Social Entrepreneurship and Social Enterprise

Increasingly, executive directors of nonprofit organizations are being asked by their boards, funders and other stakeholders to become entrepreneurial. What does that mean? What is a social entrepreneur? What is a social enterprise?

Social entrepreneurship means different things to different people. Some believe that anyone who begins a nonprofit is a social entrepreneur. Others believe that nonprofit executives who build profit-generating ventures within their nonprofits qualify as social entrepreneurs. Even for-profit business owners who have integrated a social mission into their business may be considered social entrepreneurs.

So what is a social entrepreneur? As we try to clearly define social entrepreneurs, we can begin by defining entrepreneur. An entrepreneur creates value, shifting resources (often someone else’s) from an area of low productivity to one of greater productivity. Social entrepreneurs are entrepreneurs with a social mission. The mission is central to the business of a social entrepreneur and the pursuit of wealth is only a means to an end.

Overarching the knowledge and skills of any successful social entrepreneur are core values demonstrated by:

- Being able to articulate and rally support for a compelling vision.
- Maintaining high ethical standards, an attitude of service and establishing outcomes for both the program and financial aspects of the organization.

Entrepreneurship isn’t restricted to certain individuals or organizations. Neither is it applied in an ‘all or nothing’ fashion. The development and application of social entrepreneurship is not limited to start-up and/or for-profit ventures, either. It is exhibited in nonprofit organizations along a wide spectrum, from start-up organizations to long-standing successful nonprofits. These nonprofits range from mostly philanthropic to predominantly commercial in nature.

Social entrepreneurship is a valuable concept for existing organizations that desire to revitalize their vision by creatively leveraging assets for change. It helps nonprofit leaders identify, evaluate and capitalize on opportunities and resources, streamlining their organizations’ structures and operations to increase flexibility and productivity. It helps them look for the most effective ways to fulfill their missions.

This implies that business strategies are, by definition, the most effective operational strategies for addressing social ills. That is not necessarily so.

One of the objectives of social entrepreneurs, and one of the greatest challenges, is to identify, refine and utilize appropriate business strategies, planning processes and tools to help meet changing social objectives.

The social entrepreneur directing a for-profit venture connected to a nonprofit must continually balance the need for profitability with the social mission of the nonprofit. The growth or financial stability of a social enterprise is not indicative of its ability to improve social conditions. There is a double bottom line...one of financial viability and another of effectiveness and social value.

Social entrepreneurship involves knowledge, skills and behaviors that are mobilized and focused upon maximizing social value and minimizing social costs.

While environmental conditions can be favorable for entrepreneurship to take hold, leadership within the organization must foster conditions that allow entrepreneurship to flourish within and around it. Leaders must encourage the pursuit of opportunity, the most appropriate commitment and use of resources and the breakdown of hierarchy to ensure rapid decision making and action.
Similarities/Differences Between For-Profit and Nonprofit Business

A business is an enterprise that enlists resources for the pursuit of profit or improvement. A tax-exempt non-profit business is a business whose activities are tax exempt, whose profits are used to strengthen the mission of the business and, generally, whose mission is core to the activities of the business. While the end purpose may be different, there are striking similarities between for-profit and nonprofit businesses:

$ Both have legal status;
$ Both can generate profit;
$ Both have systems to control and support efficient operations;
$ Both have specific organizational structures;
$ Both operate in the same kinds of environment with defined market niches; competition, opportunities and threats.

While similar in many ways, non-profit organizations have specific attributes that set them apart from for-profit businesses. These include:

$ Part or all of the revenues generated by a non-profit are typically tax exempt;
$ Profits are never used for individual economic gain. Profits must be used to enhance the mission of the organization;
$ Non-profits enjoy a wealth of community support from volunteers, businesses, foundations and government;
$ Non-profit organizations which generate over 15% of their total budget from unrelated business income can risk losing their tax exempt status.

Nonprofits may generate revenues through a variety of means including public and private grants, donations and contributions or through earned income strategies such as contracts for goods and services or through the sale of products or services. Nonprofit organizations are not prohibited from generating revenues in excess of expenses (profit). The only issues of concern are whether the profits are determined to be unrelated business income, and therefore require the payment of income tax or whether the income is generated in the pursuit of the organization’s mission and is tax-exempt.

Unrelated business income is defined by the following:

$ If a nonprofit runs a business for the sole purpose of making money;
$ When the business is an ongoing venture, rather than periodic;
$ When the business is unrelated to the mission of the non-profit.
The Strategic Plan Process Model

I. **Our Vision:** (Why? Your dream) 1-2 sentences

II. **Our Mission:** (Who? Your purpose) 1-2 paragraphs, max.

III. **Our Values:** (What we believe in) 1-5 values

IV. **Situational Analysis:**
   A. Summary of history/present situation
   B. SWOT Analysis
      1. Internal Strengths
      2. Internal Weaknesses
      3. External Opportunities
      4. External Threats

V. **Identification of Strategic Issues:** (Critical success factors or strategic directions) Internal or external challenges to the organization’s mission, direction, policies, way of doing business, or culture

VI. **Goals** (What)
   (Generalized, directional statement of an intended purpose (i.e., to improve, increase, maintain, decrease, provide). Goals are qualitative and usually not quantified; may or may not be achievable)

VII. **Objectives:** (When achievable)
   (Concise statements of what will be accomplished specifically, how much will be accomplished quantity, when it will be completed deadline, and by whom responsibility. Objectives are an operational element of a goal. Objectives should not be qualitative, general or vague, but should be achievable and measurable.) **Measurable Outcomes** (Designed to report the results including quality of the service. Examples of outcomes measures are: the change in student’s test scores; the percentage of hyper-tensive persons treated who now have controlled blood pressure; and the value of property lost to crime.)

