisions. It could attract knowledgeable people in the business community who would not
have the time or inclination to serve on the parent corporation board.

**Staff Capacity.** The business might require a manager with specialized business skills and an entrepreneurial attitude lacking among the non-profit corporation staff. If an outsider must be hired to manage the business, it might be more attractive to offer a position as the president of a new subsidiary rather than that of a division or program manager in a larger non-profit corporation.

To be competitive, the business might have to pay more for its staff than would be permitted by the pay scales of the parent non-profit corporation. A subsidiary can also develop incentive compensation plans, such as profit-sharing and bonuses, more easily than can the parent charitable corporation. It might be easier to create the subsidiary than to upset the existing corporate culture. Also, staff of a subsidiary will be devoted to making it succeed. Business staff in the non-profit corporation might have to devote a portion of their time to non-business venture matters.

On the other hand, subsidiary staff might be hired sooner than needed; as an internal division, many business start-up activities might be performed by existing non-profit corporation staff. Also, separate subsidiary staff might feel alienated from the parent non-profit corporation, and resent its control.

If a subsidiary is formed, usually some staff of the parent non-profit corporation will devote a portion of their time to the subsidiary. It is better for staff to be employed by one corporation, rather than two, so that extra employment taxes and bookkeeping expenses are not incurred. Staff should be employed by the corporation which uses the greater percentage of their time. The other corporation should pay the full cost of purchasing the remaining time from the employing corporation.

**Funding and Financing.** A subsidiary corporation might be able to attract funds not available to the parent non-profit corporation. Some funders prefer to fund a subsidiary devoted to a single business purpose. Accounting for the expenditure of their funds is easier, and it is clearer that their funds are being devoted to the business. Operating within a parent non-profit corporation, a business venture’s overhead costs may be buried within the overall costs of the corporation, or business revenues might be used to subsidize non-business overhead.

Some funding/financing sources are only available to for-profit corporations, such as the Small Business Administration, while others are available to non-profit corporations with specified and limited purposes. A subsidiary can meet these requirements.

Some funding/financing sources have limited experience with non-profit corporations, and others have limited experience with for-profit corporations. For example, banks may not believe that a non-profit corporation can operate a sound business venture. They understand and appreciate the for-profit corporation form.

Although a for-profit subsidiary often cannot directly receive foundation grants and some government grants, the parent non-profit corporation generally can receive the funds and then either loan them to or invest them in the subsidiary.

Although a for-profit subsidiary often cannot directly receive foundation grants and some government grants, the parent non-profit corporation generally can receive the funds and then either loan them to or invest them in the subsidiary.
sidiary could form a joint venture (partnership) with investors. When it comes time to sell the business, it may be easier to sell a subsidiary than a portion of the non-profit corporation.

**Cost.** In the short run, a subsidiary will incur incorporation expenses such as legal fees, government filing fees, and, if a for-profit subsidiary, securities law compliance fees. In the long run, the added cost is the time necessary to maintain proper corporate separation, such as separate tax returns.

**Community Image.** A business operated within the non-profit corporation might promote confusion of identity and purpose within its low-income community, and resentment of “unfair competition” within the business community. A subsidiary, particularly a for-profit subsidiary, might avoid these problems. On the other hand, community residents might not have the same positive feelings toward a for-profit subsidiary as they do towards the parent non-profit corporation, which they know to be operating for the good of the community.

**Lobbying and Other Restricted Activities.** A charitable corporation is limited by federal tax law in the amount of lobbying it can undertake. A non-charitable subsidiary would not be subject to those limitations, although other limitations might apply. On the other hand, the amount of permissible lobbying by a charitable corporation increases as its revenues and activities increase. By engaging in the business without a subsidiary, the corporation thus increases the amount of its permissible lobbying.

**Taxation.** If the non-profit corporation’s business is unrelated to its charitable purposes, the first $1,000 in profits is not taxed. In a for-profit subsidiary, the entire profit would be taxed. Passive unrelated income (capital gains, interest, dividends, royalties, and real property rents) received by the non-profit corporation might not be taxed; in a for-profit subsidiary they would be.

Under some circumstances, business activities could jeopardize a non-profit corporation’s public charity status. There are two types of IRC Section 501(c)(3) corporation, the public charity and the private foundation. Public charity status is preferable. Private foundations are, in practice, ineligible for some grants, subject to greater administrative requirements, taxed on net investment income, and subject to stringent self-dealing, business holding, and other rules.

Public charities must receive a certain percentage of their income from “public” sources. There are two numerical tests. IRC Section 509(a)(1) requires public support at least equal to one-third of total support, but permits as low as 10% in certain circumstances. Related business income is not counted as either public or total support, and unrelated business income is counted as non-public support. However, if the corporation receives most (approaching 90%) of its support from related business income, it is classified as an IRC Section 509(a)(2) corporation. This test requires at least one-third public support, and does not permit a lesser percentage. Related business income is included as public support, but only up to the larger of $5,000 or one percent of total support from any one source. Unrelated business income is counted as non-public support.

Thus, a small non-profit corporation with a substantial amount of related business income might not qualify for Section 509(a)(1) status, and might not meet the one-third public support test of Section 509(a)(2).

A subsidiary avoids this problem; its income is not counted when determining whether the parent non-profit corporation meets the public charity requirements. If its business activities are charitable, the subsidiary could qualify as a public charity under IRC Section 509(a)(3), a non-numerical test which requires that the subsidiary be organized for the benefit of, to perform the functions of, or to carry out the purposes of the parent non-profit corporation.
If you decide to form a subsidiary, choose its legal form

When the primary activity of the subsidiary is unrelated to charitable or educational purposes, it must be a for-profit corporation or non-profit, taxable corporation (see also the discussion of IRC Section 501(c)(4) below). The non-profit, taxable corporation is relatively rare, used only when a for-profit corporation would present a negative image or is prohibited by a funding source.

When the primary activity of the subsidiary is related to charitable or educational purposes, it can be a non-profit, IRC Section 501(c)(3) tax-exempt corporation. However, if lobbying is intended as a substantial part of its activities, an IRC Section 501(c)(4) tax-exempt corporation should be considered.

A Section 501(c)(4) social welfare corporation can engage in substantial lobbying and can engage in certain business activities which would be unrelated if carried out by a Section 501(c)(3) corporation. For example, a Section 501(c)(4) corporation can assist individuals who are not low-income, minority, or otherwise disadvantaged as long as the activity serves the common good and general welfare of the community, such as the making of loans to private businesses to induce them to locate in a depressed community. A Section 501(c)(4) corporation is not directly eligible for tax-deductible contributions and government or foundation grants, which must go through the parent non-profit charitable corporation.

The primary advantage of a non-profit, tax-exempt subsidiary over a for-profit or non-profit, taxable corporation is its exemption from income tax and possibly from property, sales, or other taxes, licenses, and fees. The tax-exempt corporation does not pay tax on net income from businesses related to its exempt purposes. On the other hand, a for-profit or non-profit, taxable corporation pays tax on net income. It also pays tax on unrelated passive income, as described above; a tax-exempt subsidiary might not be taxed on this income.

Certain other factors described above, such as image and funding source requirements, might also have a bearing on the choice between a non-profit and a for-profit subsidiary.

For the non-profit corporation’s second and subsequent businesses, there are additional considerations as to legal structure. If the first business is unrelated and conducted within the non-profit corporation, one advantage of conducting a second unrelated business within the same corporation is the ability to offset for tax purposes the profits from one business with the losses from the other. Of course, the other factors described above, such as liability, capacity, and funding source requirements, must also be considered.

If a subsidiary was formed for the first business, the second business could be carried out in the parent non-profit corporation, in the same subsidiary, or in a new subsidiary. A new subsidiary can be controlled either by the parent non-profit corporation or by the first subsidiary. In addition to the factors described above, some of the additional considerations are whether gains and losses can and should be offset, simplicity of structure, and the importance to the parent non-profit corporation of direct rather than indirect control over a subsidiary’s activities.

Conclusion

Whether a non-profit corporation would benefit from forming a subsidiary to carry out a business venture depends on many factors. There are advantages and disadvantages, and the analysis can change over time. An in-house venture saves the cost of a new corporation, and the non-profit corporation retains complete control. A subsidiary can protect the parent corporation from legal liability, might benefit the business through more focused effort, and might attract new revenue. Before reaching a decision, a non-profit corporation should obtain expert legal and financial advice.
Understanding the Organizational Development of Non-Profit Enterprises

Introduction

It is clear that organizations attempting to pursue the creation of social purpose businesses will be significantly altered in the course of their work. What is less clear is what specific shifts may occur and how they may be anticipated. This chapter attempts to frame relevant issues related to organizational development as observed in our experience.

In approaching organizational development, it is critical to understand that an agency may choose from a number of routes when structuring its pursuit of non-profit enterprise. While the non-profit should not seek to set the organizational structure in stone, it must understand the possibilities if it is to maintain flexibility and a vision of alternative options. While the following can be split into various subsets to create a number of inter-related subsidiaries, there are at least three basic ways to structure a non-profit organization in relation to its business activities:

Program Addition/Extension A program extension is a revenue-generating enterprise established as a related program of the sponsoring organization. Under this approach, an enterprise division or program is observed in the same way as a case management department or housing development unit. Examples of program extensions presented in this report might include Central City Hospitality House or Rubicon Programs.

Independent Entity An independent entity is an organization established exclusively for the purpose of expanding economic opportunity for a given target population. In the same way one may identify “housing” groups or “social service” organizations, one may also identify “enterprise organizations” which were created exclusively to pursue enterprise development. An example of an independent entity
presented in this report is Larkin Business Ventures.

**HYBRID ORGANIZATION**1 A hybrid entity is an organization established or developed with the intent of jointly pursuing both social service and non-profit enterprise goals. This type of organization incorporates a “parallel thought process” wherein many organizational players simultaneously think in social/business frameworks and take an integrated approach to their work. Examples of this type of organization are slightly more difficult to find, but might include Oak Street House, the Santa Cruz Homeless Garden Project or Pioneer Human Services.2

It is critical to understand these are not “set” organizational structures, but dynamic ones which sometimes combine elements of each type of organization in one setting. Regardless, it is helpful to appreciate the distinctions between the three. In our experience, while Rubicon has been quite successful in its work, it has found it challenging to “simply” launch a venture as an outgrowth of program activities. Even within the structure of Rubicon Programs, the enterprise division operates with a high degree of autonomy. The danger of pursuing an “extension” path is in assuming the enterprise will be similar in form and process to any other new program component within the agency. It’s not. The independent entity is best able to focus upon the management of the enterprises, but must also deal with the complications of collaborating with outside programs, over which it has limited control, in the provision of support services to employees. And, while appearing to incorporate the best elements of both worlds, the hybrid organization also incorporates many of the tensions found within the two organizational structures and must work to smoothly integrate seemingly disparate philosophies.

At this point in our experience it is unclear whether organizations move through some direct “evolution” in their developmental process of becoming increasingly market-directed as a social enterprise, or if they can maintain a position as one type and simply incorporate elements of the others as needed. We would like to say the goal is the creation of complete hybrid organizations, since such entities would seem most effective at blending both social and entrepreneurial practice; however, more organizations may be choosing to spin off independent entities in order to assure the business receives the focus necessary for survival in the market. In the case of Larkin Business Ventures, while the original vision was of a hybrid, the decision was later made to focus initially upon the goal of enterprise creation. In the example of Hospitality House, ArtStart grew directly out of the Community Arts Program, but may have fared significantly better had it been spun off as an independent entity during its transition period. And recent conversations with Oak Street House reveal that consideration is being given to spinning off the enterprises under a separate subsidiary to allow the sponsoring organization adequate resources to focus upon its five other program areas presently serving diverse populations in need. Time will tell how each of these organizations formalizes its organizational structure and operations.

We do not feel that an organization can simply “add” a business in the same manner in which it may receive funding to “add” a program. The pursuit of non-profit enterprise will inevitably have an impact upon the organization as a whole. Groups pursuing this course might best think of themselves as becoming new, social enterprise organizations. The process whereby a strictly human service or housing organization becomes a non-profit, social enterprise organization is complex, entailing shifts at individual and group levels which finally become manifest at the organizational level.

While this section presents important characteristics of that process, the process itself is not one of easily identified points laid out in nice sequence. We conclude this section with an outline of issues addressed in the organizational development of many of the groups with which we have worked over the past years, yet the process of organizational change itself is not a clear recipe of steps to be pursued in the same way one

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1 The reference to hybrid organizations is gaining popularity and has been used increasingly by a variety of players in the field. To our knowledge, the first to use it in a written document is Ed Skloot, Executive Director of the Surdna Foundation, New York City, in a paper prepared for the Aspen Institute in 1995.

2 While not fully profiled in this report, Pioneer Human Services is a non-profit organization founded in the 1960s in Seattle, Washington, where it presently operates a number of businesses, employs over 500 individuals, and serves over 3,000 clients per year.
An organization may discuss an issue and reach consensus on it, only to find two weeks later that another aspect of the issue is unresolved and requires further assessment. This is not to say there is no progress; but is to say that, in the words of one of our grantees, many of the problems encountered in the course of pursuing enterprise development can only be managed, not solved.

The Question of Organizational Culture: Characteristics of Success

A number of factors are present in those organizations which have successfully moved toward the establishment of a social enterprise culture from that of a strictly non-profit, human services culture. These factors are as follows:

- Entrepreneurial Management
- Participatory Culture
- Openness to Individual and Organizational Change
- Organizational Capacity: Middle Management/Core Administrative Competencies
- Ability to Identify and Make Use of External Financial and Professional Resources
- Ability to Access Business, Non-Profit, Capital, and Other Networks

While other factors certainly play various roles in the creation and maintenance of organizational cultures, we feel these
elements have the most central role in the evolution of non-profit enterprise organizations.

> ENTREPRENEURIAL MANAGEMENT

Within the field of small business as well as social purpose business development, there is an ongoing debate concerning whether true entrepreneurs are born or bred. It is a variation of the old tension of “nature vs. nurture” and there is no real sign of an end to the conversation. Our position is that while some individuals seem to jump into life with the passion and vision of entrepreneurs, if that is the only manner in which they may be brought forth it will be a long time before low-income communities and non-profit organizations can generate a critical mass of entrepreneurs necessary to meet their needs and fulfill their vision.

Instead, we submit to the notion that individuals with a drive to better themselves and their organization, who can see through today to a better tomorrow, can be taught the basic skills necessary to flourish in an entrepreneurial setting. Everyone does not have to be a “textbook” entrepreneur to contribute part of their entrepreneurial spirit to a positive process of change within a non-profit. And, after all, if it were simply a matter of birthright, we would not have bothered producing this report in order to help others coming along the way.

One thing we can all agree upon is that first and foremost in the successful establishment of a social enterprise culture is the presence of an entrepreneurial orientation. In some ways, such an orientation is common to many non-profit organizations since, by their very nature, they must continually identify opportunities for both their clients and organization to move forward and evolve. In other ways, the manifestation of an entrepreneurial orientation in this context is different from that of a traditional human service organization.

The first level where one may see the truly entrepreneurial orientation of an organization is within the word and deeds of its leadership. While the executive director must be a true social entrepreneur, the board of directors must also endorse such a mission and approach. This does not mean every member of the board must completely endorse the direction of the organization at all times. There is, of course, room for disagreement as to strategy and practice. This diversity of perspective may help the organization keep its process “honest.” However, the board must endorse the organization’s overall entrepreneurial direction or they will sabotage the process through continual sniping and questioning. At the same time, the executive director must maintain a strong commitment to and understanding of entrepreneurial management. Without a leader to enunciate the vision, re-affirm the goal, and encourage staff, this difficult process will surely fail or only achieve a part of its full potential.

The New Social Entrepreneur can be born or bred, but must be nurtured. The skill set of most non-profit managers is not immediately equal to the task of operating a successful for-profit enterprise. While in many ways similar, the specific analytic, marketing, accounting, and other skills cultivated by the leader of a non-profit organization are not directly transferable to the for-profit setting. The staff charged with heading up the enterprise, as is true of any individual, will come to this task with both strengths and weaknesses. The insightful board of directors assists the director or enterprise manager in identifying and balancing potential weak points. The mature entrepreneur receives such input and expertise directly, recognizing that it will contribute to the enterprise’s overall success.

Beyond the role of individual players, the organization as a whole must also come to reflect and endorse an entrepreneurial orientation. For the successful social enterprise, this orientation is a world view filtered through the lens of market opportunity. In the case of Oak Street House, a staff person began brokering T-shirt printing orders as a way to raise money for the agency and create employment opportunities. As this became more successful, they decided to actually produce the product themselves. And based on that experience they have now opened a related retail store on San Francisco’s Pier 39. The entire process was made possible due to an “eye for opportunity” which was
While the loss of funds may serve as part of the impetus to launch a venture, the business will fail if that is the sole reason for the agency’s entry into the field. The effort must be rooted in a deeper foundation within the organization’s philosophy and mission.

The entrepreneurial orientation can be cultivated, nurtured, and implemented as part of a larger process of organizational development. However, it must come genuinely out of the experience and philosophy of the non-profit itself. It cannot be grafted to an existing structure or presented as the end product of a single board retreat or consultant presentation. For this reason, non-profits considering engaging in business development as a response to the loss of federal or other funds should take great care in approaching non-profit business development. While the loss of funds may serve as part of the impetus to launch a venture, the business will fail if that is the sole reason for the agency’s entry into the field. The effort must be rooted in a deeper foundation within the organization’s philosophy and mission. The entrepreneurial orientation should already be manifest at some level in the organization or its key “champions.” The organization and its actors must have a vision of what they are trying to create through the pursuit of non-profit enterprise.

How can one identify the presence of this entrepreneurial orientation? It is reflected in the agency’s response to its environment, the language it uses to communicate its strategic position in the community and larger economic and social markets of which it is a part, and in the spirit with which it approaches its work. It is difficult to describe in specific detail, but easy to recognize in the activities and discussions of the emerging social entrepreneur. If it is not found originally within the organization, its spark must be lit and the small flame nurtured if there is to be real hope of the business surviving.

Another central element of the entrepreneurial orientation is the concept of “The Entrepreneur as Risk Taker,” namely, that one will be able to identify a relatively high comfort level with risk. This comfort will be counter-balanced by the ability to calculate the degree of appropriate risk exposure the organization is able to support. It is important to understand that these two points are inseparable. Simply because one operates with a high degree of comfort with risk does not mean one really understands the potential downside of that risk. In the past, many non-profits have launched business enterprises with great fanfare and bravado, only to be out of business within a year, with no idea of what made for their downfall. An organizational culture which is successful in developing and managing social purpose businesses encourages the taking of smart, well-informed risks which, while exposing the agency to potentially serious downfalls, may also position it for major benefits.

The ability to calculate the degree of risk appropriate for a given organization is the end result of all an agency’s stakeholders involvement in the process of defining its mission, purpose, and key strategies. If the right questions regarding resource allocation, financial risk analysis, implications for the organization’s operations, and a host of other issues have been adequately addressed, the stakeholders will have the information necessary to weigh potential benefits against potential losses and thus determine a commonly shared level of risk exposure which best reflects individual and organizational risk tolerance.

It should be obvious that the amount of time and energy dedicated to such a risk analysis should, of course, be weighed against the amount of resources to be con-
sumed by the worst case scenario of failure. If the question is whether a $3 million organization should “invest” $1,000 in a hot-dog cart to test the market in street vending, the amount of time necessary to evaluate levels of risk and comfort should be minimal. If the question is investment of $40,000 in a hot-dog and burger restaurant across from a major office complex, the investment of resources in risk assessment increases accordingly. It should also be clear, however, that without advance discussions and agreements regarding the organization’s overall ability to shoulder increasingly greater levels of risk, the agency cannot truly measure the level of risk presented by any opportunity relative to the capacity of the organization to assume that risk.

First, the interests of the program participants should be the primary rationale for the creation of an enterprise. A social enterprise must be responsive to two markets: its customer base and its employee base. Failure to meet the demand of both will mean an inability to meet market demand as a whole and thus failure for the business. As far as the venture’s employee base “market” is concerned, a variety of factors come into play in the process of creating the venture; however, if the purpose strays from the mission of the organization to provide for its program participants, then the venture has strayed from its true course and purpose. The involvement of participants at any and all possible levels of the organization keeps the process “honest” and relevant to their lives and in this way maintains cultural values.

Second, the involvement of program participants provides non-profit managers with direct, clear feedback with regard to the appropriateness of any enterprise operating or under consideration. This prevents managers from pursuing venture opportunities which are not within the realistic realm of capacity of the clients. A manager may have an excellent business idea, but if the individuals the venture is being created to employ dislike the work or do not support the enterprise for other reasons, it will fail at start-up and implementation. For example, Larkin Business Ventures conducted a number of “work projects” with future youth employees in order for the organization to assess their interest and ability. This feedback was crucial to the selection and development of their enterprise.

As reflected in the Employee Perspective chapter of this report, there are opportunities for HEDF grantees to improve the process through which employee involvement is assured and encouraged. In general terms, it appears to have been easier for traditional non-profits to involve employees on a project basis than it has for them to create ongoing mechanisms for input and feedback. In the example of Berkeley Oakland Support Services, the organization has made the participation of its program participants a central priority at all levels of the agency. Their business operations will
no doubt benefit from that involvement as they build upon the enterprise base already established.

> **Openness to Individual and Organizational Change**

An organization which has an entrepreneurial orientation, a comfort with risk, and a participatory culture will fail if it does not also reflect a clear openness and commitment to personal and organizational change. Again, on the face of it, many non-profits would easily think of themselves as providing a “change-friendly” culture—after all, “that’s what we do, we help people change for the better.”

However, many of the social service and economic development field’s best individuals and organizations are change-adverse. They are locked in comfortable conceptual and practice frameworks, supportive professional networks which reinforce our place in the world, and a political environment in which “we are under attack” and should therefore not change, but fight back to keep what is ours. In this period of intense social, political, and economic pressure, many of those at the forefront of social change are, paradoxically, locked in the past and fearful of tomorrow.

Indeed, change can mean many things. It means being able to re-examine old, closely held values and beliefs. It means being open to establishing new ways of doing business and not holding onto the old ways simply because that’s the way we have always done it. And change means understanding that the chaos which may often accompany any transformation is simply a newly emerging pattern we don’t yet understand.

Forces supporting change can come from a number of sources; in this context, change often comes about as a result of discomfort with an organization’s current structure, approach, and philosophy. For many non-profits, this discomfort increasingly comes from the elimination of prior sources of funding. For those agencies forced into change by funding cutbacks, the shift to a culture which is supportive of non-profit enterprise will come with greater difficulty than it will for those organizations whose change is sparked by openness to new ways of creating economic opportunity for and with program participants.

Many of those individuals counted among the New Social Entrepreneurs launched enterprises because they saw a market opportunity, but at the same time realized how the current structures of both the non-profit and for-profit world were not capturing those opportunities for the benefit of the communities and individuals about which we are concerned. They embraced a process of change for the basic reason that the established system was not and is not providing people on the margin with a shot at building better lives. They were “forced” into this transformation less as a result of trying to preserve the past than from a drive to realize a new vision which had grown out of past experience and knowledge of both its positive and negative aspects.

To paraphrase the old saying, change is both danger and opportunity. The organizational culture which does not realize and reflect that fact is not well-positioned to identify, cultivate, and profit from those opportunities which may be just outside its door. With this culture in place or evolving, the non-profit is positioned to begin addressing the factors of organizational development which follow.

> **Organizational Capacity: Middle Management/Core Administrative Competencies**

Many of those individuals counted among the New Social Entrepreneurs launched enterprises because they saw a market opportunity, but at the same time realized how the current structures of both the non-profit and for-profit world were not capturing those opportunities for the benefit of the communities and individuals about which we are concerned.
A key element of a non-profit’s ability to effectively operate a social enterprise is the presence of middle management to steer the overall enterprise process. As discussed above, an entrepreneurial executive director is extremely important, but is clearly not in the position to be involved in the day-to-day oversight required for most start-ups. In the case of Rubicon Programs, the agency had operated a number of limited enterprise efforts before hiring an enterprise director in 1990 who then laid the foundation for the major increase in revenue and operations. Larkin Business Ventures’ ability to hire staff with formal business training to direct the planning and start-up process brought talent and credibility to a lengthy, technical process of negotiating sites, weighing financial forecasts, and other activities. Conversely, the lack of an enterprise director appears to be limiting Oak Street House’s success. The amount of work and attention required of their operation is simply greater than a shop or store manager can handle, or an executive director who must also manage other programs and an agency with an annual budget five times what it was four years ago. In each of these contexts the presence (or lack) of a skilled manager is critical for growth and effective implementation of plans for sales, marketing and expansion.

In addition to having the right mid-level managers on board, organizations must also process information effectively. While traditionally thought of as comprising accounting, database, and client tracking systems, a management information system (MIS) actually includes any mechanism by which an organization gathers, processes, evaluates, and disseminates information. If a non-profit has a history of poor internal communication, whether financial, programmatic or otherwise, those planning the proposed enterprise should first assess what changes will be required to best gather and disperse information in the new organization and its business. Committee structures should be reconsidered and organizational relationships between units revisited.

For most non-profits, a central MIS issue does become one of accounting. In a traditional non-profit setting, numbers are generally viewed as numeric symbols of how much is left in the till and how much has yet to be raised. In a business enterprise, numbers represent information on how one’s service or product is perceived in the marketplace and how the initial value invested by the organization in materials, inventory, and personnel is being transformed into greater value. Financial information is the raw data used to generate ratios with which to compare the venture’s success relative to the market. Many organizations with well-functioning, non-profit accounting systems have found those systems unable to generate the type of information and cost data needed to effectively manage a for-profit enterprise. For a small non-profit with weak accounting skills, the inability to track financial position will result in the quick and timely death of the business. These information systems are not necessarily complex or beyond the reach of the non-profit entrepreneur, but must be evaluated, redesigned, and in place prior to undertaking any serious enterprise start-up.

Ability to Identify and Make Use of Outside Financial and Professional Resources

In its six years of operation, the HEDF was not approached by a single organization that had the full contingent of resources required to successfully manage the establishment of a non-profit enterprise. Most organizations, regardless of staff expertise, require information or skills not found within the existing staffing and board make-up. As a part of the venture committee’s predevelopment planning process, the organization should candidly assess its capacity and areas of weakness. Depending upon the type of enterprise, individuals with experience in small business, marketing, finance, sales, and virtually all areas of basic operation need to be identified and recruited to participate in the initiative.

In approaching potential resource people, the organization should take care to fully understand what its specific needs are and how the individual being recruited will meet those needs. Often involvement should be initiated by means of a short-
term project or request for “phone input” in order to assure the potential partner does not think they will have to sign on for a lifetime. In most cases, the resource person should be approached on a pilot basis to see how well they fit with the culture and values of the non-profit. Few things are more difficult than bringing an advisor on board only to discover that some aspect of their participation is inconsistent with the mission or values of the non-profit.

In addition to carefully approaching the assessment of the organization’s needs, one should also assess how well outside advisors, from whatever field, will be integrated into their operations. If the organization has brought a resource to the table but cannot make full use of that resource, it is perhaps worse than not having that resource at all. Provided with a strategic outline of an enterprise and the understanding that there will be a meaningful role to play, many business and other professionals will participate fully and effectively.

Some funders have significant knowledge of resources, organizations, and individuals which might be of real value to the venture committee. Furthermore, as the planning process is completed and additional resources are required for business start-up, an informed funder can serve to interpret the enterprise opportunity and potential pitfalls to other prospective financial supporters.

Lending institutions and loan officers should be contacted early in the process for feedback and information on their criteria for lending to non-profit enterprises, what elements they need to see in a potential loan applicant, and which areas of lending are “off limits.” For example, most commercial lenders prefer that loans be secured by some type of hard asset. This should be considered early in the capital budgeting process.

Finally, investors can provide great business insight, as well as potentially patient capital investments. They also require some form of control or equity position through which to shepherd their investment. While outright equity investments remain rare in the arena of non-profit business development, early consideration should be given to how such individuals might be involved on the venture committee to assist in assuring the final enterprise structure and operation meet basic requirements of outside investors.

The role of consultants can be critical for most non-profit business efforts, and can also raise significant problems. The organization should never succumb to the temptation to turn the planning process over to a consultant who will then present them with their business plan. The consultant should serve as a source of knowledge transfer to both the board and, most directly, to the staff person charged with managing the enterprise creation. The consultant relationship should be clearly enunciated with set deadlines for process or product delivery. The consultant should, ideally, serve to fill in any final “gaps” found in the board and staff knowledge base. If that is not possible, the consultant must know where to access the information or inputs required. The process should never be driven by an outside consultant; it should be considered an opportunity to access a “third eye” to the development process undertaken by staff, board, and program participants.

ABILITY TO ACCESS BUSINESS, NON-PROFIT, CAPITAL, AND OTHER NETWORKS

As a rule, non-profit managers are adept at squeezing every bit of value possible out of any resource brought into their sphere of influence. To survive in shifting political environments with limited funding, many non-profits have cultivated the skill of networking. The ability to convert this skill from a social to enterprise development purpose is extremely important to the New Social Entrepreneur. Networking into circles of influence and ability not present within the non-profit itself allows the group to leverage its impact well beyond the initial resources it may bring to its efforts. Conversely, a group with little capacity to network beyond its immediate environment will find itself largely unable to realize its vision or potential for expanding economic opportunity for both its program participants and itself.

A good starting point is the organization’s existing network. A non-profit considering a business start-up should assess
its position relative to other non-profits in its own industry. In some cases, social service network connections can assist the non-profit in providing its program participants with critical support, and frees the non-profit from having to actually provide that support itself. Conversely, if the non-profit is relying upon other non-profits in its network to provide such services and the quality of those services does not meet the needs of the sponsoring agency, the agency will find itself in the unanticipated position of having to provide those services. This will have an obvious impact upon its ability to focus on managing its enterprise.

Social service networks may also provide entry into target markets for the social enterprise. For example, affordable housing corporations can contract with non-profit building and maintenance enterprises to meet their needs for ongoing repair and upkeep of property. Pooling laundry needs, food preparation, and other critical functions of non-profit agencies can serve as a built-in market for a social purpose start-up. Therefore, in its planning, the organization should evaluate what products and services its network uses and then determine whether that demand constitutes a larger enterprise opportunity.

Gaining access to business networks is a significant challenge for many non-profits. The world of social work is galaxies away from the world of manufacturing. And yet, the ability to enter those networks and penetrate their markets will prove critical to many businesses’ success. Life is a continuing networking opportunity. All members of the non-profit organization should strive to bring new individuals into the sphere of the non-profit enterprise as potential customers, advisors, or supporters. Caution should be exercised, however, in that the needs and interests of a business person in search of an appropriate supplier of a given good or service are radically different from that of a business person in search of a suitable volunteer opportunity. As always, it is critical to know one’s audience and speak the language most closely tied to their culture and framework. Non-profits are used to relating to business people in terms of the non-profit’s needs. To be successful, the non-profit must identify the needs of its business contacts and then seek to directly meet those needs.

As a counterpart to the world of business networking, political networking can also greatly benefit the non-profit pursuing a business start-up. In the example of Oak Street House, its connection to city departments, while not guaranteeing a positive outcome, assisted it in its effort to submit a bid for and ultimately be awarded a contract with the city to manage the San Francisco City Store. Berkeley Oakland Support Services was able to use its political network to help make the case for its capacity to meet the city’s need for graffiti removal, which it was then able to develop into a significant service contract. The South of Market Foundation, through its work with the Redevelopment Agency of San Francisco, was able to receive a similar contract to serve its community by providing litter and sidewalk clean-up, a contract it has leveraged into additional commercial business opportunities.

Non-profit managers should, however, be fully aware that while it is important to make use of all networks to identify and secure business opportunities, if the enterprise is not adequately positioned to fulfill the terms of those contracts, the non-profit will suffer as well as the business.
its image and perception as a community organization able to contribute to public process and goals will suffer.

And finally, the non-profit organization should also seek to maximize its ability to network into the capital networks of which it is a part or with which it has connections. Other sections of this document discuss the funding and capital aspects of non-profit enterprise at some length, and we will not repeat them here. However, through its grantmaking, city service contract and general fundraising networks, the non-profit has access to a wide array of financial resources which may be tapped to support a successful enterprise venture. Before launching any enterprise effort, the non-profit should analyze what types of funding and capital support it may require at which levels of enterprise development, and what networks it will have to access to successfully receive the capital support it needs.

1. Mission and Goal Clarification

The non-profit organization considering undertaking a business enterprise must begin by revisiting its mission and goals. A lack of clarity on these two points will allow the organization to “drift” as it evaluates various opportunities and assesses issues related to its future. With this “drift” present, the agency may succumb to the danger of undertaking an enterprise ill-suited to its needs, with potentially disastrous effects.

Revisiting an organization’s mission is central to the early self-assessment process. For example, an organization with the mission of serving homeless youth discovered through its mission re-evaluation process that a more appropriate mission statement highlighted value creation, namely that the organization sought to create value in all its activities, whether in its provision of value-added services to youth in need or in its provision of high quality products to customers.

The opportunity to revisit the mission statement provides all stakeholders with an opportunity to connect with the agency’s core raison d’être, share potentially competing visions for the organization, and raise concerns about the non-profit organization’s future. This is the chance to address all the concerns of staff, program participants, board members, funders, and other stakeholders. These concerns should be publicly acknowledged to assure the process does not ignore any valid, critical concerns which may be raised. This is not an opportunity to railroad individuals into a commonly endorsed mission, but to gather the organization’s community together and broker everyone into the process. The most skeptical participants should be encouraged to serve on planning committees and used as “reality checks” should the organization choose to move ahead with the process. The feedback of all players must be brought into the planning process; the outcome should change with their input. Care must be taken, however, to assure the project’s critics don’t simply undermine the process or evolving vision.

Having endorsed its mission, the organization should then develop a well-enun-

3Please see the appendix “Recommended Readings” for some helpful references.
associated rationale for why it intends to create an enterprise and what the purpose of that entity will be. What goal does it seek to achieve by creating a business? Many groups make the mistake of beginning with the goal of creating a business in order to make up for funding shortfalls in traditional sources of revenue. This is often done without confirming the mission or evaluating what other fundraising strategies may be available to the organization in addition to enterprise creation. While a for-profit enterprise can contribute to an agency’s capacity to fund its program activities and simultaneously provide supporting employment and training opportunities to its program participants, groups considering a business start-up for primarily financial reasons should fully assess whether an alternative strategy of funds diversification and fundraising would meet the goals of the organization more effectively.

2. Transitional Issues for the Organization

As part of its early self-assessment, the organization should evaluate whether it is adequately positioned to take on an enterprise development process at this time in its history. This assessment must be twofold:

> Is the organization currently undergoing transitions which will have an impact upon the venture development process? and,

> Will the venture process itself create transitions for the organization which may be anticipated and planned for in advance?

To the greatest degree possible, the non-profit should sketch out what those transitions will be and what potential impact they will have on the organization. As previously stated, when asked what advice he would give to prospective social entrepreneurs, one executive director responded that if an organization is satisfied with its board membership, staffing, and client population, it should not undertake an enterprise since the people in all those groups will turn over as the agency moves from being strictly a human services entity to being a social purpose enterprise organization.

As part of its effort to assess transitional issues, the non-profit should also begin thinking about exit strategies. In this context, an exit strategy is a plan for getting out of a business safely, while leaving the non-profit with as little financial or other loss as possible. Many non-profits ignore this critical step in their planning and do so at their own risk. An exit plan essentially allows an organization to stop the forward momentum for a period to reflect upon what benchmarks it will set for itself to step back and reconﬁrm its direction and commitment. Typically, the exit strategy will identify future financial or other goals at which the decision will be made to move forward, modify, or terminate the effort. The planners should reflect on a number of scenarios which might occur that do not conform with their glorious vision of ﬁnancial success and full employment. The central question is, “At what point do we close down the business and what are the ‘red flags’ which will tell us it is time to close the doors?”

Often an organization will continue to ask for just a little more time or money and by the time the venture is forced to shut itself down, the non-profit has incurred significant debt or other liability. This is not good! The purpose of pursuing non-profit enterprise creation is to expand the wealth of the agency and its offerings to its program participants and the larger community. The purpose is not to drive the agency into the ground or out of business. In the initial planning stages the potential for failure and necessity for an exit strategy should be addressed in general terms. As the business plan and financial projections are finalized, they should include specific, quantifiable financial benchmarks at which point the exit strategy will be raised and acted upon. When confronted with such a benchmark, the organization may still decide to proceed and invest additional funds in the enterprise in an effort to turn it around. The point here is that this decision must be informed by logic, and not simply emotion or entrepreneurial ego.
One final issue in this regard: The non-profit board must guard against the possibility that the manager or individual members may place their personal assets at risk in these ventures. If they want to assume complete and individual managerial responsibility for the venture, fine. If a knowledgeable business person, having evaluated the enterprise and decided to assume a known risk, offers to take on such responsibility, fine. However, the board should never allow individuals to incur substantial individual debt to support an enterprise which is controlled by committee. In our experience, this inevitably leads to one or two people's financial liability for an organization's actions (or inactions), which creates an obviously awkward situation for all. Risk can be a great motivator, and risk takers should be rewarded. But by the time an individual steps in to assume an enterprise's debt or underwrite the addition of new capital, usually the venture itself is spinning so hard it is virtually impossible to redirect its energy. For-profit, traditional business turn-arounds are especially challenging and can be very rewarding for those involved. Non-profit turn-arounds are equally tough and can take “volunteers” and others down with them. Extreme caution should be exercised in this regard.

4. Clear Criteria for the Enterprise

The organization’s planning process must establish clear criteria for selection of the enterprise. Any non-profit wading into the waters of business development will find an endless number of “opportunities” providing a siren call to the planning committee. Before listening to that call, the group must be clear on what specific elements their enterprise opportunity should have. Among a variety of issues, the criteria setting process should address the following questions:

- Is the primary issue revenue generation?
- The creation of high paying jobs?
- The creation of training jobs?
- Does the organization have obvious financial limitations which will rule out high cost start-ups?
- Must the business generate adequate revenue to cover both business and program expenses?

The planning committee should spend adequate time brainstorming, based upon its mission and goal statements, what criteria any suitable enterprise must meet. When finalized, these criteria should then be provided to each committee member and kept in mind throughout the planning process.

A Planning PunchList

This list is in no way definitive and is simply offered to help practitioners consider the steps they need to take and how to frame an approach to the process which most accurately reflects their specific cir-
cumstances. A non-profit organization should review this list, study the literature, talk to everyone possible, and then create its own list as part of its process of understanding and pursuing a course of non-profit enterprise creation.

1. Phase One: Pre-Development

> STAGE ONE — THE WELL-MANAGED NON-PROFIT ORGANIZATION
   Establish a Clear Mission
   Have a Solid Organizational Infrastructure In Place
   Maintain Core Management Skills and Understanding of Organizational Weaknesses
   Enunciate and Endorse a Vision for the Emerging Role of Non-Profit Organizations
   Discuss Exit Strategy Issues and Risk Exposure

> STAGE TWO — ESTABLISHING THE FOUNDATION FOR ENTERPRISE CREATION
   Reassess the Organizational Mission and Purpose In Light of the Enterprise Opportunity
   Make a Public Commitment to Economic Self-Determination At the Individual Level
   At the Organizational Level
   Assess and Improve Management Information Systems in Anticipation of the Start-up Process
   Create a Venture Committee
   Assess Business Goals
   Assess Social Goals

> STAGE THREE — BUSINESS FEASIBILITY STUDY
   Determine the Feasibility of the Big Idea
   Assess Program Participant “Fit”
   Crunch the Numbers:
   — The Business Planning Process
   — Client Involvement
   — Get to Yes (or No!)
   — Begin to Raise Capital and Expectations

2. Phase Two: Implementation

> STAGE ONE — START-UP
   Finalize the Business Plan— And Use It!
   Settle on a Site, Secure Equipment
   Train Employees and Managers

> STAGE TWO — RUNNING A SOCIAL PURPOSE BUSINESS
   Operations: Anticipate the Stress of Success...
   ...and the Challenge of Managing Set-Backs
   Know the Competitive Position of the Organization Relative to Its Market
   Organizational Structure: Monitor Potential Need for Spin-Offs and Linked Enterprise Development
   Keep an Eye Open to Identify Future Opportunities

> STAGE THREE — GROWTH!
   Reassess Infrastructure Based Upon Actual Operating Experience
   Target Further Infrastructure Development Needs
   Expand the Core Enterprise
   Implement Expanded Capitalization Strategy (i.e., Community Lending Relationships, et. al.)
   Engage in Ongoing Organizational Maintenance
   Track Future Growth Issues
   Have Systems in Place to Monitor Current Challenges

Conclusion

There is no “right” way to move through an organizational development process. In reviewing this and other documents, the organization should draft a planning and enterprise creation framework which best meets its particular needs. Remember: change will come—it is only a question of whether you and your non-profit are prepared for its arrival.
Considerations for Individual Development

PART I:

LON GT-TERM SELF-SUFFICIENCY: 
A Practice-Based Anti-Poverty Analysis

What is Poverty? What is Self-Sufficiency?

Those in poverty are generally thought of as being both economically and socially apart from the mainstream and requiring “special” assistance. In particular, large segments of those in poverty are disconnected from mainstream systems and behaviors. This separation may have existed for generations and is sometimes referred to as a “culture of poverty.” Poverty thus has an economic as well as a social component with strong underlying racial implications.

If poverty is the problem we are attacking, then what is the goal? For Asian Neighborhood Design (A.N.D.), the goal is to increase the number of people who become self-sufficient or are no longer primarily reliant on “special” government or community programs which are particularly under attack at this time.

Self-sufficiency also cannot be described by an income level since we see people from a wide range of incomes that are considered to be self-sufficient. Those who are self-sufficient exhibit a number of qualities that most people will readily recognize, including the ability and resources to make choices based on plans for the future rather than just for immediate survival. Most of those who are self-sufficient have also developed a personal support network or can gain access to a network which will assist in times of crisis or that can be called on to move forward on future plans.

Poverty and self-sufficiency both have subjective characters. We have found that although there might be disagreement about a person’s degree of self-sufficiency, a clear delineation can be seen between those who are disconnected and those who are self-sufficient. One factor that is needed is a method that can help us to better define this distinction. A discussion on such a method is presented below.
Frameworks for Achieving Self-Sufficiency Exist

People have worked their way out of poverty for centuries. Today we see immigrant families who have been torn apart by war struggle and become self-sufficient. We see young people whose entire lives have been spent in some of the harshest public housing projects in America also become self-sufficient. Some of the successful have been the extraordinary few, the “cream,” but most have been ordinary people. These ordinary people are the ones who we must learn from and emulate.

Over the last 20 plus years A.N.D. has seen families attack poverty in a variety of ways. Some focus on getting their children to college as a means for the entire family to eventually get out of poverty. Other families have focused on getting a home in a safe neighborhood and are willing to work multiple low wage jobs. Others have focused on one individual getting training and breaking into a job track with a future. Yet others need more independence and have started businesses or supplemented job income with entrepreneurial activities.

While the variety of approaches and motivations that people use to struggle out of poverty may appear confusing at first glance, we can gain more clarity by considering how we would approach helping a close relative whose life had fallen apart. It's unlikely that we would classify them as “homeless” or a “single mom.” Instead we would look at the whole person, all of their strengths and their weaknesses. We would recognize that the assistance they need is not likely to fall into some generic program but would be crafted by both ourselves and the relative.

Once we accept that everyone is different and that they change over time, we will recognize that what has made anti-poverty work confusing is the constant categorization and strategies that we apply to the work. We must recognize that anti-poverty work is very personal, not generic or categorical. We must also recognize that struggling out of poverty and remaining stable is best accomplished surrounded by family or a caring community of people.

Over-Reliance on Strategies of “Hope”

While there is growing understanding that poverty work requires comprehensiveness, the current approach has been to identify the problem often most in vogue at the time and then to develop programs that assist clients to attack this need, with the “hope” that the other pieces of their lives will come together and then they will become self-sufficient. There is a continuing search for the lead strategy that will be the catalyst for everything else to fall into place. But the problem is less the starting point or the catalyst and more the gaps between these separately developed strategies.

The difficulty of linking various issues is that different networks of policy makers have identified different approaches based on their particular expertise or perspective. The urban planners have developed strategies focused on revitalization of particular neighborhoods with the “hope” that this will facilitate economic activity and other anti-poverty activities. The human service providers have focused on the provision of support services that will “hopefully” allow clients to get jobs and get the rest of their
The educators and trainers have developed training and academic programs that they “hope” will lead to jobs and ultimately self-sufficiency. The housing developers have aimed at providing stable and secure housing that does not take too large of a proportion of a client’s income, in the “hope” that both the stability and newly available funds will ultimately lead the person to a more self-sufficient life.

All are strategies of hope because they oversimplify the interrelationship of the various problems. While each strategy is developed to great depth, each also has a separate language and application. These differences make it difficult for clients to coordinate between or even make sense of different sectors.

In all too many of these cases, the emphasis has been on program services. While this concentration on services has led to the development of excellent categorical programs, their static nature has made them literally into safety nets rather than parts of a coordinated anti-poverty effort. These programs, whether they be women’s support groups or block safety committees, must be retained but also must be interconnected as stepping stones for those who are working their way out of poverty.

**Current Delivery of Services to Low Income Individual and Families**

Currently, services are delivered or are available to those in poverty through a variety of public, private and community programs. The diversity of those in need as well as the diversity of their needs has led to a proliferation of programs targeting specific problems, neighborhoods and/or populations. Both the special focus and relatively short duration of most programs therefore do not account for the fact that the struggle out of poverty is more of a dynamic process than a static problem.

Figure 1 is a partial listing of the variety of categorical programs now available to those in poverty in the Bay Area. Access to these programs is generally dictated by whether the person seeking assistance lives in the target area or manifests the need or population characteristics that form the entry criteria for the program. The actual availability of each program also varies widely across the country.

Moreover, once the specific problem is resolved or the person no longer meets the population or geographic requirements, he or she must then find continuing assistance by looking again at the myriad of programs in Figure 1. For example, a program to prevent 13 to 17 year olds from getting involved in gangs rarely is able to help the youngster get into a supportive environment when the youth turns 18 and is no longer eligible for the program, but continues to be recruited into a neighborhood gang.

Before the 1960s there were few if any programs that could appropriately assist Asian gang kids or battered women. Today, as the chart indicates, there are many wonderful programs which can address very complex problems, but the delivery of assistance is not only confusing to the professional but appears as chaos to those seeking assistance.

Yet despite this daunting system, people do succeed and community and public programs have been crucial to that success. Given the complexity of what has been developed, streamlining of entry and overall greater access to programs will surely improve our success rate and become the basis for a transformation of anti-poverty work.

**Healthy Communities**

How can we strive to rebuild our communities, rebuild the lives of those in poverty if we don’t know how to describe self-sufficiency? American policy makers continue to utilize only criteria which they deem “objective” such as income, educational attainment and job retention rates to
judge success. Yet in our everyday lives the judgments we make about our own lives and the lives of those near to us include qualitative criteria such as attitude, motivation and impact of current relationships. For instance, even if we had a good income we may not consider our lives as stable and self-sufficient if we were to have our lives threatened walking home every night.

Most of us constantly strive to remain self-sufficient by balancing a number of personal and environmental factors. To become and to stay self-sufficient requires constant attention. We manage our debt so as not to destabilize us. We must often improve or upgrade our skills or go back to school. We are aware of our surroundings and the safety of our family. We line up health care, child care, and know how to access other services that we might need. We spend time in developing our relationships.

All of these actions are central to getting and staying self-sufficient. Although the strength of each may vary by individual, we know that these areas of our lives affect our future. In looking at those people who fall into poverty or become disconnected, it’s clear that the reasons for their destabilization falls into the same series of life issues that affect all of us: loss of a job, an assault in their home, or problems with their relationships, among other things.

**Figure 1:**
THE CURRENT SYSTEM OF SERVICE DELIVERY IS CHAOTIC FOR THOSE IN NEED.
Many of these issues are inter-related. In order to provide a mechanism through which we can view these various life situations, A.N.D. has compiled a list of seven personal and environmental elements that play a significant role in our lives as well as the lives of our clients. These are listed here.

**Indicators of Self-Sufficiency**

Each person’s life is a combination of strengths (assets) and weaknesses (barriers). Every person or family has strengths which serve to stabilize their lives. Each also faces barriers or has a number of weaknesses that must be overcome. By evaluating the strengths and weaknesses under each of the seven elements identified above it is possible to develop a picture of a person’s life at a particular point in time. While those who are self-sufficient may exhibit more strengths than weaknesses, those who are in poverty and disconnected may exhibit weaknesses in all areas but to differing degrees.

In the cases we reviewed there is no single element or set of strengths that could be used to determine either progress toward or achievement of self-sufficiency. Having a job or even having a house, for example, does not necessarily indicate self-sufficiency. In our experience it appears that those who have succeeded exhibit a variety of strengths in the seven areas listed above and that it is the accumulation of a critical mass of strengths which is the distinguishing feature of those who are considered self-sufficient.

Those who can be considered self-sufficient may still exhibit a number of weaknesses, but the accumulation of strengths is enough to allow these individuals to function independently. This is accomplished primarily through the utilization of mainstream support systems or through special assistance based on their independent knowledge and initiative.

### Essential Elements of a Healthy Community

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<thead>
<tr>
<th>1. INCOME/ASSETS</th>
<th>5. HUMAN SERVICES</th>
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<tbody>
<tr>
<td>Sources and level of income</td>
<td>Health care</td>
</tr>
<tr>
<td>Accumulation of savings, other assets</td>
<td>Child care and teen care</td>
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<tr>
<td>Debt &amp; credit</td>
<td>Substance abuse</td>
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<tr>
<th>2. EDUCATION/SKILLS</th>
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<tbody>
<tr>
<td>Academic achievement</td>
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<tr>
<td>Job-related skills and experience</td>
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<tr>
<td>Other relevant skills, hobbies, etc.</td>
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<th>3. HOUSING/FOOD</th>
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<tr>
<td>Stability and security of housing</td>
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<td>Condition and affordability of housing</td>
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<tr>
<td>Nutrition and adequacy of food</td>
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<th>4. SAFETY/ENVIRONMENT</th>
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<tbody>
<tr>
<td>Crime in surroundings, risk to family</td>
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<tr>
<td>Transportation, neighborhood services</td>
</tr>
<tr>
<td>Personal perception of safety, freedom</td>
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<th>6. RELATIONSHIPS</th>
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<td>Primary or spousal relation</td>
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<tr>
<td>Parent and child/teen relations</td>
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<tr>
<td>Relations with friends, co-workers</td>
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<tr>
<td>Religious/cultural ties, etc.</td>
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<th>7. PERSONAL ATTRIBUTES</th>
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<tr>
<td>Personal self esteem, confidence</td>
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<tr>
<td>Interpersonal, socialization skills</td>
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<tr>
<td>Sense of hope &amp; vision</td>
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<tr>
<td>Life management skills</td>
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It is the accumulation of a critical mass of strengths which is the distinguishing feature of those who are considered self-sufficient. In determining whether we might consider people to be independent in the long term, a significant indicator will be their ability to continue to overcome the barriers they still face and to make it through the normal ups and downs that life presents. Indicators of this resiliency include the accumulation of assets for troubled times, insurance or stable health plans, and the development of a strong supportive network or family. In making a distinction that someone's life may be stable, however, there has to be a recognition that a major crisis can still destabilize one's life just as we recognize that most of us might be destabilized by a serious enough crisis or disaster.

The changes in Lyn’s life described in the gray boxes on these pages are part of a typical case. We can understand the complexities in someone’s life and can chart changes over time by assessing someone’s strengths and their weaknesses utilizing the seven elements and life issues described in the previous section.

For many of those that come into our housing units or programs it is clear that their life is made up primarily of barriers. For those who we consider to have succeeded, a charting of their strengths in the seven areas generally shows an accumulation of strengths.
Since the struggle for self-sufficiency may take years, we need a way for participants to assess the barriers and strengths in their lives as well as for program providers and funders to evaluate progress towards self-sufficiency. As discussed earlier, every person or family unit has significant strengths and weaknesses that can be assessed. A.N.D. is developing a set of evaluation instruments that document a person’s strengths or weaknesses within each of the seven elements of a healthy community.

**Baseline Assessment**

The intent of the instrument is to help a support person to get to know the participant in much the same way as one might relate to a relative or close neighbor. The methodology would allow those involved to discuss the various inter-related issues that must be confronted in getting their life together.

The best support people would keep their eye on the goal, which is helping Lyn to make progress in her life, and not get too distracted in judging or categorizing Lyn. With Lyn, they could develop a plan that could call on Lyn’s strengths and target her major barriers. With this unity of action, each could take the steps needed to facilitate Lyn making progress towards self-sufficiency.

For instance in Figure 2 on the next page, Lyn is typical of someone who enters A.N.D.’s training program. Through a self assessment and interviews, a profile of her life emerged that could be charted.

Clearly, Lyn faces a tremendous number of barriers as do many in our most distressed neighborhoods.

She faces major barriers with regards to safety both in her surrounding environment as well as in her primary relationships. Her lack of job skills and education are also very significant barriers to any movement towards self-sufficiency.

Having some government assistance (AFDC & MediCal) mitigates some of her circumstances, but the sources are inadequate thus leaving her at risk. Her greatest strength is her attitude and initiative which should be encouraged.

Distinguishing between significant barriers and strengths allows us to form a general picture of Lyn’s situation. This picture can become a starting point that she can use to develop a personal self-sufficiency plan.

**Marking Progress of a Plan**

If within two years following her baseline assessment Lyn had been able to get her high school equivalency (GED), complete a vocational training program and as a result find a good paying union scale job, Lyn would have turned a number of barriers in her life, instead into strengths. Figure 3 charts the changes that Lyn would have made after two years.

If in this second assessment we were to only look at benchmarks such as income and academic achievement, Lyn might be considered well on her way to self-sufficiency. Yet Lyn is actually in a transitional phase, because other factors in her life could still easily destabilize her which we have found to be a very common situation.

For instance, given the abusiveness of her boyfriend there is a high risk that should she be beaten one day and not be able to work, she could lose her job and benefits. What’s worse is that such a setback could undermine the one strength that she had going for her when she first was assessed, her motivation and initiative. In
**THE ROBERTS FOUNDATION: A PROGRESS REPORT**

In these circumstances what we have seen is a person fall deeper into despair, making future progress even more difficult.

**LOST IN TRANSITION**

Too many programs disengage from the participant in this transitional stage. The result is a higher rate of recidivism than would happen if some assistance and encouragement continued until the participant could build more assets and stabilize over a longer period.

If after getting a job Lyn was supported in breaking from her abusive partner and instead had developed other supportive relationships, she would not only eliminate a significant problem but would also establish relationships that could help her to build a strong and stable future.

**A MEASURE OF STABILITY**

Figure 4 charts Lyn's progress after four years. While she still lives in a dangerous neighborhood, Lyn has now established enough strengths and assets in her life to be considered self-sufficient. While she does not show strengths in all areas, she now has a critical mass of assets stabilized that will help her to deal with the risk factors that still affect her life.

**PROGRESS EVALUATION**

Unlike some similar analytical instruments, the proposed methodology is primarily to be used to track progress of one individual or family over time. The tools will play a central role in a self-sufficiency strategy being piloted by A.N.D.

The assessment tool will become the basis for each project participant to craft a personal self-sufficiency plan. Assessments will be made periodically to ascertain where there has been success in overcoming a particular barrier or where a strength has been added.

The method seeks to capture obvious differences in situations rather than nuances or gray areas. For instance, there is general agreement that an abusive partner is a liability and that a supportive partner is a strength. Strengths are charted as pluses (+) and barriers as negatives (-).

So that the tools are used correctly, it is important to emphasize that it is a tracking mechanism. That there is a subjective char-

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**FIGURE 2:**
Baseline evaluation, charting the strengths and barriers of an individual in terms of the seven healthy community elements.

Lyn is a single mother with two children.

### Table: Lyn's Progress

<table>
<thead>
<tr>
<th>Healthy Community Elements</th>
<th>Income &amp; Assets</th>
<th>Education &amp; Skills</th>
<th>Housing &amp; Food</th>
<th>Safety &amp; Environment</th>
<th>Human Services</th>
<th>Relationships</th>
<th>Personal Attributes</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td></td>
<td></td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
<tr>
<td>Major Life Issues</td>
<td>AFDC income inadequate; no savings</td>
<td>High School dropout; no skills</td>
<td>Substandard housing; inadequate food</td>
<td>Apt. burglarized, family threatened</td>
<td>MediCal; but no childcare</td>
<td>Abusive partner, little other support</td>
<td>Motivated and realistic about barriers faced</td>
</tr>
<tr>
<td>Strong, Stable Asset</td>
<td>+2</td>
<td></td>
<td>a</td>
<td>s</td>
<td>s</td>
<td>t</td>
<td>s</td>
</tr>
<tr>
<td>+1</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<tr>
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</tr>
</tbody>
</table>

**High Risk/Crisis**
**FIGURE 3 (ABOVE)**
The progress evaluation used to track an individual or a family over time. This chart shows Lyn's progress after two years of implementing a personal self-sufficiency plan.

**FIGURE 4 (BELOW)**
Lyn after four years, and having transformed her life into one made up primarily of strengths or assets.
character to the distinctions being made among rankings. For instance, a very strong, stable asset can be charted at one extreme (+2), and assets that may need strengthening are charted separately (+1). The same holds for barriers. Barriers that are risk factors (-1) may be charted separately from barriers or problems that indicate a possible crisis situation (-2).

The instrument is not intended as a precise measure of any kind. The charting is intended to act more like a prism that would break up what appears as overly complex life issues into seven basic elements. We can use this refraction to then get a better understanding of a person’s life in order to develop and move forward on self-sufficiency plans.

Regular, consistent and timely assessments can give a fairly clear picture of when a barrier has been neutralized or converted into a strength in someone’s life. The use of these tools combined with benchmarks such as income, academic achievement, etc., can add a consistent methodology to how anti-poverty work is approached.

As anti-poverty strategies are developed for the next century, we must engage ourselves in the rebirth of a movement where the struggle to self-sufficiency seems possible to the people themselves. This page offers an analysis of the historical and empirical roots of A.N.D.’s approach to anti-poverty work. The following pages offer a new approach to anti-poverty work which is in formation.

**Rooted in History and Experience**

What we have seen and heard in low income neighborhoods is that what is needed is not another social worker, but instead the “Aunt Betty” who used to live down the block. The person you could trust to watch out for your kids, give free advise, and that would cajole and encourage.

People long to trust someone and to trust one another again.

Building a community of people that trust one another is not an impossible task. But it is a task that is personal and does not lend itself easily to standard program formats. The approach presented goes back to community building and organizing models of the 1930s and 1960s. It marries these strategies with the programs and technical skills of the 1990s, building a responsive and competent infrastructure to create vibrant multi-cultural communities in the next century.

In the 1960s there developed a movement of idealism asserting that change was possible. Mixed with anger, there was hope. But the idealism of the movement was often not tempered by reality and many left the movement disappointed.

The mistake made at the time was that those active in the community looked to others for solutions. Instead of taking on the task of rebuilding our communities ourselves, we demanded that someone else, usually the government or others with resources, take care of our problems.

This was partly because we did not have the knowledge or tools at the community level to create our own infrastructure. Over the last several decades many excellent programs and organizations have been developed to serve low income communities.

More importantly, there are now skills at
the community level that can lead the development of a low income community’s infrastructure. Many at the community level can now establish their own community based programs, build their own housing, and charter their own schools.

What we have seen and heard in low income neighborhoods is that what is needed is not another social worker, but instead the “Aunt Betty” who used to live down the block.

But these programs can not take the place of a movement that carries a message of hope. It is now time to rekindle a movement because there is good reason for hope. It is a time to take the skills we have developed, the programs that exist and make these available to the people of our communities. With these tools, our people can rebuild their own lives and thus their own communities.

**Three-Pronged Approach**

What is presented in this chapter is an approach that focuses on the individuals in a family and in a community cluster as the starting point. It seeks to simultaneously assist in rebuilding individual lives, building supportive community and driving existing programs and policies from the ground up.

We must reconcile ourselves to the fact that there is no one simple way to address our societies social ills. It will take a number of simultaneous actions both at the individual, community and systemic level.

A.N.D. is developing a three-pronged interactive approach. One aim is to work directly with individuals, families and their friends to both facilitate individualized self-sufficiency plans and promote broader community involvement. Another aim is to develop or enhance communities of people to support one another. Simultaneously we will work with policy makers, service providers, and funders to make the “system” more responsive and accessible to those in distressed communities.

**Number One: Working with Individuals**

**Self-Sufficiency Tracks**

An underlying assumption in the approach that is being described is that the participant wants to and is capable of moving towards self-sufficiency. We realize that there are situations where because of mental or physical constraints, among other things, some people in poverty will not be able to even begin the struggle towards self-sufficiency. For some, safety net programs will continue to be needed. But for the population that can move towards self-sufficiency, the opportunity must be provided.

A.N.D. is proposing to recognize and support individuals or families that are actively struggling towards self-sufficiency. To facilitate this long term struggle, self-sufficiency “tracks” will be established whereby participants can be provided long term support. This support may last from two to six years. During that period, participants may go in and out of a number of categorical programs but continue within the self-sufficiency project track.

The goal will be stable self-sufficiency. The measure will be the independence of the participant from “special” social programs and the accumulation of a critical mass of assets in their life as documented in the previous section of this paper. Proven stability over a period of time will also be a criteria of success.

**Continuous Planning and Assessment**

Ultimately any anti-poverty strategy needs to be consumer driven. Providers must therefore call on people in a self-sufficiency track to develop personal self-sufficiency plans that will outline goals and steps towards those goals. The project staff and the participants’ peers will then assist in the implementation of that plan. The driving force of the plans will be income enhancement, but the plans must be comprehensive in dealing with both the
environmental and personal elements of each person’s life.

The assessment tools described in the previous section of this paper will be the mechanism that can help someone to look at all aspects of their life and develop plans that can simultaneously address the various problems they may face. It can also be a way of identifying the strengths in their life and how those strengths should be enhanced or protected.

**NUMBER TWO: FORMING A VILLAGE**

**COMMUNITY CLUSTERS**

This aspect of the approach will focus on establishing clusters of people who share a common goal of improving their lives and becoming self-sufficient. Feeling a part of a group that sees itself as having a future provides a sense of hope, peer support and peer pressure.

For example, within many immigrant communities, church congregations or groups of friends, very low income families see other families making progress and therefore seek to follow in their footsteps. What must be done is to similarly encourage people to come together, to share their experiences and goals, establish a tradition of peer assistance and responsibility, and a sense of shared success.

The conscious encouragement of these clusters or “villages” will mean that projects such as ours may provide assistance to a number of families in a cluster with the expectation that ultimately members assist and rely on one another. It is also crucial that natural affiliations, whether cultural or religious for example, be encouraged. Rather than working only with the family that is considered the project participant, this strategy requires us to recognize the participants’ other relationships and that we reinforce and assist those relationships that are an asset to the participant in the self-sufficiency track.

**DEVELOPING A CREDIT SYSTEM**

Within the self-sufficiency project tracks, pools of funds will be available to the participants for dealing with transitional problems such as access to health care, child care or other needs. In some cases project staff will access the funds to pay for needs while in other case the family may have access to vouchers or cash.

Access to these funds will, however, be earned. A credit or barter system will be developed whereby participants will earn credit towards drawdowns from these pools or other resources. Credit will be earned by
participants through placing a value on their participation and contributions. For instance, their taking the time to lead group sessions or group sponsored activities are jobs that programs often pay staff to do. The participants’ time is also valuable and therefore credit should be given. Peer coaching and input back to the program is highly valuable to this experiment and will also be credited, as will involvement in community service projects.

Thus the project will recognize that each family has something to contribute to the project, to their peers in the community clusters, and to their community as a whole. In return, the reciprocal obligation of the project will be to make what resources it can accumulate available to the residents to meet their plans.

**Number Three: Changing Systems and Policies**

**Partnerships, From the Ground Up**

Those institutions and leaders closest to the grassroots must take it upon themselves to come together in strategic partnerships. Competition for funding, turf issues etc. often get in the way of partnerships because trust is not yet established.

Trust needs to be fostered not only among residents but also among programs and community leaders. A.N.D. believes that the strongest partnerships are those where organizations and leaders come together because of a shared set of values and a shared mission.

Partnerships and associations such as the Development Leadership Network at the national level and the Community Institute in the San Francisco Bay Area are organizations initiated by grassroots practitioners who have come together because of a shared mission of social change and a shared set of values that recognize the importance of empowering the most in need. Within this framework, for instance, the Community Institute will facilitate a coordinated comprehensive approach to anti-poverty work.

These partnerships must cross over traditional categorizations of work. Our most distressed communities require that the organizers, the cultural groups, the trainers and the house builders all work together.

Again, by utilizing the seven elements of a community described earlier as the mechanism to view where in the spectrum of community need each program may fall, we can bring some semblance of order to the chaos that now makes up our delivery system of services.

**The Purchase and Exchange of Services**

In an attempt to become more comprehensive, many organizations have sought to expand their internal programs into new areas of work rather than partnering with other organizations that may already exist in that field. An approach that is gaining more credibility is the purchase or exchange of services between providers.

Some service providers are starting to market their services to other communities rather than seeking revenues only from government or private funders. This dynamic not only creates a better understanding across programs, reduces competition and duplication but also forms a new revenue stream for some organizations.

Currently too many programs in our communities all recruit participants separately which makes it difficult for participants in one program to access services in another needed program. A new dynamic whereby services can be purchased either by individuals or by other organizations will facilitate the self-sufficiency process.

While base funding will continue to be a need for most service providers, the purchase or even the barter of services between providers and with participants will make the provision of services more responsive to the consumer and facilitate a bottom up process for the rebuilding of our distresses communities.

The Self-Sufficiency Project will recognize that each family has something to contribute to the project, to their peers in the community clusters, and to their community as a whole.
Over the last several years A.N.D. has experimented with many of the concepts presented in this paper. In the next period, A.N.D. will be initiating a broader experiment working with individuals, communities of families and with program and policy makers. Out of this next phase A.N.D. hopes to have developed the practical experience needed to refine the approach and to impact national anti-poverty work.

Some of the central themes in the approach require simultaneous actions. We must work with individuals to address the problems they face every day as we ask them to also become more involved with their community. We must make building a sense of trust and community central to our work. We must ask policy makers, funders and practitioners to alter how they work to make the delivery of services less chaotic, more interlaced and accessible.

The approach calls for the principal responsibility for the rebuilding of lives and communities to revert back to those in the communities themselves. That the role of programs is to facilitate, to be a resource and to learn from the individual and community self-sufficiency process.

Many conservatives have also called for those in the community to take action and to take responsibility for rebuilding their own lives. But their solutions, centered around cuts in funding, are self serving. It is a way of continuing to inhibit the ability of those in the grassroots from acting, from taking control of their future.

The approach presented requires skills and resources be made available. But the fundamental difference from current practice is who controls those resources and who sets the agenda.

Control and ownership has to be from the ground up. Ownership should not be confused with input. Input is often a justification for those in control to move their agenda forward. The harder task for someone who has skills or money is to minimally share control. We have found that this is possible when there is agreement in plans and goals between the families and the resource providers.

Low income people build their lives and communities just like everyone else. They seek to plan, to save and to purchase what they need. The creativity comes in making resources available where they have not been available before. But the greatest challenge to government, policy makers and funders is to learn how to follow.

CHANGING REGULATORY AND OTHER STRUCTURAL BARRIERS TO SERVICES

Another aspect of the proposed approach is to identify barriers to resources created by regulatory, funding and ingrained practices. Working with clients and policy makers, recommendations will be made to change existing systems to facilitate access to services for the broader low income community.

For example, some housing regulations should be modified to allow for increases in a client’s income or savings without threat of imminent eviction. Recommendations will focus on how to make program regulations more compatible and responsive to the needs of the clients and their self-sufficiency plans.

CONCLUSIONS
Executive Summary

The Homeless Women’s Economic Development Project (HWEDP) is a comprehensive program designed to help homeless women work toward financial independence through establishing small-scale enterprises. It has been one of the flagship projects of The Roberts Foundation’s Homeless Economic Development Fund, which has supported a variety of efforts to expand economic opportunities for homeless people in Northern California.

The HWEDP is a collaborative project between the Bay Area Women’s Resource Center (BAWRC) and the Women’s Initiative Self-Employment (WISE) and provides social support and business training for an 18-month period. BAWRC has provided a comprehensive social services component of the HWEDP including managing the housing, transportation, and child care stipends that are a significant part of The Roberts Foundation’s funding for the program. WISE has provided the business component for the project including group training in business skills such as marketing, sales, business planning and finance, providing individual business consultation, and facilitating financing for new ventures.

The HWEDP has operated for four years with a total of 33 participants. There have been three distinct groups of women in the project that began early in the calendar years of 1991, 1992, and 1994. Each group had between 10 and 13 participants. The majority of these participants appear to have experienced significant changes in various facets of their lives as a result of their HWEDP experiences.

Some of the key findings from Harder+Kibbe’s independent evaluation of this project include:

**Self-Employment**

- Nineteen of the 33 women (58%) were reported to be self-employed at the time
of follow-up: five full-time and fourteen part-time.

- There was considerable variation in the types of enterprises the women chose. The two most established full-time ventures included a restaurant and a child care center. Part-time self-employment included a diversity of enterprises such as tutoring, sewing and alterations, personal weight management, health and fitness advising, and herbal sales and treatment services.

- With one or two exceptions, self-employment revenue was not a primary source of income for the women. Most of the time it supplemented income earned in full or part-time jobs.

**OTHER EMPLOYMENT**

- Employment status improved tremendously for HWEDP participants — particularly for those women in Groups One and Two. While overall, nearly half (47%) of the participants were unemployed when they initially became involved with HWEDP, at the time of follow-up 57% were employed in a full-time job and an additional 24% were employed in a part-time job.

**INCOME**

- Nearly all participants showed an increase in their annual household incomes since becoming involved with HWEDP. Upon entering the program, 96% of the women reported annual household incomes of $12,000 or less, and at follow-up, half of the participants had household incomes greater than $18,000 per year.

- Women who were self-employed on a full or part-time basis at the follow-up were twice as likely to have annual household incomes over $18,000 as those who were not self-employed.

- There appears to be a relationship between the length of time since starting the program and an increase in income. That is, the women in Groups One and Two reported larger increases in income than those in Group Three.

**HOUSING**

- Housing situations improved dramatically for program participants. All of the women had been homeless or in transitional housing in the three months prior to entering HWEDP. At the time of follow-up all of the women were housed. Housing stability also improved in that the women were not likely to move again once they found housing. Most of the participants in the first two groups report being in their current living situations for more than two years.

**SKILLS DEVELOPMENT**

- HWEDP strongly affected participants’ personal and business skills. Those skill areas most commonly identified as increasing because of HWEDP are: obtaining personal goals, building a mutually supportive network, dealing with stressful life situations, obtaining business goals, and ability to make decisions.

**SELF-ESTEEM AND SOCIAL SUPPORT**

- The majority of HWEDP participants at follow-up scored in the average to high range of self-esteem using a modified standardized self-esteem scale. The women identified HWEDP as the major catalyst for improvement in their self-esteem and self-confidence.

- Many of the women had weak social support networks upon entering HWEDP. Approximately one-half of the women were victims of domestic violence when starting the program and 85% had a history of abuse in the home.
at some time in their lives. At follow-up, the women reported significant, positive changes in their emotional relationships. All but one of the women reported being free from incidents of abuse since starting the program.

Introduction

The Homeless Economic Development Fund has supported a variety of efforts to expand economic independence for homeless people, particularly for homeless women. While a number of organizations received support, significant grants went to the Homeless Women's Economic Development Project (HWEDP), a comprehensive program designed to help homeless women work toward financial independence through establishing small businesses.

During the course of the last several years, the independent evaluation for the Homeless Economic Development Fund raised a number of important questions about the HWEDP, questions for which there were not data readily available to answer. In order to more directly assess the success of the program in terms of economic outcomes and other changes in participants' life circumstances, The Roberts Foundation contracted with Harder+Kibbe Research to conduct a focused retrospective evaluation of the Homeless Women's Economic Development Project. This report is the product of that focused evaluation.

While evaluation efforts sought to understand the programmatic context in which this project was implemented, the focus of the evaluation was primarily on the changes that took place among the 33 women who participated in the project. Based on the expressed interests of the HEDF director and the HWEDP program staff, the evaluation research concentrated on the following seven areas of inquiry: a) the financial success of the self-employment ventures themselves; b) other employment experiences; c) income; d) housing; e) skills development; f) self-esteem; and g) social support.

BACKGROUND

The Homeless Women's Economic Development Project, later called SF WEST (Women Evolving through Support and Training), is a program initiated with HEDF funds to assist homeless women in starting their own small-scale enterprises. It is a collaborative project between the Bay Area Women's Resource Center (BAWRC) and the Women's Initiative for Self-Employment (WISE), with active Foundation staff involvement. Together they have been implementing this project based on the premise that homeless women have the capacity to become self-employed and achieve economic independence if provided with the right combination of support, including case management and support groups, business training, consultation, and financing, and subsidies for housing, transportation, and childcare.

BAWRC was started in 1981 to provide direct support services and advocacy/community education on a variety of issues for low-income and homeless women, children, and families. BAWRC has been responsible for the social services component of HWEDP. It has provided outreach, screening, and ongoing counseling and case management; assisted clients in finding and maintaining stable housing; offered counseling and practical assistance related to family and personal situations; managed the housing, transportation, and childcare stipends; facilitated ongoing support groups; and offered employment-related services.

WISE began its operations in 1989 to provide self-employment opportunities for low- to moderate-income women. WISE has provided the business training and has facilitated financing for HWEDP participants who need capital to support their enterprise development. The training included group workshops in marketing, sales, business planning, finance, and individual business consultation.
HEDF’s director joined with representatives from BAWRC and WISE in an intensive planning process to launch this project. The Fund has been the sole underwriter for the project, providing grants to the two agencies as well as subsidies for housing, transportation, and child care for program participants and seed capital for their new enterprises. In order to assure that this support would not jeopardize the participants’ ability to receive other public support, the mechanism for managing the provision of subsidies was reviewed and approved by the San Francisco Department of Social Services General Manager, policy staff and eligibility workers.

The HWEDP has operated for four years with a total of 33 participants. There have been three distinct groups of women in the project. The first group that started in January, 1991 was comprised of 10 women, the second group that started in March, 1992 had 13 participants, and the third group that began in February, 1994 also had 10 participants.

### Evaluation Methods

Evaluation methods were selected based upon three considerations: 1) an assessment of what information would be most useful for other funders or organizations considering replication, 2) the timing of the data collection, and 3) available resources for the evaluation. While project staff from both collaborating organizations were interested in the evaluation collecting and analyzing additional data from the project — such as longitudinal data about the business enterprises, reading, writing, and analytical abilities of the participants — and providing more detailed descriptive documentation of each service and training component of the project, the focus of this evaluation was limited to the seven areas of inquiry described above.

The evaluation was conducted retrospectively in that most of the baseline information on the participants — which describes the women before their participation in HWEDP — had to be pieced together from a variety of existing sources. This meant examining participants’ intake and screening forms used by BAWRC and WISE. These forms were completed for each project participant upon entering the program. For Groups Two and Three, project staff modified the intake and screening forms to better capture important information about the participants. These forms were not designed with this evaluation in mind, however, and there were gaps in the information collected that would have been helpful in assessing change in the seven areas of inquiry. To supplement the existing baseline data, therefore, Harder+Kibbe developed data collection instruments containing additional questions that BAWRC staff answered for each of the 33 women, based on the files they maintained on each participant. With the exception of one missing intake file, baseline data are complete for all participants.

Due to the retrospective nature of the evaluation, the follow-up data reflect a different length of participation for each of the three groups. The follow-up data were all collected at roughly the same time, either through written, self-administered instruments or individual interviews. Therefore, the length of time from baseline to follow-up for Group One is approximately three years, for Group Two it is approximately two years, and for Group Three the follow-up was conducted one year after the baseline information was gathered. As is common for program evaluations, this means that the analysis is based on “moving targets” rather than exactly comparable timeframes for each participant. There was little that the evaluation could do to correct for this except disaggregate the results by group whenever possible, which is done throughout this report.

Follow-up data were collected on a more limited number of participants than baseline, as the follow-up depended on locating participants to complete an evaluation form and participate in an interview. Program staff arranged for participants to complete the “Joint Evaluation Form,” which was developed as part of the program to solicit feedback from participants about
the quality of the training and services provided by HWEDP. A total of 24 participants completed the evaluation form and 20 women participated in interviews. While the majority of participants did return to fill out the Joint Evaluation Form, the forms were sometimes incomplete and parts appeared to be misunderstood by the participants. Some of the missing information was obtained by asking program staff to fill in the gaps. Where there is missing information, the proportions reported reflect a different total number, depending on how many women answered the question.

To supplement the information in the Joint Evaluation Form, Harder+Kibbe developed a follow-up survey to use in individual interviews with the respondents. This instrument contained questions about their enterprises, income, housing, self-esteem, emotional relationships, and satisfaction with the program. Staff from BAWRC and WISE helped the evaluators access participants for the interviews and a total of 20 interviews were conducted. The women who participated in the interviews were paid $10 for their time.

Harder+Kibbe also conducted interviews with key staff members for background information about the development of the HWEDP project. Program staff also were helpful in filling in missing information when needed.

Most of the data contained in this evaluation comes from participants' self report, except for information on self-employment status that was provided by HWEDP staff. There was no access to other supporting documentation such as tax returns or other financial records. There was considerable difficulty within the program in developing a tracking system for monitoring progress of the participants' businesses. For these reasons it was necessary to collect data on the ventures retrospectively, resulting in a smaller sample size for this analysis and less valid data in terms of tracking change over time.

Program Implementation

The HWEDP was a pilot project that was refined each year as the organizations learned more about what it took to implement this kind of program. The program staff continually learned new lessons about recruitment and screening processes, the type of support needed for different women, the pros and cons of various self-employment training strategies, and the benefits and challenges of true inter-agency collaboration.

Key Lessons Learned:

- The recruitment and screening processes played a significant part in determining the nature of the project each year — particularly for BAWRC, whose role was to provide support for the different participants. For example, the first group of women were recruited largely from battered women shelters, and domestic abuse was their primary cause of homelessness. Equally important to their economic stability was recovery from their abuse and increased self-esteem and self-confidence. The kind of support BAWRC provided was primarily tailored to addressing those issues. There were also a number of immigrant women in the first group who needed legal assistance and whose limited English proficiency was challenging for them in starting a business. This first group experience made the staff modify the screening criteria for the second group such that the second group of women had to submit writing samples to demonstrate basic language and communication skills.

- The self-employment training approach significantly changed during the course of the project as the needs of participants became clearer. During the course of the project, there were ongoing internal discussions within WISE and with other HWEDP staff about the most effective ways of providing busi-
NESS-RELATED TRAINING AND CONSULTATION. WISE enhanced its organizational response to the HWEDP participants by revising the curriculum and clearly identifying decision-making points in the business development process for the participants. This took the form of curriculum revisions, issuing weekly assignments to the women to help them realize incremental progress toward their business planning, and adding a self-esteem and personal effectiveness module that precedes the business planning trainings.

“Finding the right mix of participants for the training experiences was an ongoing challenge. There has been an ongoing dialogue about whether the program participants should be incorporated into WISE’s regular training classes, or whether they should be trained separately, in their own small group. Different combinations were tried each year. The first group of HWEDP participants went through the WISE trainings as a group, separate from other WISE customers. The second group was integrated with other WISE customers in the trainings and the third group had some training components that were separate and some that were integrated. Program staff report different benefits to each approach. In separating the women from the other WISE customers, the women can become a more close-knit group with more peer support for each other’s business. Conducting the training in this way is considerably more expensive and time-intensive for WISE. Also, WISE had discovered that many of its regular customers are low-income and share many life experiences and perspectives with HWEDP program participants. Integrating the HWEDP participants into the regular stream of classes has become easier for the third group as there has been more emphasis with this group on the commitment to business development.

Over time, the purpose of the project evolved from an initial emphasis on starting a business to a broader emphasis on increasing both stability and opportunities for self-employment. While from the beginning there was a recognition that subsidies and supportive services were needed to help homeless women succeed in their self-employment ventures, the initial purpose of the project was to test the outer limits of economic development opportunities for homeless women. During the experience with the first group of women, it soon became clear that there needed to be equal emphasis on both the stabilization process and business development. Stabilizing was not just a means to the end of self-employment.

STIPENDS FOR HOUSING, TRANSPORTATION, AND CHILD CARE WERE ESSENTIAL. There was some initial concern that homeless women would only want to participate in the project in order to receive the coveted housing stipend. HWEDP adjusted the way the stipends were awarded to each group to avoid this situation, and for the third group, the stipends did not take effect until the women had demonstrated an interest in and commitment to planning for their enterprise development. Nevertheless, for each group, the stipends were essential in helping stabilize the women. In her recommendations to the program at the end of an interview, one participant said:

“Continue to offer a housing subsidy which fosters a feeling of stability after homelessness. Also, transportation costs are very essential.”

Even with all of the customized training and support, one third of the HWEDP participants did not complete the full 18-month program. Each of the three groups had a substantial drop-out rate — three in the first group and four in each of the second and third groups. Many of these women were also self-employed on a relatively informal, part-time basis, where they had a product to sell, such as handmade jewelry.
and their self-employment income was a supplement to a full- or part-time job.

**As part of creating positive changes in the participants’ lives, it was important to remove the stigma of homelessness.** The stigma of homelessness was very strong for many of the women. When the first group participated in the WISE training classes with other WISE customers, many of the HWEDP participants reportedly felt shy and embarrassed about having been homeless. Program staff felt it was important to remove the stigma of homelessness by changing the name of the project from Homeless Women’s Economic Development Project to SF WEST — an acronym standing for San Francisco Women Evolving through Support and Training. The participants responded very positively to this change in name and were reportedly more inclined to take ownership in the project.

**Inter-agency collaboration provided both benefits and challenges.** Because of the two distinct components of the project — the business training and development on one hand, and the practical and emotional support on the other — it was natural to have two agencies who specialized in these areas collaborate in the planning and implementation of the project. Both brought their expertise to bear in programmatic decisions and provided the women with the best services they knew how to provide. The characteristics that made the organizations good collaborators, however, also made the collaboration itself difficult. The most basic difference was one of perspective on the work. BAWRC viewed its role as helper and advocate for each of the participants in the project. They focused individual attention on each participant’s needs and problems. WISE viewed its role as trainer and consultant in the business development process. While WISE provided both group and individual consultation, its focus was not on each participant’s life circumstances, but on their business ideas, skills, and responsibility. WISE’s organizational point of view is business-oriented, as exemplified by their referring to the women as customers, not as clients or participants. These different perspectives were often the source of disagreement in programmatic approach and problem-solving.

**The project required a significant investment of financial resources.** The total cost of the HWEDP for the three years was $809,642. Interestingly, the cost for the project increased with every new group of participants, both in terms of total budget amount and cost per participant. Counting all of the participants who started the program in each group (regardless of whether they completed the training), the cost per participant was $19,159 for Group One, $23,787 for Group Two, and $30,820 for Group Three. These costs per participant increase by more than 50% for each group when calculated only for those who completed the business training. Overall, the subsidies for the participants — housing, transportation and childcare — accounted for approximately 58% of the total project costs. The remaining 42% of the costs were split fairly evenly across the two collaborating organizations. The proportional breakdown of costs were different from year to year, however. Specifically, for the first group, the subsidies accounted for nearly three-quarters of the project costs; for the second group this figure dropped to 56% and for the third group, to 49% of the total costs. This proportional decrease reflects increases in funding for the collaborating organizations each year, and the recognition of the intense staffing needs for this type of effort.

The participants were very satisfied with the quality of the project. The women interviewed as part of the evaluation were very appreciative of the support and training provided by HWEDP. When asked what was the best part of the project, most identified...
the support of staff and the friendships they formed with other participants. Others felt that the business training was helpful not only in developing their enterprise ideas, but also in providing them with important skills for the workplace. While they did recommend some changes in various components of the program, the overall response was one of tremendous gratitude for the opportunity to become financially independent within a supportive network of friends and other helpers. One staff member described the project as having, "reconnected the women with society, gave them things to strive for and a ‘family’ to do it in. It prevented them from becoming long-term homeless."

Changes Among Participants

Self-Employment Ventures

One of the primary original purposes of HWEDP was to provide homeless women with the skills and support they needed to plan for and start their own businesses. This is an extraordinary undertaking because starting a business is difficult even for people who are housed and financially stable. The Roberts Foundation understood what this type of endeavor took and made a long-term investment in the project. The fruits of this investment are that at the time of our follow-up, 58% of the participants were reported to be self-employed on a full- or part-time basis.

- Nineteen of the 33 women (58%) were reported to be self-employed — five full-time and 14 part-time, at the follow-up. Of note is that this proportion is much larger than WISE's success rate with its general clientele, of whom about 20% start their own businesses. One participant who became self-employed explained: "WISE did a good job. They helped with the loan and they still listen to my problems with the business."

- Full-time self-employment was interpreted differently for each of the women and did not necessarily mean that she was working 40 hours per week. For one woman it involved working closer to a 12-hour day. For another woman it meant being available full-time to operate her business, but the actual time she spent working was considerably less.

- The Group One women were more likely than the women in the other two groups to be self-employed on a full-time basis. As shown in Exhibit 1, three of the 10 first group women are self-employed on a full-time basis. While it is not entirely clear why this group of women fared better in terms of self-employment than the other groups, it is likely that in part it has to do with the length of time from when they started the program and the business opportunities that they have been able to explore during that time. It may also have to do with the type of women participating in this group, the nature of the training and support activities in which they participated, and the supportive relationships they formed with one another.

Types of Businesses

There is considerable variation in the type of self-employment activities the women chose. In two of the full-time ventures — a restaurant and a child care center — the businesses provided enough income to support the women involved. A third woman had a psychic phone service, although she also worked as an apartment manager, which provided most of her income.

Part-time self-employment included providing services or producing goods usually out of their homes. These women were not likely to rely on income from these businesses as their primary source of income. The types of businesses included sewing and alterations, tutoring, personal weight management, health and fitness advising, and herbal sales and treatment services.

Of the women not self-employed in Group Three, several were in the beginning
phase of their business where most of the planning and preparation was complete, but were not yet producing any income. Some examples included a woman with a catering service who was still working on marketing her business. Another woman was still cultivating a vegetable and herb gardening business. A third participant was looking for a site for a deli, and a fourth woman was recruiting clients for a day care service.

SELF-EMPLOYMENT REVENUE

As stated above it was difficult for the program to track the business activities of the participants. Therefore the evaluation had to rely on participants’ self-reports on the written evaluation form for financial information on their ventures. Only six women (all from Groups One and Two) reported total annual sales or revenue from their self-employment ventures, so the data are somewhat limited in this section. The restaurant owner reported annual revenue of $40,000 and the women operating the child care service said her business brought in $20,000 during the previous year. The remaining four participants reported annual sales of between $4,000 and $7,200.

WHY SOME WOMEN CHOSE NOT TO BECOME SELF-EMPLOYED

When asked why they were not currently in business for themselves, participants’ most common response (55%) was that they could not raise enough money. This is an interesting finding since on numerous occasions the Foundation granted funds to WISE to support start-up loans made to program participants for their businesses. Additional reasons were given by 46% who felt they needed more support, and 27% who reported that self-employment did not fit their lifestyles because of family needs. Other reasons included: inability to find a site at a reasonable cost, trouble finding clients or customers, not wanting to give up benefits from a job, found another job, and/or inability to commit the time and energy required. As one participant described: “I needed to work and I needed time for my business; it’s still hard for me.”

OTHER EMPLOYMENT

Much of the skill building and support provided to the women through BAWRC and WISE’s collaborative efforts not only helped the women plan for their businesses, but also helped them stabilize and find full- or part-time jobs. Employment status

<table>
<thead>
<tr>
<th></th>
<th>Total (n=33)</th>
<th>Group One (n=10)</th>
<th>Group Two (n=13)</th>
<th>Group Three (n=10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-employed full-time</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Self-employed part-time</td>
<td>14</td>
<td>4</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Not Self-employed</td>
<td>14</td>
<td>3</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

* Self-employment has been defined to include anyone who sells (or has available to sell) a service or product.

Source: Staff Report.

EXHIBIT 1

SELF-EMPLOYMENT STATUS AT FOLLOW-UP BY GROUP

<table>
<thead>
<tr>
<th></th>
<th>Total (n=33)</th>
<th>Group One (n=10)</th>
<th>Group Two (n=13)</th>
<th>Group Three (n=10)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-employed full-time</td>
<td>5</td>
<td>3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Self-employed part-time</td>
<td>14</td>
<td>4</td>
<td>7</td>
<td>3</td>
</tr>
<tr>
<td>Not Self-employed</td>
<td>14</td>
<td>3</td>
<td>5</td>
<td>6</td>
</tr>
</tbody>
</table>

EXHIBIT 2

EMPLOYMENT STATUS (NOT INCLUDING SELF-EMPLOYMENT)

<table>
<thead>
<tr>
<th></th>
<th>At the Start of the Program (n=32)</th>
<th>Follow-up (n=21)</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>n</td>
<td>%</td>
</tr>
<tr>
<td>Unemployed</td>
<td>15</td>
<td>47%</td>
</tr>
<tr>
<td>Employed full-time</td>
<td>3</td>
<td>9%</td>
</tr>
<tr>
<td>Employed part-time</td>
<td>14</td>
<td>44%</td>
</tr>
</tbody>
</table>

* Of those employed in full-time jobs, nine were also self-employed
** Of those employed in part-time jobs, two were also self-employed

Source: Intake Forms, Staff Report, Joint Evaluation Forms.
improved tremendously for women in Groups One and Two who returned for the follow-up. Changes in employment status for women in Group Three showed mixed positive and negative results, although it is still early in their involvement to determine the long-term impact.

- Upon entering into HWEDP, nearly half (47%) of program participants were unemployed. One third (34%) had been unemployed for more than six months. Forty-four percent indicated having a part-time job, and only 9% had full-time jobs. These proportions did not differ substantially between women in the each of the groups.

- By the time of the follow-up only 19% of respondents overall reported being unemployed. In addition to those self-employed full-time, twelve women (57%) were working at a full-time job. Five women (24%) were employed part-time.

- Differences in employment status at the follow-up did exist depending on the year women began the program, especially for Group Three. Half of the Group Three women were unemployed at the follow-up and one-third were employed in full-time jobs. One woman was employed part-time. These data reflect the trend seen above that the women seemed to be better off the longer the time since they started the program. The higher rates of unemployment in the third group are not surprising as they had less time than the first and second groups to transition to more stable lives.

**INCOME**

Looking only at employment status alone, however, does not give the complete picture of how the women were supporting themselves. Most participants reported multiple sources of income. While this was true both upon entry to the program and again at follow-up, there was a definite shift from participants’ primary reliance on public assistance to self-support through a job or

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**EXHIBIT 3**

**PRIMARY SOURCE OF INCOME**

<table>
<thead>
<tr>
<th>Total at Start of Program (n=31)</th>
<th>Follow-up Total (n=24)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>n</td>
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<tr>
<td>Public Assistance</td>
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</tr>
<tr>
<td>Employment</td>
<td>8</td>
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<tr>
<td>Self-employment</td>
<td>1</td>
</tr>
<tr>
<td>Other*</td>
<td>7</td>
</tr>
</tbody>
</table>

*(e.g. cash jobs, unemployment comp., military disbursement)*

Source: Intake Forms, Staff Report, Joint Evaluation Forms.

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**EXHIBIT 4**

**CHANGE IN ANNUAL HOUSEHOLD INCOME***

*NOTE: Income at program entry compared to income at follow-ups plotted for each participant. The diagonal line represents no change in income from the time of program entry to the follow-up. Those points above this line indicate increases in income and those below, decreases.*

Source: Intake Forms, Joint Evaluation Form, Participant Interviews.
Upon entering HWEDP, 48% of the women overall relied on public assistance (AFDC or General Assistance) as their primary source of income. Employment at a full- or part-time job provided primary income for eight (26%) of the participants. Another seven participants relied on other sources including cash jobs, unemployment compensation, and military disbursements.

For participants overall at the follow-up, 63% reported that a job other than self-employment was their primary source of income. Four (17%) said self-employment provided their primary source of income; all of these women were from Group One. Another four (17%) relied on public assistance as their main source of income.

As was true with business ventures, length of time since starting the program appears to be a strong indicator of employment status. At follow-up, half of Group One relied on income from their own business and half from a job. Nine (90%) of the participants from Group Two supported themselves with a job and one (10%) through AFDC. Women from Group Three were much more likely to rely on public assistance as their primary support (50%), although one-third said the jobs provided their primary source of income. The lack of self-support for Group Three is not surprising considering they had entered the program more recently.

Just over one-fifth (21%) of the women reported having income from an informal source and 16% said they sometimes received income this way. This was usually related to their business, where they provided some service on a cash basis.

While more than half of the participants...
in the HWEDP program were self-employed at the time of follow-up, nearly all of the participants showed an increase in their annual incomes. Upon entering the program, 96% of the participants reported their annual household incomes of $12,000 or less, and two-thirds of their households had between two and four people dependent on that income. At the time of the follow-up interviews, half of the participants had annual household incomes greater than $18,000. Exhibit 4 illustrates the changes in annual household income. The graph clearly shows how most participants’ household income increased.

- More than one third (37%) showed increases in annual household income of more than $10,000, and another 32% had an increase of between $4,000 and $8,000. Just over one-fourth (26%) stayed the same or increased slightly and only one woman (5%) reported a decrease in household income. It should be noted that only 19 women reported their incomes both upon entering the program and at follow-up, and therefore changes in household income can be determined for only a portion of the total group. It is not clear that these data reflect changes of the whole group of participants.

- Changes in income varied somewhat depending on the year participants entered the program, and increase in income appeared linked to the length of time since the women had become involved with HWEDP. A large majority of participants in both Groups One and Two showed increases in annual household income. Participants in Group Three were more likely to have household income remain about the same. This is not surprising since Group Three had been in the program for less than a year when follow-up data were collected.

- The women who were self-employed at the follow-up reported somewhat higher annual household incomes than those who were not self-employed. Half of the women who were self-employed either full- or part-time reported household incomes over $18,000 per year, whereas only 25% of those not self-employed reported incomes at this level. Women working part-time in their own business were more likely to report higher household incomes.
Housing

As shown in Exhibit 7, when entering the program, 88% of participants were homeless, 9% lived in transitional housing, and one woman (3%) lived in her own housing. Of the 29 women who were homeless, 24 were staying in a shelter and five were staying with friends.

The three groups differed only somewhat in their housing situations at the start of their involvement with HWEDP. One-fifth of participants in each of Groups One and Three were in transitional housing or other stable housing, whereas none of the women in Group Two lived in a transitional housing situation.

Women from Group Two were more likely than homeless women in the other groups to be relying on friends for shelter, as 30% reported staying with friends. Homeless women in Groups One and Three were more likely to have turned to community shelters, possibly indicating weaker social supports.

Of those who were homeless upon entering the program, 69% were "situationally homeless" for three months or less.

The one woman in Group One who was in stable housing at the time she entered the program had been homeless within the three months prior to intake.

Domestic violence was the most commonly reported reason for homelessness at the time of screening for the project (47% overall). Other reasons included eviction, loss of income, and illness.

By the follow-up all 20 of those surveyed were living in their own housing. One respondent was in public housing and two resided in Section 8 housing. In addition, housing was much more stable at the time.
of follow-up: 67% of Group One participants and 56% of Group Two participants had been in their current situation for more than two years. Half of Group Three participants had been in their living situation for approximately a full year.

Respondents at the follow-up were also more satisfied with their current housing situations. Three-fourths of respondents at the follow-up interviews said their housing was adequate for their needs.

Skills Development

As part of the follow-up evaluation, participants were asked a series of questions about how participation in HWEDP affected various areas of their lives. These included a range of personal life skills as well as work-related skills. The women were asked if they felt their abilities in each area had increased, stayed the same, or decreased as a result of the program. For most skill areas, the majority of the women felt participation in HWEDP helped increase their abilities.

On average, the majority of women thought the program more strongly affected their personal life skills than their work- or business-related skills. Of the five skill areas reported as showing improvement by over 60% of women, the top three are personal skills. Number four is a business-related skill and number five, again, is a personal life skill. This is viewed positively by project staff who believe strongly in the interconnectedness of the personal and business-related skills in starting a business. The HWEDP philosophy is that increases in personal skills directly translate into improvements in the business development process.

- Increases in obtaining personal goals, building a mutually supportive network, and dealing with stressful life situations were reported by the largest proportions of women (76%, 74%, and 67% respectively) as being areas of improvement because of HWEDP.

- Nearly two-thirds (65%) of the women did say that the program helped in increasing their ability to obtain business goals. In addition, more than half of the participants reported that their work skills (57%), community networks (55%), time management skills (54%), and career options (50%) had all increased through participation in this project.

- Only 40% of the women felt the program increased their ability to be self-reliant; 55% said this ability stayed the same.

- Respondents were less likely to report improvement in resource management skills (32%) and money saving skills (30%). Approximately half reported their skill levels in these areas remained the same.
One participant was particularly pleased to learn "the 'business-end' of business" since she already had the skill to make her product. Another woman felt that learning to develop a business plan was very helpful; she commented: "I can do excellent business plans now... I've received many compliments on the expertise I've gained."

**SELF-ESTEEM**

Program staff estimated that many women who began HWEDP had fairly negative or limited self-esteem. Most participants seemed to feel that their self-esteem improved over the course of their involvement with the program. During the follow-up interviews most women perceived themselves as having more confidence and as generally feeling better about themselves than they did when starting the program.

Participants were asked a series of eight questions to measure self-esteem. After the interviewer read a statement such as "I feel I make a good impression on others," the respondent was asked to decide how often she felt that way currently, on a scale of one to four. To get an idea of whether self-esteem had improved since they began the program, participants were also asked to remember how often they might have felt this way when they began HWEDP. While this type of retrospective reporting does not have a great deal of validity in measuring actual change, it was a way to test the participants' own perceptions of how their self-esteem had changed.

Respondents' scores were aggregated to get a composite self-esteem score ranging from 8 to 32. Self-esteem scores at follow-up are presented in Exhibit 10.

- The majority of women overall scored in the average to high self-esteem range (40% average and 50% high). None of the women scored in the lowest range. This differed somewhat when looking at each group separately.

- Women in the first group were more likely to score in the limited or average self-esteem ranges than those in Groups Two or Three. This may be connected in part to WISE's introduction of the Self-Esteem and Personal Effectiveness Training for the second and third groups.

- Nearly all believed that their self-esteem had either stayed the same or improved since beginning the program.

**SOCIAL SUPPORT**

Many of the women had weak social support networks upon entering the program. In addition, a large number were emerging from abusive relationships. Participants reported positive changes in emotional relationships and their social support systems as a result of their involvement with HWEDP. It should be emphasized that looking at participants' perceptions of changes in social support is a subjective measure of change in this area. As social support measures were not collected upon program entry, it was not possible to measure actual change.

- Upon entering the program, only four (12%) of the women were either married or living with a partner. At follow-up, nine (45%) of the 20 women surveyed reported they were married or in a relationship. All of these women indicated that their partners were supportive of their self-employment ventures.

- Approximately half (52%) of the women overall were victims of domestic vio-
lence when starting the program, and 85% had a history of abuse in the home at some time in their lives. At the follow-up interviews all of the women reported being free of abuse since starting the program.

Nearly all the women felt their current social support was either the same or better than their situation when first beginning HWEDP. The importance of this type of support was explained by one participant who said that if there is distance from friends and family “you can instantly become homeless.” She felt that through HWEDP, the women became family, and that now “…none of us can ever be homeless again … it was an extraordinary thing that happened.”

These findings were reflected as well in the participants’ reactions to the HWEDP in general. When asked what was the best part of the program for them, most women (especially those in Group One) mentioned the new friends they had made and the support they felt from BAWRC staff and other members of their group. One participant felt the program gave her a “sense of belonging to something.” Other comments included: “I am happy to have the program. I feel better that I have a job and more friends. I got lots of help and support.”

**Conclusion**

**V**irtually all of the participants in the Homeless Women's Economic Development Project were significantly better off after participating in the program. In fact, the longer they participated, the more benefit they appeared to derive, not only in terms of enterprise development, employment and income, but also in terms of their housing stability, social support, and life skills.

Self-employment outcome data indicate that while only a few women were able to start full-time businesses that provided enough income to support them, a large proportion were successful in setting up small-scale enterprises that provide supplemental income to their full- or part-time jobs. Regardless of their self-employment status, almost all of the participants experienced a significant increase in their annual household income. All of the women were living in their own housing when follow-up interviews were conducted and most felt that the project had helped them to build a set of skills and network of support such that they would never be homeless again.

Implementing this project required a substantial investment of resources—in both time and money. The women appeared to benefit from all of the different components of the project although it was not clear that the emphasis on self-employment was the key to the project’s success. Since the majority of participants ended up primarily supporting themselves with full- or part-time jobs, it seems like the project could be expanded or modified to offer several economic development tracks such as job training or job placement opportunities to augment the self-employment track. Finally, the supportive services and subsidies, while costly, were invaluable elements in this project.

**EXHIBIT 10**

**SELF-ESTEEM SCORES AT FOLLOW-UP**

<table>
<thead>
<tr>
<th></th>
<th>Total (n=20)</th>
<th>Group One (n=6)</th>
<th>Group Two (n=9)</th>
<th>Group Three (n=5)</th>
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<tbody>
<tr>
<td></td>
<td>n  %</td>
<td>n  %</td>
<td>n  %</td>
<td>n  %</td>
</tr>
<tr>
<td>27 - 32 (High)</td>
<td>10 50%</td>
<td>1 17%</td>
<td>6 67%</td>
<td>3 60%</td>
</tr>
<tr>
<td>21 - 26 (Average)</td>
<td>8 40%</td>
<td>3 50%</td>
<td>3 33%</td>
<td>2 40%</td>
</tr>
<tr>
<td>15 - 20 (Limited)</td>
<td>2 10%</td>
<td>2 33%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
<tr>
<td>8 - 14 (Low)</td>
<td>0 0%</td>
<td>0 0%</td>
<td>0 0%</td>
<td>0 0%</td>
</tr>
</tbody>
</table>

Source: Participant Interviews.
Update on SF-WEST Class of 1994-1995 as of June 30, 1995

This is an update on the final class of 10 women who participated in San Francisco Women Emerging with Support and Training (SF-WEST), originally called the Homeless Women’s Economic Development Project, but renamed by the participants. At the end of their first year with SF-WEST, their employment status was as follows:

<table>
<thead>
<tr>
<th>Status</th>
<th>Participants Who Completed Program, N = 6</th>
<th>Participants Who Did Not Complete Program, N = 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-employed (full-time)</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Self-employed part-time and employed in a job part-time</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Working on business plans</td>
<td>3</td>
<td>0</td>
</tr>
<tr>
<td>Employed full-time</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Information not available</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

Each of the six women who completed the program received continuing support from WISE and BAWRC. The two women who secured full-time employment and left the program are no longer in regular contact with WISE. The two for whom no information is available left early in the program period and could not be located. Following the conclusion of the curriculum training period, the six participants who completed the program continued submitting monthly progress reports to project staff and received ongoing guidance regarding research, marketing, and/or legal questions for small business development. While a number of the participants were or are considering applying to the WISE loan fund, none felt their financial situation was secure enough to take on a loan.

The participants are pursuing the following enterprises:

**Child Care:** Following resolution of a dispute with her landlord over her operating a home child care program, the participant moved outside the San Francisco area and continued running her enterprise. Project staff maintain phone contact and consultation to assist her in the business. She is presently supported by her business and studying part-time for an A.A. in early childhood development.

**Catering:** Participant is currently employed and continuing to develop the feasibility of her business by doing additional catering jobs as she finalizes her plans.

**Deli:** Participant continues working on her business plan, researching a location for the business, improving her credit rating, and investigating inventory and equipment costs and other costs associated with start-up.

**Paralegal/Courtroom Graphics:** Participant continued developing her business plan, but was hampered by
personal difficulties including family illness and a poor credit rating. She continues work on her business plan.

**HOME CHILD CARE:** Participant had a child in February 1995 and has put off plans to start her business. She has overcome a number of personal challenges, including health problems and a move into Section 8 housing.

**URBAN GARDEN:** Participant started an urban garden business in 1994 using her own funds, but for a number of reasons the venture did not mature into a formal enterprise. She is presently employed in another urban garden while she continues developing plans to launch her venture a second time.

The programs which operated this self-employment initiative also experienced change as a result of this project. BAWRC continues to be involved in efforts to expand employment training opportunities for homeless women through several community forums. WISE enhanced their existing training curriculum, streamlining the elements of marketing and finance. WISE courses now have a weekly reporting format and integrate more clearly defined decision-making points throughout the business development process. In addition, WISE has added both self-esteem and personal effectiveness workshops to the business training program. As a result of their participation in the SF-WEST program, WISE has recognized the importance of developing ongoing outreach to homeless women and other “at-risk” communities. These outreach efforts are complemented by new strategies to assure that program participants are provided with adequate social service and case management support.
Non-profits around the country are increasingly turning to enterprise development in order to create jobs and job training opportunities for their client populations. As has been demonstrated throughout the case profiles included in this book, many non-profit providers have recognized the limitations of a traditional social service approach to the problems of low-income and homeless people. While social services are essential, particularly for the homeless population, services alone have not been a catalyst for long-term change. One of the hopes and expectations in turning to enterprise development was that those trained and/or employed by a non-profit enterprise would, at a minimum, be more employable, have more marketable skills, an increased sense of responsibility and self-esteem, and more job experience. All of these positive changes could then hopefully translate into formerly homeless individuals achieving greater self-sufficiency and making a positive contribution to society.

There are important questions that follow from these expectations:

- Did non-profit enterprise development effect the kind of long-term changes anticipated?
- Specifically, which changes did occur and which did not?
- If it is still too early to assess the long-term changes, are there short-term milestones that can be identified as markers to track movement in the right direction?
- Are there particular populations who fared better than others as employees in a non-profit business or are there particular enterprises that were more successful than others in affecting long-term change among their employees?
- What, if any, relationship is there between profitability and long-term positive changes among the employees?

All of these questions speak to the efficacy of the investment being made in economic development and can be answered by thoughtful assessment and, specifically, outcome evaluations of non-profit enterprises.

In the case of the HEDF, the Foundation was also interested in these questions. To assist the grantees in information gathering and interpretation, an independent evaluator was retained for the second and third years of the initiative. As the organizations moved through their experience, however, it became clear they required a high level of organizational capacity building; with this in place, the businesses themselves would also require a primary focus to achieve success. Therefore, the decision was made to delay evaluation of the individual impacts.
of the work in order to target assessment of the organizational and business development aspects of the Fund’s efforts. The success of this emphasis upon organizational and business development aspects of their work are well documented. The financial analysis, organizational evaluations, and enterprise lessons presented in this book are all products of this shift in focus.

While organizations can always improve their operations, at this time it is felt the Fund’s grantees have adequate information and other management systems in place, and should now focus greater emphasis over the next five-year period upon outcome evaluations of program participants. This chapter outlines some of the considerations non-profits face in engaging in outcome evaluation. The chapter then concludes with thoughts on how to make outcome evaluation of non-profit businesses more feasible, credible, and useful.

**Evaluation Issues**

The following five issues may be viewed as central to the task of evaluating non-profit enterprise:

- The Dual Dilemma: Evaluating the Double Bottom-Line
- The Challenge of Integrating Evaluation Into Ongoing Operations
- The Resource Demands of Evaluation
- The “Fit” Between Organizations and Evaluators
- The Opposition of Some Non-Profits to Evaluation

- The Dual Dilemma: Evaluating the Double Bottom-Line

Non-profit businesses are in the unusual position of bearing two evaluation burdens: assessing the profitability of a business and assessing impacts of employment on the business’ employees and/or trainees. The skills and orientation required for these two evaluation efforts are quite distinct from one another. Assessing profitability requires adequate systems of financial accounting, ability to generate profit and loss statements, and other elements of a business infrastructure not part of a typical non-profit organization. As was evident time and again throughout the case profiles, developing this infrastructure was a major undertaking for most non-profit enterprises. It usually necessitated establishing an entirely new accounting system, hiring financial consultants with business expertise, and expending resources to build organizational capacity to understand and make use of the output from a new accounting system.

The requirements for conducting an evaluation of social impacts, on the other hand, include developing methods and instrumentation for gathering baseline and follow-up data on individual clients, trainees, or employees, an automated system for storing that information, and some basic analytic skills for assessing changes which take place over time. As with the profitability assessment, implementing credible outcome evaluations usually requires expending organizational resources to hire evaluation consultants and/or develop in-house capacity.

Perhaps a majority of social service organizations could be said to have poor evaluation systems in place with which to assess the long-term impact of their efforts. The problem for non-profit enterprises is that it is very difficult to develop a program evaluation infrastructure while starting a new business at the same time! Starting up a new business, particularly as a social entrepreneur, is in and of itself a very time-intensive and resource-intensive undertaking. To divert staff and organizational resources into other areas such as evaluation requires an assessment of the opportunity costs to the business start-up itself. When establishing priorities, most businesses are focused on business survival, not on thoroughly understanding the long-term social impacts of their work.

This is true for two reasons. First, if the
business is not profitable and does not survive, there will be nothing to evaluate. Therefore, at least initially, the focus on the financial bottom-line is more important. Second, most of those involved with non-profit enterprises have backgrounds in the social service arena. They think they have more of “a feel” for social impacts than they do for business profitability, and justifiably focus their limited resources in the area where they have the least experience. Once that business infrastructure is in place, however, it is reasonable to expect non-profit enterprises would turn additional attention to more fully understanding the long-term social impacts of the employment experience on program participants.

Æ The Challenge of Integrating Evaluation Into Ongoing Operations

In addition to the extra evaluation burden posed by business and profitability considerations, non-profits face a more general obstacle to implementing outcome evaluations, namely their own internal organizational resistance to evaluation. This resistance can stem from any number of factors: negative past experiences with funder-imposed evaluations, unsatisfying consultant relationships, lack of organizational expertise in evaluation, resentment at having too much “paperwork,” and/or inadequate resources allocated to evaluation.

As a result of this resistance, organizations tend to think about evaluation as an afterthought, rather than incorporating evaluation questions into their program and business planning. A common practice in many community-based organizations is that near the end of a program reporting period agency staff scurry around poring through papers or files filled with long-hand notes trying to “gather the stats.” Under these circumstances, the “stats” gathered often hold little meaning for the programs, because they are usually incomplete, and do not tell much to a funder or other external audience. It is only when evaluation becomes part of a program and can be used as a learning tool to inform programmatic decision-making that the full value of good evaluation really becomes meaningful.

This means programs, or in this case, enterprises, have to drive evaluations and not the other way around. Staff need to articulate what they hope and expect will change among their target population, i.e., what are the intended outcomes. An evaluation should then be built around those outcomes. For example, staff in a non-profit business may expect 50% of the employees who go through a 12-month training will then get placed in a permanent job in the general marketplace and remain employed for at least one year. This is an outcome around which an evaluation may be built. If the evaluation finding is yes, approximately 50% of people who completed the training period did find employment in the general marketplace; but if only a handful remained employed one year later, then the staff would have to re-think its training, program, and employment design. This could also point to the need for strategic follow-up and support for former program participants. If the finding was that most of the people who completed the training were indeed employed one year later, then staff could feel relatively confident its design was on the right track in terms of making constructive long-term social impacts.

The evaluation might also identify the characteristics of those clients more likely to show successful outcomes as compared with those who were less likely. This might help a program or business develop targeted assistance to those needing the most help. In this example, evaluation findings have become a learning tool which can be useful to a business in understanding its social impacts, as well as to a funder who can assess a program design and be more realistically informed about what to expect from similar types of efforts.

One of the implications of this example is that non-profits need to begin having positive experiences with evaluation. Evaluation can no longer be seen as punitive but rather as a helpful tool in program or business development. This takes time, adequate resources, a willingness to engage in an evaluation development.
process that is parallel to a program and/or business development process, and increased capacity for understanding what it takes to conduct evaluations, on the part of both agencies and funders.

The Resource Demands of Evaluation

Many organizations that conduct evaluations engage in what is called process evaluation. Process evaluation sets the context and tells the story of a program. It provides information such as how many people were reached, what their characteristics were, the number of service units, their hours of employment, type of training received, and so forth. Outcome evaluation, as has been discussed above, assesses change over time. It answers the question, what difference did you make? An organization may have provided 100 hours of services to 50 people, but what happened as a result? What were the real impacts from this effort? How did people change? Outcome evaluation still requires gathering basic process data, but also involves individual change data. It necessitates collecting information from individuals at least two times, and ideally on an ongoing basis. It means assessing an individual’s status—employment, housing, income, or otherwise—at the time they become involved with a program (referred to as baseline data) and then again at some later juncture to determine change.

The second time interval for gathering information is called follow-up. Follow-up is one of the most time-intensive and resource-intensive components of an evaluation, particularly when the target population is transient, as with many of the enterprises profiled in this book. Hopefully, a program has thought far enough ahead to get individuals’ permission to contact them for follow-up, as well as the phone numbers of various other people who may know where they are, in case they cannot be located otherwise. If that is not the case, follow-up data will be skewed toward those with whom the agency still has contact, and the findings will not be representative of all who have participated in a program. If a program does have follow-up contact information, it is better positioned to gather more representative data, an effort that requires a lot of work. It often entails spending a considerable amount of time tracking people down, scheduling follow-up interviews, coping with no-shows, offering incentives to participate in follow-up, and ensuring consistency and quality in the data collection process. Once baseline and follow-up data are collected, there are costs of data automation, manipulation, and analysis. Unless a program or business has budgeted for this level of effort and all of these tasks are an explicit part of someone’s job, the task of conducting an outcome evaluation can be quite onerous.

In approaching outcome evaluation, commonly asked questions are:

- What does it take to conduct an outcome evaluation?
- How much should a program or non-profit business budget for evaluation?
- Are there standards in the field that should be followed?

The answer, unfortunately, is not straightforward. Evaluations can cost anywhere from 5% to 150% of a program budget. The level of effort required for evaluation depends entirely on what information and degree of confidence is sought. Academic institutions tend to attach a high cost to their evaluation research because they are expected to be very certain about their results. Many non-profit agencies or non-profit enterprises will use evaluation to provide timely, useful, and credible information, and it does not matter as much that they have a 97% confidence level in the results.

There is a direct relationship between cost and certainty when it comes to evaluation. The more certain you need to be, the more it is going to cost. But, an agency can be less than 97% certain and still gather useful information. From Harder+
Company Community Research’s experience in evaluating hundreds of programs, a modest evaluation effort should cost between 10%-20% of the total program cost budget.

The “Fit” Between Organizations and Evaluators

As has been suggested above, outcome evaluations require more technical skills than most non-profits have in-house. In the same way it is important to hire someone with business skills and experience to help run a business, it is also useful to make use of evaluation consultants in the design, implementation, and monitoring of evaluations. This does not mean handing over the entire responsibility of an evaluation to a consultant. Such a course of action might be more expensive and do little to build organizational capacity for evaluation. The best evaluations—those providing credible, timely, useful, and relevant information to improve decision-making—are conducted collaboratively between evaluation “experts” and those managing a non-profit program or business.

An evaluation is most constructive when it is conducted as an iterative process—that is to say, there is an ongoing feedback loop built into every step of the evaluation process. For example, a program or business articulates its outcomes, and an evaluation consultant responds to those outcomes by proposing a design for data collection. Once the program or business agrees to the design, the evaluator proposes specific instruments and protocols for gathering the data. These are reviewed, revised, refined, pilot-tested, and finalized. To make the best use of resources, it usually makes sense for the programs/businesses themselves to be responsible for gathering the information because they are closer to the source. An evaluator can ensure consistency and reliability of the data by implementing regular quality control checks and giving feedback to those gathering the data on ways to improve quality. Finally, the evaluator can assist an agency in automating the data in ways that will be helpful for analysis and work collaboratively with an agency to interpret the findings and their implications for a program or business. Those findings are then used to improve program or business operations.

Depending on the funder’s interest in being involved in an evaluation process, a funder could be brought into this feedback loop at any point. Those who are very proactive and already involved in program or business development, such as The Roberts Foundation’s HEDF director, would probably want to be directly involved in an evaluation. Other funders may have little or no interest in regular involvement and may simply want to receive the findings, when they are available.

One of the most important pieces of an effective evaluation, however, is choosing the right evaluation consultant. Assuming any potential evaluator has already been screened for the appropriate credentials and experience, a primary principle to follow is that there should be a good fit between the agency, the funder, and the evaluator. The funder, program, or business should be able to understand what the evaluator is saying and feel confident that the evaluator understands what the program or business is trying to accomplish. A funder or agency should be able to look at the evaluator’s past work and see relevance to what will be required for the project at hand. The program or business should feel comfortable working with the evaluator and have confidence that the evaluation will be approached with an orientation toward learning.

The Opposition of Some Non-Profits to Evaluation

While in recent years, non-profit organizations have become increasingly aware of the added value evaluation brings to their work, historically evaluation has not been fully embraced by many community-based practitioners. There are a variety of reasons for this, but in our experience of helping non-profit enterprise organizations assess the impact of their work, we came upon two that are worth addressing specifically.

First, certain groups feel evaluation con-
licts with the organization’s other, more primary values. These groups tend to operate within a philosophy which does not believe in evaluation. They have built their agencies as programs providing a last resort, where people in need can come for services or temporary employment and be asked very few questions, and jump through few or no bureaucratic hoops to participate in program or employment activities. These agencies target people who have fallen out of “the system.” In this framework, evaluation is seen as a hurdle, an invasion of privacy that can be threatening to some individuals and may mean the even fewer services reach those on the very fringe of society.

A second reason non-profits may resist evaluation has to do with the fact that social entrepreneurs treat non-profit enterprise development very seriously and do not want to compromise business ethics and practice by asking personal questions of their employees. These organizations maintain that if a regular business in the marketplace does not follow up on an employee after he or she has left the company for another position, why should the non-profit business? Shouldn’t non-profit businesses strive for the same standards of business practice as for-profit businesses?

A complicating factor is that many non-profits report that after having successfully transitioned to permanent employment, many former clients want absolutely nothing to do with the agency. They frequently state that their homelessness is in the past and they fear how other employees or their new boss may view them. While the HEDF has found most employers to be extremely supportive of newly hired individuals who have moved out of funded programs, the fear is understandable and not to be dismissed.

While these issues of values and business practice are valid, they can in fact be addressed. With regard to the concern that evaluation conflicts with the privacy and other rights of clients, as stewards of public or philanthropic funds, agencies have a responsibility to document those funds are being utilized in the most effective way possible. It is not simply a question of being accountable to funding sources. It is also important to be accountable to the very people who come to the agency for services. If intensive outcome evaluation is not feasible or places too great a burden on a small agency, then other, less invasive, forms of evaluation might be useful, such as employee focus groups, which do not require reams of paperwork or hour-long individual interviews.

With regard to groups that find evaluation anathema to their business culture, it is true that in may respects it is important to meet the standards of the general marketplace, but it is also true that non-profit businesses are different. Social entrepreneurs face a competitive disadvantage, as was clearly argued in the chapter on unfair competition. Non-profit businesses have a mission that goes far beyond the bottom-line. By design, non-profit businesses are trying to have a social impact. Because of this, they, too, have an obligation—to their supporters and employees—to document the long-term impact of their work.

Finally, in many cases it is simply a question of time and money. In a period of extremely limited resources, when core staff positions are being eliminated, justifying hiring a “new” evaluator to track all evaluation efforts is difficult at best. Short of hiring a staffperson to manage evaluation internally, organizations are faced with attempting to make evaluation “everyone’s responsibility,” which is equally difficult. It is one thing for those outside a small, community-based organization to comment on the need for better, more systematic evaluation. It is quite something else to be on the inside, at the end of another 10-hour day and find oneself staring at the pile of papers, tucked over on the corner of the desk, which are supposed to be submitted the next morning. This issue is not limited to the field of non-profit enterprise, but is shared by many practitioners and funders across the nation.
Where Do We Go From Here?

Given the issues described above, where should evaluation of non-profit enterprises go from here? Clearly, answering questions of long-term social impact are important, because these hoped-for impacts are the very reason that non-profit enterprise development exists in the first place. The New Social Entrepreneur is both a passionate business person and a social change agent. Non-profit enterprises involved with the HEDF have understandably spent much of their energy trying to start up their businesses and build the infrastructure necessary for proper business development. Given all of the challenges organizations have faced in terms of business start-up, they were correct in maintaining this focus. Once a business is on its feet, however, that non-profit enterprise has an opportunity, if not an obligation, to assess the impact of employment on its employees and trainees.

Funders can and should share in this responsibility to assess the social impacts of this movement. The HEDF should be praised for its foresight early on in knowing that evaluation was important. The Roberts Foundation took the initiative to implement outcome evaluation activities, but then shifted its resources away from evaluation toward business development, since that was where the most assistance was needed. The Foundation used sound judgment in that decision, because, as previously stated, if the businesses don’t survive, there will be nothing to evaluate. Now the HEDF finds itself at a critical juncture. The Fund has more than six years

Recommendations for Improving the

➤ Don’t try to do too many things at once. A non-profit may need to get its business started and accounting infrastructure in place before explicitly concerning itself with evaluation of social impacts.

➤ Align expectations of evaluation with adequate resource allocation for evaluation. This usually means somewhere between 10%-20% of total program cost.

➤ It is important to build organizational interest in and capacity for conducting evaluations. If the evaluation is not meaningful to those responsible for collecting the information, it is less likely to be reliable or helpful in programmatic decision-making. Building this interest and capacity is not automatic. It takes time and trust.

➤ It is essential that a program/business work collaboratively with an evaluation consultant. The program’s/business’ expected outcomes
of incredible, formative experience with homeless economic development, has accumulated a significant body of knowledge about what it takes to create a non-profit enterprise, and has generously shared that knowledge with practitioners and funders around the country. The Roberts Foundation’s Homeless Economic Development Fund has learned a tremendous amount and has helped non-profit agencies throughout the Bay Area learn and grow as well.

The next contribution the HEDF can make to our understanding of the New Social Entrepreneur and the benefits of non-profit enterprise development is to work to answer long-term questions regarding the social impact of non-profit enterprise development. What difference do these enterprises really make over the years? Are they really more effective than traditional social services? How and why and with whom? The HEDF is perfectly positioned to begin answering those questions as are many of the agencies with which the Fund is involved.

The HEDF’s core grantee agencies have each gathered individual outcome information. While that information has been helpful for developing a more complete understanding of those enterprises, it has done little to increase our understanding of the field as a whole. There has been no standard set of outcomes established, nor established ways for collecting the information. The HEDF and its grantee agencies have an opportunity to continue to contribute important lessons about the effect of economic development strategies at a time when our communities are ready to listen to those lessons and try new approaches to addressing poverty and homelessness in this country.

As has been its practice to date, the HEDF should work collaboratively with non-profit enterprises and together build an evaluation instrument that holds meaning for the businesses, their employees, funders, and others in the field. Public and private funders across the country are moving toward the outcome evaluation arena because they understand the value that information will yield. Not all of these funders or the agencies they fund, however, possess the range of qualities demonstrated by The Roberts Foundation and its grantees. The competence and openness to learning demonstrated by the HEDF and its grantees in building businesses are the same ingredients necessary for building effective evaluations capable of answering some of the most important questions of our day.
Conclusion:
Cross-Cutting Issues for the Field of Non-Profit Enterprise

Introduction

Presented in this document’s executive summary are a series of findings based upon the work of the HEDF and its grantees. At the conclusion of each case statement, the reader will also find a presentation of lessons taken from each grantee experience. This concluding chapter will not re-present the findings and Lessons already addressed throughout this book. Instead, in evaluating the past six years of work with non-profit organizations across the San Francisco Bay Area, a number of common, cross-cutting issues emerge. The findings and learnings are no less important to our experience; however, we feel the following issues are primary considerations for those approaching work in this field. Those attempting to join the ranks of the New Social Entrepreneurs should be aware of these basic “success factors” which arise in the practice of non-profit business development, as they are central to almost any process of social purpose venturing. They may be framed as follows:

- Issue I: The Need to Balance Business and Social Missions
- Issue II: The Role of Effective Planning
- Issue III: The Goal of Building Self-Sufficient, Non-Profit Enterprises
- Issue IV: The Challenge of Organizational Governance
Issue V: The Question of Scale

In this closing chapter of *New Social Entrepreneurs: The Success, Challenge and Lessons of Non-Profit Enterprise*, we present each of these and discuss what makes them important.

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**Issue I: The Need to Balance Business and Social Missions**

**The Unique Position of Non-Profit Entrepreneurs**

One of the biggest challenges facing non-profit organizations pursuing enterprise development is balancing the often conflicting mission of a business with that of a social service organization. The traditional purpose of any business is to make a profit. While there may be some variability in terms of short-term versus long-term profit, or increase in dividends versus increase in overall asset value, ultimately the success of a business is based on generating monetary profit.

The mission of a traditional non-profit, on the other hand, is usually related to reducing suffering or improving the quality of life for vulnerable populations. Various non-profits will measure their success differently, but successful non-profit outcomes measure indicators such as reduced hunger; increase in stability, self-esteem or income; improved health; development of a neighborhood; and so forth. While there may be an exception somewhere across this country, on the whole a traditional non-profit mission will never include making a profit. It is anathema to the very name: NON-profit.

Yet non-profits are looking to enterprise development as another means to achieve their social mission. While some view enterprise development as an opportunity to generate income for their agency and fund traditional social service programs, many non-profits are turning to enterprise development out of an interest to create jobs and training opportunities for their clients. Increasingly, non-profit organizations are realizing their clients need more than services—they also need sustainable incomes, skills, access to job opportunities, training, and assistance with permanent job placement.

The non-profit entrepreneur is in the unique position of trying to operate a business that is profitable within an environment that has never had the profit motive. In addition, the New Social Entrepreneur must provide appropriate training and job opportunities to high-need individuals when productivity and efficiency would normally require more experienced or higher-functioning employees. The non-profit entrepreneur has not thrown his hands up in frustration over these seemingly intractable dilemmas. In fact, some very interesting approaches to anticipating and addressing these conflicts have been devised.

**The Organizational Context: Friend or Foe**

Organizations have structurally addressed the potential for mission conflict in several ways. The most common approaches include: 1) Conducting a planning process that incorporates both the social and business perspectives; 2) Creating a philosophical mind-set among board and staff members that the organization is both a social service and a community economic development agency; and 3) Creating a separate entity solely devoted to enterprise development. These are not mutually exclusive, as organizations have successfully employed more than one of these strategies to create a good structural fit for enterprise development within a non-profit context. Similarly, when an organization has not carefully addressed the potential for conflicting missions, serious operational problems can ensue.

1) **Conducting a planning process that incorporates both the social and business perspectives.**
As discussed in more detail below, good planning most often leads to good decision-making regarding enterprise selection and development. And planning that acknowledges and accounts for the differences between a social and business mission is even more effective in the long run. Agencies conducting this kind of planning, including Larkin Business Ventures, Rubicon Programs, and Berkeley Oakland Support Services, among others, have all benefited enormously from the process. They have developed strategies for addressing their social concerns within a business context. Berkeley Oakland Support Services, a multi-service homeless agency, for example, established criteria for business selection that included elements for addressing both their social mission (such as relatively simple equipment needs and relatively high use of labor), and their business mission (such as low capitalization and relatively easy entrance into the marketplace). BOSS’ multi-disciplinary venture team was able to use those criteria in selecting and launching the most appropriate enterprise.

When planning is not conducted in a way that explicitly incorporates an agency’s social mission, such as in the example of the Oakland Workers Painting Cooperative, the venture will not be successful because the social mission is not adequately integrated within the business venture. Similarly, when a planning process is incomplete and there is little follow-through on implementation, there is likely to be ongoing, sometimes destructive tension between those invested in an organization’s social mission and those charged with managing a business enterprise. This was the case with Hospitality House, an organization which early on jumped right into the details of their ArtStart business without bringing the rest of the organization along in a planning process. That enterprise has struggled considerably, in part because it never established solid organizational support for the business enterprise and has since had to go back to muster such support.

2) Creating a philosophical mind-set among board and staff members that the organization is both a social service and a community economic development agency.

Many of the agencies involved with the HEDF have experienced two camps within their organization: those who are more comfortable with the traditional social service approach and those who are more invested in the economic development approach. There are cases where these two camps will not blend, but if managed properly, will manifest the tension in constructive and creative ways. This may include, for example, compromising on new business selection criteria, identifying new ways of providing services to employees of an enterprise, or developing new training techniques that will effectively reach high-need employees.

Over time, and with a growing track record of cooperation between the social and business perspectives, an agency may begin to develop a new philosophical approach to its mission. This is exactly what happened in the case of Rubicon Programs, a multi-service agency serving the disabled homeless, and those at risk of homelessness. After many years of involvement in the economic development arena, there was strong consensus at the board, management, staff, and participant levels that the agency had a dual mission: to serve as both a social services provider and an enterprise development agency. There is agreement within the agency that the combination of these missions has made Rubicon an innovative, effective organization capable of offering a range of programs. Rubicon’s enterprises are viewed not as impediments, as is the case in some agencies, but as an enhancement and part of a continuum of offerings needed to make a difference in people’s lives.

3) Creating an entity that is devoted to enterprise development.

When the social and business missions cannot be effectively balanced under one roof, it may be necessary to create separate entities. This occurred with one of the HEDF’s core grantees, Larkin Street Youth
Center, which realized it needed to expand its repertoire of approaches to helping homeless youth in San Francisco in order to improve clients’ long-term options. After a period of planning and organizational reflection, the agency decided to spin off another non-profit, Larkin Business Ventures, that would be solely devoted to developing enterprises for training and employing high-risk young people in San Francisco. That spin-off took place largely because it was deemed too difficult to meld the social mission of the agency with the business mission of enterprise development. To ensure the integrity of each mission, and allow each entity to concentrate on what it did best, there was an amicable separation, with a continuing relationship.

Another example is Youth Industry, an organization that started up a few years ago with the goal of providing employment and training opportunities for high-risk youth, as well as a full complement of services. In the course of discussions with the HEDF director, YI realized it could not do it all immediately. Instead, Youth Industry reorganized itself to cultivate its strengths of providing employment training in areas such as bicycle repair, welding, and silk-screening, and collaborates with other youth-serving organizations when support services are needed.

TURNING A PROFIT WITH “HIGH-NEED” EMPLOYEES

After addressing the organizational context, the second dilemma that puts the non-profit entrepreneur in a unique position is the conflict between providing appropriate training and job opportunities for high-need youth, as well as a full complement of services. In the course of discussions with the HEDF director, YI realized it could not do it all immediately. Instead, Youth Industry reorganized itself to cultivate its strengths of providing employment training in areas such as bicycle repair, welding, and silk-screening, and collaborates with other youth-serving organizations when support services are needed.

Non-profit enterprises have utilized several strategies to address this tension. The first is to draw on grant support to subsidize the additional costs of employing “marginal” workers. Support from HEDF and other foundations has helped offset some costs to a business. As illustrated throughout the case studies, HEDF has provided many different kinds of support to non-profit enterprises, from business planning and start-up funding to salary support and equipment purchases. Similarly, the GAP Foundation provided in-kind design assistance to Oak Street which house’s City Store, normally would have cost the business quite a lot of money. This allowed the agency to focus its resources on its social costs.

A second strategy is to separate the function of support from that of employment in the business. This can be done in-house or in collaboration with another agency. If a business needs to hire a case manager to assist employees with personal problems, then that case manager can be funded separately and can operate outside the boundaries of the employee’s work day. If personal problems become so paramount they impede an employee’s ability to function on the job, that person can be given a temporary leave until the problems are addressed and can then be re-hired, as was the case with a young Ben & Jerry’s ice cream scooper employed by Larkin Business Ventures.

A third strategy for making a profit in a non-profit context is to creatively balance different types of workers in an enterprise. Depending upon the enterprise, rather than filling a business with all low-skilled workers, sometimes it makes sense to have employees with a mix of skill levels. Similarly, instead of viewing all of the jobs created through the enterprise as training slots, to help prepare people for eventual work in the general marketplace, an enterprise might need to view some positions as longer-term or permanent jobs and others as more temporary training positions.

Rubicon’s Building & Grounds business faces these issues on a daily basis. Their work crews have to be effective enough to
meet contract requirements yet also provide training opportunities. Rubicon strikes a different balance for each of its work crews, depending on the contract, but there is always some balance between already trained, more skilled workers and less experienced trainees. The same is true for Rubicon’s Bakery business, which employs higher-skilled workers for baking high quality pastries and tarts, and lower-skilled workers for the more routine and less time-pressured tasks of folding boxes, measuring flour, and so forth.

A fourth strategy for being a profitable non-profit enterprise is to hire people with business experience and acumen to manage the enterprise. Employing social work-

ers to run a business is not necessarily a recipe for success. The individual running the business needs to know more about business operations than the workers do. Those agencies that asked their executive directors or other social service managers to oversee the business operations, in addition to all of their other responsibilities, have seen their businesses suffer. This issue is discussed at greater length below.

A fifth approach to the dilemma of profitability versus training and support needs is to opt out of the enterprise development arena altogether and focus instead on job training and job placement. Several HEDF grantees are effectively preparing many individuals for the general marketplace by forging linkages with established for-profit businesses and providing specific training and placement services to homeless and formerly homeless individuals. A good example is the Santa Clara School District’s Adult Education Program, which established a relationship with Marriott Hotels and other local hotel chains to train and place people in hospitality industry jobs. The program’s focus is specific, achievable, and within the mission of the school district. These three factors have made for remarkable success in the program.

 ISSUE II: The Role of Effective Planning

The importance of effective planning cannot be overstated, and has been continually emphasized by The Roberts Foundation in its grantmaking. Both organizational planning and the feasibility study process have been enormously beneficial to many agencies considering enterprise development, in terms of successful and innovative implementation of ventures and of some agencies’ decisions not to pursue business ventures. Organizations attempting to shortcut or circumvent the planning process entirely, do so at their own risk.

KEY ELEMENTS OF AN EFFECTIVE PLANNING PROCESS

While each organization may conduct its planning differently, a number of themes cut across the HEDF case studies that suggest several key ingredients for an effective planning process. These are listed below.

ASSEMBLE KEY PLAYERS AND STAKEHOLDERS. It is essential that the key people be involved in helping to design and plan for any business enterprise. Ideally people who should be included involve:

► management
► line staff
Levels of involvement may look different for different organizations. For example, Berkeley Oakland Support Services established a venture committee comprising all of those key players listed above in roughly even proportions. A slightly different approach was used by WATCH, a transitional housing program for battered women and their children, which placed clients at the center of their process by involving all of their residents in planning with staff. Finally, the collaborative SF-WEST, a program designed to assist homeless women in the development of small-scale enterprises, utilized a six-month planning process that primarily included staff, board members, and the HEDF director. While these three processes were structured somewhat differently in terms of assembling key players, all were effective planning processes for the respective organizations.

**Articulate criteria/core values to be used in selecting and operating businesses.** Criteria or core values must be articulated and written down early on in a planning process. They serve as a useful tool for structuring discussion, guiding a feasibility study, selecting an enterprise, and establishing management protocols. Values should relate to both the business and the social missions of the enterprise and should be agreed to by all key players in the planning process.

**Develop organizational support for the enterprise.** As discussed in the section on balancing social and business missions, it is critical that the planning include steps for building organizational support for the enterprise development process. When the organization does not feel invested in enterprise development, or is in transition and cannot provide any meaningful support to the effort, the enterprise will likely struggle, as was evidenced throughout various HEDF case studies. If an organization cannot give its full support to the effort, for whatever reason, it may be time to form a separate entity, like Larkin Business Ventures did, hold off on enterprise development until the organization is ready, or look for a new non-profit to take the effort under its wing, as the Oakland Workers Painting Cooperative may attempt to do.

**Assess infrastructure capabilities of the non-profit agency.** One of the most overlooked elements of predevelopment business planning is the assessment of the capacity of an agency’s infrastructure. That includes both the physical space and the support systems infrastructure (e.g., bookkeeping, payroll, and the ability to develop and maintain a business accounting system). More than half of the HEDF agencies that embarked on the enterprise development course struggled with the lack of adequate accounting systems. Without that organizational support, business accounting tasks either fall directly to the business manager or drop through the cracks. This is what happened with the Oakland Workers Painting Cooperative. One of the most serious consequences of this lack of organizational support was that an accounting system that could coordinate and organize information on existing accounts, as well as provide feedback on OWPC’s financial position, was never fully implemented. The lack of timely and accurate account information had a negative impact upon OWPC’s effectiveness at business and financial planning. If an assessment of these capabilities is conducted early on and development of the infrastructure to support a business is part of the predevelopment plan, the business will benefit considerably when it is underway.

**Utilize consultants and make sure they understand the agency’s interests.** A good business consultant can be key to a sound feasibility study and the right business selection. A good consultant can also provide invaluable assistance during business start-up and implementation. And
consultants do not have to cost a lot of money—several of the groups featured in the HEDF case studies used pro bono consultants from local universities. Others received referrals from the HEDF director as well as financial support to hire consultants. Regardless of how one identifies an appropriate consultant, when hiring one it is critical she or he understands your interests and you understand what they are talking about.

Most HEDF grantee agencies did utilize good consultants appropriately and benefited from productive relationships with those consultants. A few did not and it hampered their planning and development efforts. One example is Shelter Network of San Mateo, which selected a particular consultant because he had worked in a non-profit and also ran his own business. The agency expected his background would make him sympathetic to the organization’s goals and objectives. However, staff later reported the consultant showed little understanding when periodic crises and other priorities arose and required the agency to make brief diversions from the enterprise assessment process. Shelter Network’s operational relationship with the consultant was also problematic, as he did not contribute the guidance and expertise that was expected. The lesson here is to be very clear with a consultant about expectations of style, product, time line, frequency of communication, and so forth.

Another issue regarding the use of outside expertise is control over decision-making. Non-profit agencies are similar to for-profit entrepreneurs in that they generally do not like to lose control over key business decisions. If they are ready to make the organizational commitment and investment in an enterprise, then they want full ownership of that enterprise. This was made abundantly clear in the case of Keystone Community Ventures (KCV), a non-profit public benefit corporation that was formed to provide management assistance and affordable capital to non-profit business ventures. KCV wanted to transfer needed business skills to the non-profit agencies to ensure a venture’s success. Its services are modeled on those of venture capitalists, who have achieved impressive results by providing professional, ongoing management expertise and access to risk capital coupled with participation in business decision making. Unfortunately, KCV has not enjoyed such success in the non-profit business arena, in part because agencies have been reluctant to give up control over decisions regarding the management of an enterprise or what happens with the revenue generated from that enterprise. KCV’s carrot of available loans could not compensate for this lack of control, particularly when the most “business ready” of these groups could often access capital from foundations or public sources. The lesson here is that while the agencies often needed and appreciated the expertise KCV provided, it was not willing to pay the price KCV expected.

**GETTING TO NO**

Much of the analysis and case study included in this six-year retrospective review of HEDF experiences relates to the development of successful enterprises in a non-profit environment. But another cross-cutting theme that emerges from the case studies is that “getting to no” can be as important as “getting to yes.” That is to say, sometimes the best course for a non-profit is not to engage in venture development. It may be the time is not right, the business opportunities not optimal, the organization not ready, or simply that operating a business is not a good fit with a particular organization’s culture and history. If any of those dynamics are operating, the agency is better off getting to “no” in the first month of the planning process rather than getting to “yes,” only to find out a year later that a horrible mistake has been made. With “no” they can always reconsider down the road, with little harm done. If they get to “yes” prematurely, however, because they are eager to get going, they may be saddled with a struggling enterprise that drains organizational resources rather than enhances them.

Two good examples of this are WATCH and the Shelter Network of San Mateo.
WATCH assessed the feasibility of an office support business and a medical transcription business for residents of their battered women's shelter. Neither has proven to be a feasible training or revenue-generating enterprise for WATCH residents, but the organization remains interested in exploring economic development opportunities for their clients. In 1995, the idea for the development of a for-profit business venture was revisited by WATCH’s long-range planning committee. Business ventures currently under consideration include a child care business, a thrift store, and a catering venture focusing on a lunch delivery to local businesses.

The Shelter Network of San Mateo exercised similar good judgment in its decision not to pursue either of the two business ideas under study—a thrift store and a residential landscaping business. From the planning and feasibility study that was conducted, the agency determined that neither idea would be workable for the organization. Had Shelter Network bypassed the business planning process, valuable organizational resources would have been expended in a business venture that would have held little probability of success. Should the Network decide in the future that it has the organizational capacity for and interest in a new business venture, the agency will have already laid important groundwork for the planning and potential start-up of a non-profit business enterprise.

As eager as an organization may be to jump on the enterprise development bandwagon, it is essential that management thoroughly study the potential for a given business and remain open to the results of the study. If the best decision is felt to be the pursuit of a business, then management should make the most of that opportunity. If the best decision is not to pursue a business, then management and funders should consider “getting to no” a successful outcome.

**Issue III: The Goal of Building Self-Sufficient, Non-Profit Enterprises**

A central issue for the future of non-profit enterprise creation is how to build social purpose ventures and when to judge an enterprise a “success.” The specific challenges which arise in building organizations are presented in the chapter entitled understand the “Organizational Development of Non-Profit Enterprise.” And, as is presented below, three general areas of concern with regard to the creation of self-sufficient social purpose enterprises are the need for a market orientation, the requirement of adequate managerial capacity, and access to sufficient capital to support future growth.

Before addressing those factors, it is important to first understand what constitutes success in the field of non-profit enterprise. Historically, a “successful” non-profit enterprise has been viewed as one which is able to engage in any revenue generating effort. More recently, success is coming to be defined in terms of the profitability of the business, the ability of the organization to actually become self-sufficient as a result of that profitability, and the number of program participants an organization can provide with training opportunities or employment. An in-depth discussion of profitability is presented in the financial analysis section of this document, while the question of how many participants qualifies as “success” is discussed in Section VI below. What remains is an understanding of self-sufficiency in the context of the social purpose enterprise and how it is achieved.

**OF SUBSIDY AND SELF-SUFFICIENCY**

For the purpose of this discussion, a subsidy is financial support that enables an entity to continue operation despite financial shortfalls or market inefficiencies. Subsidies are also provided as a means of achieving public policy goals deemed of
importance to our communities. Subsidies can be found everywhere in society and are certainly not limited to the non-profit arena. In fact, subsidies provided to business and individual Americans constitute the overwhelming majority of public subsidies in the United States. Examples of publicly-supported subsidy include:

- agri-business price supports,
- tobacco industry support,
- below-market royalty contracts for mining,
- the publicly funded building of roads and other infrastructure for the forestry industry,
- publicly supported corporate advertising in overseas markets, and
- the mortgage tax deduction upon which millions of citizens rely.

Many of these subsidies have been referred to as “corporate welfare,” and while debate over their importance will no doubt continue, they are all forms of subsidy which collectively far outstrip those provided to the non-profit community. Regardless, the day of the “non-profit subsidy” appears to be fading, with both positive and negative results. The sooner non-profit practitioners recognize this fact, the sooner we will be able to take proactive steps to create newly evolved, thriving non-profit organizations. As discussed below, this does not mean government has no role in supporting individuals and communities in need. It is, however, our position that non-profits relying less on government funding and more on self-generated revenue will be stronger, more fully independent organizations in the years to come.

As non-profits of the coming century begin to re-orient themselves toward market opportunity and away from government subsidy, we must understand that this shift may not be complete nor can it happen overnight. The social purpose enterprise provides training for our workforce and operating revenue to help cover the cost of support services. This revenue comes from a net profit which remains with the organization, as opposed to being returned to owners or shareholders, in order to cover its costs and not be completely dependent upon government subsidy.

In communities across the nation, non-profit organizations may be placed on a continuum which describes the degree of public and private subsidy they receive. See Figure 1.

Organizations fall out along this continuum according to history, philosophy, funding sources and a wide variety of other factors. While a goal for many non-profits may, in time, be 100% self-sufficient, no single approach or level of subsidy is necessarily better than any other. In the future, there will no doubt be a place for programs which receive full funding from government sources, just as there should be a place for those organizations able to generate 80% or more of their revenue themselves.

The key shift we see is that whereas in the past, most non-profits found themselves on the right side of this continuum, in the future increasing numbers will, in all likelihood, begin moving to the left as more and more non-profit managers successfully establish and operate revenue-generating ventures. This evolving commitment has not been smooth or without its heated debates.
Many social service and community development practitioners argue there is an appropriate role to be played by government funding and the goal should not be to completely relieve the public sector of its responsibilities in this regard. Others feel reliance upon government and foundation funding places the non-profit community in the role of supplicant, and makes non-profit organizations “second class citizens” when the time comes to sit down at the table with their business and governmental counterparts. Our conclusion is that while we are committed to working with groups seeking a place on the left side of the above continuum, there is simply no single answer to the question of what degree of independence non-profit organizations should seek.

With this in mind, two points may be made with regard to the role of subsidy support to non-profit organizations:

First, success cannot be defined in terms of a single, cut-and-dried measurement of the presence or lack of public/private subsidy. Especially over the next decade, many non-profits may expect and rightfully demand assistance in re-orienting themselves to the new market economy within which they must now survive. This could potentially mean an increase in short-term subsidies as we pursue a decrease in long-term, total subsidies. Those public and private funders interested in pursuing the goal of non-profit economic independence should closely consider that such independence will not come about as the result of a one- or even three-year grant to “create a business,” or “diversify the agency revenue base,” but rather will come about only through the creation of long-term relationships between funders and grantees over a period of five to ten years, during which the grantee moves progressively toward self-sufficiency. It can be achieved, but not as part of a short-term response to decreasing public and private funding.

Second, a goal of complete self-sufficiency will not be appropriate for many non-profit organizations. Due to the high cost of employing people who need significant training and supervision, the need to provide support services to assist individuals involved in such enterprises, and the fact that many transitional employment ventures are in industries which operate at levels with low “value added” and extremely tight gross profit margins, most non-profits may simply be unable to fully support their social programs through business venturing. In such cases the expectation of self-sufficiency may not be appropriate and the use of public and private funds to support the program’s additional costs of operation should be viewed as reasonable.

If we have learned one thing from our experience, it is that while all non-profits have the capacity to engage in some form of revenue-generating activity, the degree to which all non-profits can aggressively pursue such activities varies widely. In reality, non-profits serving children, the frail elderly, and other populations are limited in their ability to engage their population of concern in enterprise development. Regardless, there is a need to cultivate additional non-profit managers with the vision and skills to pursue enterprise creation. The premise of this book is that a new breed of social manager is evolving who is neither fully non-profit, nor business in orientation. However, that manager is still a rare breed and does not yet exist in most non-profit organizations. Until such individuals are cultivated on a more broad-based basis, the capacity of most non-profits to seriously pursue enterprise creation activities will be greatly limited.

The Three Elements of Future Self-Sufficiency

With this understanding of the role of subsidies and the continuum of self-sufficiency, we may turn our attention to three critical factors which make for successful building of non-profit enterprises: the Need for Market Orientation, Managerial Capacity, and Capital.
THE NEED FOR MARKET ORIENTATION

Without a doubt, the largest barrier to the sustainability and success of social purpose enterprises is the shift required of non-profit managers from a grants orientation to a market orientation. An agency may have sharp managers and sufficient operating capital, but without a strong grounding in the market it will always be just another non-profit attempting to survive in a for-profit world. This cross-cutting issue is central to the future success of the field, and is worth pursing in greater depth.

At the outset, it must be understood that in evaluating the evolution of enterprise organizations, the following stages of development can be observed:

1. Public Sector Orientation
2. Production/Service Delivery Orientation
3. Sales Orientation
4. Market Orientation

Public Sector Orientation guides most non-profits, which usually respond to the needs of their funders in the form of RFPs, NOFAs, and other opportunities to secure revenue in support of their work. In essence, it could be said these organizations are responding to two separate “markets”: the Source Market and the Use Market. In this context, the Source Market consists of government and private funders who represent a variety of market demands to which the organization must respond, while the Use Market is made up of the consumers of whatever service the non-profit provides. This orientation toward meeting the demands of the Source and Use Markets may be viewed as a type of market orientation and in the case of most non-profits it is an appropriate starting point. To become a social enterprise organization, however, the orientation needs to evolve since a public sector orientation, while fine for a social service organization, is focused toward meeting the needs of the “wrong” market for a social enterprise. A customer does not care whether or not a social service agency’s funders and clients think they do great work. If the enterprise cannot respond the needs of the customer, the customer will go elsewhere.

A Production/Service Delivery Orientation may be found in non-profits involved in the start-up of a social purpose enterprise. Certainly groups in this stage have usually conducted basic feasibility studies, financial pro formas, and market evaluations; however, once the venture is actually launched, the focus of the organization shifts from planning to implementation. This stage involves the creation and refinement of management information systems, accounting procedures, inventory and service monitoring systems, and operational procedures. All these must be in place or ready for implementation if orders are to be filled and contractual obligations met. Getting these systems in place and functioning is a major challenge for any start-up since non-profit managers quickly find what they “thought” usually is not “what is” after the doors of the business open. Significant time is spent getting the kinks out and the business running. This has been true of virtually all the start-ups and expansions in which we have been involved.

Having successfully developed the Production/Service Orientation, the enterprise quickly realizes its next challenge: Who will buy our stuff and contract for our services? At this point, the organization develops a Sales Orientation. A large number of social entrepreneurs find themselves in this stage, which can also be called as the “all dressed up and no place to go” stage, both in our experience and across the country. The primary focus moves to booking additional sales and thus to developing sales strategies and long-term commitments from prospective customers to purchase the non-profit’s product or service offerings. These strategies are often framed in terms of what “we need to achieve in order to hit our goals.” The following questions are often asked at this point:

- How many orders need to be confirmed each month?
- What level of sales need to be achieved?

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1 These stages are a “non-profit modification” of the original framework presented by Robert Hisrich in his excellent book, Entrepreneurship: Starting, Developing and Managing a New Enterprise, (Irwin Press: Chicago, 1995), p. 177.

2 This concept of Source and Use Markets came from conversations with Alan Cleland, author of Building Precision Strategies with the Market Value Process, due to be published in 1996.
What production levels are needed to employ what number of program participants?

In this way, the enterprise begins to grow and meet its initial needs in terms of basic revenue requirements and cost management. Slowly, however, the seeds for movement to the next stage are spread as the managers begin to realize they are meeting a basic need with their product or service offering, but must achieve something more significant to progress to the next level of success, a level which will help assure the hoped for revenue level the enterprise craves. Management realizes if the enterprise is to achieve sustainability, it must become more closely attuned to the needs of its customers and the offerings of its competitors. It must be able to anticipate shifts in taste or preference or need, and it must be positioned to respond to those shifts. In a phrase, the firm must develop a Market Orientation.

Since this chapter is being written in California, we may safely say that Market Orientation in some ways may be viewed as "self-actualization for non-profit businesses." Namely, it is the point at which the non-profit enterprise manager fully understands her operation's strengths and weaknesses. She has adequate, though never completely perfect, information systems upon which she may base her decisions. And she now tailors her organization's strategic decisions to anticipate, understand, and respond to the emerging needs of her market, however it is now defined. It is critical to understand that at this stage of evolution, an enterprise's marketing functions are not viewed as yet one more department found on the organizational chart next to production and sales, but rather as a mindset and practice which is found throughout the organization and taken into consideration at each level of decision-making.

As previously stated, the achievement of a true Market Orientation on the part of the social purpose enterprise is the final linchpin to achieving business sustainability and financial success. The central issue for non-profit practitioners and those who support their efforts is the degree to which they will be able to develop this type of orientation, which is critical to their survival in the marketplace.

The Role of Funding in Supporting Movement from Public Sector to Market Orientation

Presently, many social entrepreneurs use existing funding and contractual initiatives to provide them with a base of support to move through the various stages presented above. Set-aside programs such as National Industries for the Severely Handicapped (NISH) provide non-profits with a sheltered market in which to refine their offerings prior to expanding to the deeper waters of the mainstream market. The Ben & Jerry's Partnershop initiative provides non-profits with an opportunity to secure a franchise agreement with a major corporation, which is an advantage; however, the agency itself must aggressively pursue the creation of its managerial capacity. Corporate Ben and Jerry's attempts to be understanding of the realities of non-profit enterprise by not holding their Partnerships to the same financial return requirements of other franchises. This can only be viewed as a short-term shelter, for if the Partnershop program is to achieve its full potential, more ventures must demonstrate their ability to achieve success on the
same terms as any other franchisee. If they are not successful, they will be doomed to always being viewed as “second class” businesses, and will miss out on the true potential such ventures hold for generating a significant number of jobs and creating greater community wealth.

While the use of set-aside or preference programs, together with foundation and government grants, can give a non-profit start-up the breathing room required to launch a venture and generate revenue, funding support can in some instances actually block the non-profit enterprise’s development of a Market Orientation. In San Francisco, the Mayor's Office of Community Development uses Community Development Block Grants to support a number of initiatives viewed as social purpose businesses. These grants are often used to provide “gap funding” in order to help non-profits meet the revenue/expense shortfall often found in start-up operations. Unfortunately, in making MOCD funding contingent upon the existence of this gap (i.e., an agency won’t be funded unless it is unprofitable), the support has the adverse effect of discouraging profitability and the development of a market orientation.

In a less intentional, but perhaps equally damaging way, the funding provided by the HEDF in support of Central City Hospitality House could arguably be viewed as counterproductive in that funding of the agency has continued for a number of years despite the venture’s failure to meet its goals and management objectives. Many private funders, in attempting to be supportive of an organization engaged in a difficult business and organizational process, may actually be preventing the organization from addressing its true shortfalls by providing ongoing funding which cushions the enterprise from directly feeling the “pain” of its mistakes.

In the public sector example above, if the manager wants the support of the Mayor’s Office, he must by definition be unprofitable and unable to compete successfully. And in the private sector example, ongoing financial support protected the agency from the reality of the market’s rejection of the enterprise offerings. In both public and private funding of social purpose businesses, the investment should establish that increasing profitability and the development of a more fully realized market orientation, rather than poor performance, are the measures for receiving future support.

NON-PROFIT MANAGERIAL CAPACITY AND THE SELF-SUFFICIENT ENTERPRISE

In addition to the need for a market orientation, the second factor which makes for success in non-profit enterprise, Non-Profit Managerial Capacity, is found at two levels: individual and organizational. At the individual level, capacity may be seen as having three core components: time, appropriate skill set, and entrepreneurial passion.

Individual Capacity

A. Time. In most non-profit environments, staff are burdened with a variety of tasks and responsibilities. In some settings one finds an unspoken assumption that if staff are not working themselves to the bone, they must not be working hard enough. Personnel management issues in the non-profit sector are beyond our focus, and are the subject of other books and articles; our interest here is in an effective planning process which, for many non-profits, is dependent upon the organization’s capacity to dedicate adequate staff time to a comprehensive planning effort that involves a wide representation of agency stakeholders. Clearly, the decision to create an enterprise should be accompanied by a decision to recruit and hire an enterprise manager. Less clear is the question of when an agency should create a position dedicated to the enterprise effort. The “correct” decision, of course, varies depending on the particular organization, the enterprise under consideration, and a host of other factors. The common point, however, is that without adequate time devoted to the development process, the agency will never achieve its goal for enterprise creation.
**B. Skill set.** Appropriate talent may be groomed internally or recruited from the outside; again, there is no single correct answer. What is certain is that the person charged with managing the enterprise process must have a solid grounding in business fundamentals. Too frequently, a board or planning committee will endorse the appointment of a key staff person who expresses an interest, but does not necessarily have the necessary skills to ask the right questions or steer the planning and implementation process. It is not necessary that the staff person have an MBA, but if he is not strong in the basics, the board should assure that adequate resources are committed to providing him with the training he will require to succeed at the job. Ideally, this comes in the form of formal business training which might then be supplemented with “community development training”; however, one should not assume that since a staff person has done a good job managing a housing or service department, he already has the requisite skills in finance and accounting to take on business development. Nor should the board assume these skills may be “picked up as we go.” The skills and talent of staff should be frankly evaluated and then buttressed if the enterprise is going to achieve its goal of adequate managerial capacity.

**C. Entrepreneurial passion.** A manager may have adequate time to dedicate to an enterprise as well as the required fundamental skill set; however, if she does not truly and passionately believe that she can achieve her goal of social enterprise development, she will fail regardless of all other supports provided. In the classic sense of the phrase, the New Social Entrepreneur is an individual who can not only make lemonade from lemons, but lemonade and marmalade and scented shampoos and housecleaning sprays. Countless resources on the issue of entrepreneurial spirit are available, and the reader should pursue them to understand more fully all the elements of the entrepreneurial mind set.

For our purposes, it is critical to understand that entrepreneurial passion is not, in and of itself, an adequate prerequisite for the New Social Entrepreneur, for in addition to that passion there must be an ability to see in individuals, both formerly homeless and those referred to as “professionals,” more than they may see themselves. The essence of the New Social Entrepreneur is the capacity to harness economic power in order to expand opportunity for individuals presently standing beyond those opportunities. If the enterprise manager looks down on the poor or feels they are victims of poverty first and individuals with potential and talent second, that manager will not thrive as a social entrepreneur. If the enterprise manager fears challenging her peers to “work out of the box,” or believes credentials and connections mean more than contributions and impact upon efforts to shape a new way of doing business, then she is not cut out to be a New Social Entrepreneur.

In sum, to be effective, the manager of the successful non-profit enterprise is one who has the time to commit themselves to the task, the skills necessary to have a decent shot at succeeding at that task, and the passion needed to pull them through the tough times to come as they attempt to help those on the margin regain their rightful place as individuals able to operate within a framework of economic self-determination.

**Organizational Capacity**

Complementing the elements of individual capacity is the equally important presence of Organizational Capacity. This term refers to the presence of management information systems, organizational structure, accounting, and other financial reporting systems, and social service support, all of which are necessary for the New Social Entrepreneur to create a successful enterprise. In our experience, those non-profits which were either small and without such an organizational capacity in place, or were large and unable to modify their systems to accommodate the needs of an emerging enterprise, were both unsuccessful in the creation and maintenance of a social purpose enterprise. In the case of Berkeley Ecumenical Chaplaincy to the Homeless,
there was no sound organizational infrastructure to build upon or support the needs of an enterprise venture. In the example of the Oakland Workers Painting Cooperative, those systems were in place, but were not made available to the enterprise. In both cases, their absence contributed significantly to the efforts’ shortfalls.

In addition to having adequate information and support systems in place, the non-profit organization must also have, as a whole, adequate talent in the area of business planning and development to support the efforts of staff and program participants. This aspect of managerial capacity is manifested in the ability to identify and use consultants and venture committees, as well as in the openness of the organization to receive that input. In the case of effective use of consultants, other resources are available to guide the non-profit manager in this process. The key point is that consultants should serve to fill out the perceived weaknesses of board or staff, but should never take over the actual process. In the case of Berkeley Oakland Support Services, the outside consultant played a critical role in guiding the process and assisting the venture committee in achieving the goals it had set. This was of key importance to the organization’s ability to not just complete the planning effort, but to do so in a way which truly laid the foundation for the organization’s staff and volunteers to learn from the research experience and use those lessons to more effectively manage the enterprise start-up process.

The experience of BOSS also raises another important point with regard to managerial capacity: the organization must be open to receiving input and have staff who are confident enough to receive what advice is offered. In the experience of Keystone Community Ventures, they found some non-profits are not interested in allowing others to participate in or have authority within the decision-making process. The issue here is not whether a non-profit should allow an outside agent to make decisions on its behalf; clearly, it should not. However, as the venture process evolves and different people become committed to organizational agendas, it can be difficult for enterprise boards and managers to step back far enough from the process to allow the opinions of others, slightly removed from the turmoil of the start-up effort itself, to be included.

This is a delicate issue, since any outsider who would presume to provide “guidance” must first, in the words of America’s greatest community organizer, Saul Alinsky, “earn the right to meddle.” Coming from the outside, as either funder or consultant, it is all too often easy to assume the attitude of “gosh, if you only did this” which, from the perspective of the enterprise manager, may easily be heard as an attitude of condescension. Again, this balance must be sought, but as a starting place, the management of the non-profit enterprise must be open to receiving input, just as the input must be provided with respect for the expertise and competence of the enterprise manager.

**CAPITAL**

Because a separate chapter of this document addresses at length non-profit enterprise capital requirements, we will not dwell upon them here. Suffice it to say that in addition to the preceding factors, the non-profit manager must also have access to a variety of types of financing instruments to support the start-up and expansion of the social purpose enterprise. Two points are worth raising in this regard:

First, the organization should itself assess what amount of capital it is willing and able to bring to support the venture effort. Too many organizations appear to take the position that the only entity which should take any financial risk is the foundation or government funder. If the non-profit can demonstrate that it has itself expended funds to support an effective planning and assessment process, then the task of raising capital to support a start-up will be somewhat reduced.

Second, the process by which most foundations approach the funding of non-profit enterprise creation is cumbersome...
and ineffective, forcing the entrepreneur to wait weeks and some times months before receiving a response to a basic request for expansion or capital support. A small business with tight margins does not have the luxury of waiting to accommodate a source market which cannot move fast enough to keep up with the business world. Any foundation with an interest in supporting enterprise development should assess its grantmaking process to assure it can accommodate the needs of the emerging social entrepreneur for prompt response to and evaluation of capital requests.

ISSUE IV: The Challenge of Organizational Governance

An awareness of issues relating to organizational governance is important to social enterprise in assuring organizational resources are efficiently directed where they may have the greatest impact, and in guaranteeing all key players understand their roles, responsibilities, and place within the decision-making process. Traditional small business development is governed by an individual entrepreneur and perhaps a small group of advisors. Most start-up businesses do not have to address issues of organizational governance until they have grown to a point where more sophisticated governance structures are required.

The social purpose business, on the other hand, is usually launched by an existing non-profit with board and committee structures already in place. Such organizations must determine how to direct the development process and make decisions regarding the emerging enterprise. In the case of wholly owned subsidiary or “sister” corporations, the board needs to clearly enunciate the exact nature of the governance relationship between the board(s), venture committees, and outside organizations which, while not formal players, will exert influence on the organization’s decision-making process. At a minimum, consideration must be made of the roles to be played by the board of directors, venture committee, program participants, outside agents and external organizations; and at what level various decisions will be made.

The most appropriate governance structures are determined by the particular non-profit. Governance also means that the board itself must assess its skills and capacity. In the case of Oak Street House, over a period of five years the organization’s board of directors virtually turned over completely, in large part due to the challenges presented and skills required of a social purpose enterprise. Larkin Business Ventures was originally launched by the board of directors of the Larkin Street Youth Center through the creation of a venture committee; however, it was quickly decided that for both liability and governance reasons, the business venture should be established as its own non-profit, managed by a board of directors constituted of the venture committee’s members. In the case of Rubicon Programs, the board of directors held a series of planning and evaluation meetings to assess the implications of pursuing a greater focus on business development. Once the decision was made to proceed, day-to-day management decisions were made by staff, with board involvement in a monitoring capacity only. Each of these approaches to governing the development process is appropriate. The point is that the organization should be clear on what governance issues will be raised as the process unfolds and attempt, to the degree possible, to structure committee and oversight mechanisms which can anticipate those issues.

In addition to the role of the board of directors, the enterprise leadership should consider convening a venture committee. A venture committee is not simply an advisory committee to be called upon when a particular question or problem arises in the operation of the business; it is centrally involved in the development process, researching operation and marketing issues, challenging the business assumptions being made by staff, and so forth. While the committee may only meet once a
month after the enterprise has matured to a certain level, more likely the committee is operating on a weekly basis in support of staff efforts to launch and manage the enterprise.

An excellent example of the venture committee at work is found in the Oak Street House case study, in particular in the launch of the San Francisco City Store. As part of the original bid process, the executive director of Oak Street House identified a core group of business experts involved in retailing, marketing, and retail design. This group used its collective talents to network with other resources in the community and open the store. The venture committee, in partnership with the enterprise staff, tracked the work of its various members to assure timelines were met and problems resolved. The committee, or its members, met to evaluate and make decisions on everything from product pricing to final store layout to inventory tracking and control systems. While the board of directors had representation on the venture committee, the committee itself was empowered to make specific decisions regarding the launch of the City Store. Success may be due to a variety of factors, but in part the success of this process is reflected in the fact that the Store has consistently met or exceeded its operation goals in the months since its opening.

The role of program participants in the governance of the enterprise is a complex one. The creation and management of a social enterprise presents a host of opportunities for program participants to learn new skills and advance in the organization. Depending upon the venture and the sponsoring agency, however, the ability to provide program participants with meaningful roles varies between enterprises. At its most basic level, participation by clients in the governance of the entity means representation at the table where decisions are being made. Ideally, such representation is present throughout the organization; however, most agencies find varying levels of success at providing such input and opportunities.

It is important that organizations seek a high degree of representation by program participants in order to both assure that the managers and board members are fully aware of how the venture is perceived by participants, and to make sure they receive an “independent” take on the operation. Such representation also provides program participants with a meaningful avenue to truly understand the venture and become “empowered” to contribute to its success. Furthermore, participation by program participants at the planning and governance level provides an opportunity for those involved to learn the basic skills they will need to move up the management structure of the venture and take on increasing management responsibilities when appropriate, according to the goals of the individual participant. As clearly reflected in the chapter on the employee’s perspective, line staff also represent a rich source of information and “market research”—information they are more than willing to share given their own investment in the enterprise and commitment to its success.

The appropriate role of outsiders, whether funders or lenders, is another area of governance which must be evaluated by the non-profit enterprise. Many non-profits, while they may pursue grants or debt, do not want to surrender any amount of control or input to individuals coming to the effort from the outside. As the field matures and social enterprises begin to seek equity investments and long-term corporate partners, they will have to develop a greater capacity to integrate those new players into their operation and governance systems.

Foundations also provide a challenge to the non-profit manager which must be fully considered in any discussion of governance. While some funders are comfortable with simply awarding a grant and receiving periodic reports, increasing numbers of foundations are coming to view their grants as true social investments which provide them with certain “rights” of involvement and a voice in management decisions. The HEDF director has had a very positive experience with HEDF grantees, but this has primarily been
because the Fund’s financial support is often provided on a multi-year basis, and because the director’s skill level in the area of business development is perhaps greater than program officers forced to operate as generalists. Again, each group must find its proper balance in partnership with the foundations supporting their work, but both parties need to appreciate that the relationships in a social enterprise will more than likely differ dramatically from those of traditional, program funding.

The final area of consideration in governance is collaboration. Because many groups have limited resources and need to bring in talent in order for their venture to succeed, they find themselves collaborating closely with outside organizations. In the case of the SF-WEST (also known as the Homeless Women’s Self-Employment Project), a support service organization teamed with a self-employment organization to jointly manage the project. Conflicts between the roles of “support service provider” and “business advisor” contributed to tensions between the two groups, making management of an already challenging initiative all the more difficult. In the case of Larkin Business Ventures and Ben & Jerry’s Ice Cream, the ability to successfully collaborate with a for-profit corporation raised significant issues regarding mutual expectations, definitions of success, and other related questions. Even within the “core” grantees of the HEDF, only in the past 12 to 18 months have the groups truly come to own their relationships and think on a level of greater mutual concern and collaboration.

Across the country, one increasingly hears calls for greater cooperation and collaboration between non-profit organizations and the for-profit sector, as well as calls for increasing the linkages between organizations active in the non-profit community itself. Additionally, several parts of the country now host regional collaboratives attempting to expand the capacity of non-profits to launch and operate small businesses. As these efforts progress, the question of how to truly collaborate, as opposed to simply pursue a joint funding opportunity or agree on how to divide an increasingly shrinking pie, becomes especially critical. Good collaboration will not necessarily assure the success of these efforts, but bad collaboration will more than likely doom them to failure.

**Issue V: The Question of Scale**

When the Homeless Economic Development Fund was first launched in 1990, we fell victim to the temptation to set a wide variety of goals for ourselves in addition to the main goal of creating market-directed, social purpose businesses. One of these goals was the creation of jobs for people on the margin of America’s economic mainstream. Since that time we have concluded that while a few organizations across the country have succeeded in creating significant numbers of new jobs, on the whole the goal of net new job creation stands beyond the purview of the non-profit sector. In a time when major U.S. corporations are moving in the opposite direction by laying off thousands of workers, it seems ill-conceived at best to transfer the burden of creating jobs from the business community to the non-profit community. Even if one were to emulate one of the “best” non-profit job creators in the country—Pioneer Human Services in Seattle, with over 500 employees—we would need 82 Pioneers across the country to replace one AT&T restructuring.

Having acknowledged this, it is also true that the New Social Entrepreneur is creating jobs and contributing to local and regional economic health. Each of the organizations represented in the financial statements section, and a number of organizations discussed elsewhere, have employed individuals within their ventures in positions that in most cases did not exist prior to the launch of the enterprise.

In evaluating the relative “success” of these efforts, the issue quickly becomes framed in terms of scale. The following questions come to mind:
How much is enough?

Is an organization considered a success if it has successfully created an enterprise and now employs 10 individuals?

How about 20 people? One hundred? Five hundred?

If a small, community-based organization selects a sector where entry barriers are low but average size of enterprises is relatively small, and this group successfully creates only three positions and those three positions are the norm for their industrial sector, has that organization achieved scale?

If, in addition to job creation, one considers that the enterprise is providing employment to formerly homeless individuals, could size be a detriment to providing those people with the type of focused supervision and support necessary to assure their successful transition to full-time, independent employment?

Therefore, it would seem the appropriate question is not “how big is big enough?” but rather “what appropriate growth goals should we set for ourselves?”

The issue of scale is not simply one of size and cost/benefit ratios (both of which are addressed elsewhere in this document), but one of appropriate size and the effectiveness of the supported employment experience provided to the workers and trainees. Organizations such as Pioneer Human Services are quite successful and provide meaningful employment. While their level of employment is certainly significant, it does not necessarily follow that those operating at a smaller scale are less effective in the employment experience provided their workers.

By evaluating success simply in terms of how large an enterprise may be, one reflects a presumption that “big answers” to human problems always work. Experience shows they have not. Simply because a problem such as homelessness is a huge challenge for our society, it does not necessarily mean the answer itself must also be huge.

By way of example, an enormous, nation-wide job training and placement structure is supported by the Job Training Partnership Act. That structure has been evaluated, by individuals on both sides of the political aisle, as largely a failed effort. For those attempting to access the JTPA system for formerly homeless people, it has been a complete failure. Emergency shelters able to house hundreds of homeless people were initially thought to be the answer for many cities and yet on a nightly basis we see scores upon scores of homeless people who choose the harshness of the elements over the supposed security of warehouses for the homeless, where security is not guaranteed and one's health is at risk. The strategy we must pursue is not necessarily one of attempting to find the one big answer to the problem, but to see if smaller-scale efforts, appropriate to the size and ability of most non-profits and their local communities, can have a qualitatively greater, though perhaps more limited, impact than the large “mega-programs”—and in so doing have a consistently greater impact.

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scale as a measure of success, one must also consider the length of time necessary to achieve such scale. Pioneer Human Services and Delancey Street (located in San Francisco, California) are both often presented as “models.” While one may certainly take a host of lessons from each group, a key issue is that both organizations have been in existence for 30 years. Most of the groups presented in this book have been actively pursuing non-profit enterprise for less than five years. If an organization is to cultivate a sound structure and business employing large numbers of people (in addition to all the other issues presented in this book), time is clearly a key factor; simply having the time needed to grow not only a business, but a service community as well.

In the final analysis, the question of scale must return to the question of the goal. If the goal is the creation of thousands of net new jobs, the solution will not be found in the non-profit sector. The solution will be found on Wall Street, in the corporate offices of thousands of businesses across the world, and in the investment priorities of America’s individual and institutional shareholders.

In the case of non-profit enterprise, the primary goal is not to hire thousands of people or even to place thousands of people in mainstream jobs, but to

A) assist social entrepreneurs in creating enterprises which are market-directed and not strictly public sector-oriented;

B) provide high quality transitional employment to enable those outside the workforce to follow paths into the mainstream labor market; and, finally,

C) create a supportive work environment for those long-term employees who choose to stay with the firm and assist it in meeting its goals for success.

On the basis of these goals, the practice of non-profit enterprise as pursued by New Social Entrepreneurs shows great promise and continues to be worthy of support.

## Conclusion

How does one adequately conclude a book of this breadth and scope? There are no singular statements to make. As the subtitle of this document states, this is a progress report on the experience of a number of organizations in the greater Bay Area attempting to expand economic opportunity for homeless and very low-income people through a variety of activities, but primarily through the pursuit of non-profit enterprise. When compared to other activities one might fund, six years of effort and, in some cases, as little as two years of operation, may feel like a more than adequate period of time to assess impact and declare success. We think not. The average time frame for a for-profit start-up is usually three to five years. Given that time frame and the past history of disappointment in the area of non-profit business venturing, our experience has been an unmitigated success. But we have higher goals and more work to do. Perhaps non-profit enterprise creation will never be widely applicable to all social service groups, but its potential for creating new opportunities for both individuals and organizations should not be underestimated. We continue to celebrate our victories as we anticipate the challenges of the future. And we hope our experience may provide some insights for others who seek to join us in the years to come.