VIII. **Strategies:** (Approaches)
   (Narrative statement(s) of an approach to achieve an objective)

IX. **Action Plan:** (How)
   (Defines who, what, when and how)
   A. Plan Description
   B. Budget
   C. Efficiencies/Savings
   D. Identification of Needs Program Evaluation

X. **Program Evaluation:** (What was accomplished or outcomes?)
   (Defines who, what, when and how)
   Program Priorities
Strengthening Your Existing Business

After you have conducted a situational analysis including internal and external variables and have identified strategic issues facing your organization, you need to do the same kind of analysis for your new business. This analysis should begin with a close examination of what you do, how you do it and for whom.

The key is to identify and provide access to new potential markets or funding streams that directly tie to your mission and vision. The best and easiest businesses to begin will not change your purpose or require huge amounts of cash investments.

For example, a community center facility in Kansas City, Kansas, currently provides a range of services to support families in the surrounding community. Services, provided by a variety of organizations on site, include a co-op organic food store, a child care center, emergency assistance programs, employment training programs and meeting space. The providers jointly operate the facility and underwrite the costs of facility operations through revenues generated from an on-site coffeehouse. As the participating organizations looked at how they might expand their funding base to raise funds for much needed improvements to the facility, they investigated the possibility of opening a culinary training program through their coffeehouse using their professional kitchen facility, existing employment training staff and their chef.

Key Questions for Strengthening Your Existing Business
1. Is there a way to begin charging fees for service for services you already provide? For example, if you provide adoption services for children in the custody of the State, can you expand your service to include private adoptions and home studies?

2. Is there a new customer base for the service you already provide?

3. Are there assets/opportunities in your community which could be used for a new business? For example, a vacant facility might be able to house your business.

4. Have you assessed the broader community needs? For instance, is there a daycare center, coffeehouse, locksmith, lawn service, in-home care provider, building maintenance service within a five mile radius or in an adjoining geographic area to your non-profit?

   Please Note: The absence of a service or product does not necessarily mean there is a need for that service. You need to research the market.
Building a Mission Driven Business

Every business begins with an idea. While an idea may have merit, a successful idea undergoes intense scrutiny before the first steps are taken to build a business plan. Successful businesses involve extensive planning and internal and external analyses. Businesses need to be grown. They require constant vigilance. Markets and the business environment continually change and management must strategize, analyze and adjust operations to meet the changing needs of the marketplace.

Key Questions as you Design Your Plan

1. What is your agency mission? Do you have a written Vision Statement? If so, what is it?

2. What is your business concept? Specifically, what service/product will you be providing? How will the business fit into your agency’s vision and mission?

3. How will the business affect your tax exempt status? What taxes might you have to pay?

4. What does your Board and staff think about this business? Will they support it during start-up and your CEO’s time spent away from the office to grow the business? If not, is someone else available to grow the business for you?

5. How much time and energy is required to grow the business? How many years? Who will help?

6. How can this business enlist political/community involvement?

7. Who are your primary partners/supporters in this new venture?

8. Do you need outside talent to run the business? Where will you find it? Do you have the talent you need represented on your board (tax attorney, marketing specialist)?
9. What personal assets, credentials, experience will your key staff and board bring to the business? What will be their roles? Are there limits to their commitment? How will their skills, talents and experience fit this new business?

10. Are there barriers to participation by your employees, trainees and clients? For instance, is transportation an issue? What other options are there for staffing the business internally or externally?

11. What will be the role of your board in this venture?

12. Will you have an advisory board?

13. What will be your start-up costs? Include any deposits on facility, materials equipment and supplies, insurance, consultation, legal fees, etc.

14. If you do not have enough money to start the business, how will you finance it? Will it be debt or equity financed? How much debt are you willing to assume?

15. Do you have a budget for your business? You need budgets with projected revenues and expenses for the first three years.

16. You need cash flow projections for three years with anticipated revenues and expenses by month. Is there a seasonal cycle to your business? Will you have adequate cash to carry you through any seasonal fluctuations?

17. If there is not adequate cash, what is your plan for establishing a line of credit or financing your cash flow needs?

18. What can you afford to lose (income, corporate or grant investment, ego)? What can you afford to lose? Know your bottom line.

19. How long do you intend your agency to be in this business? Do you have an exit strategy?

20. What are your expected outcomes for the business in terms of profits for the first five years, numbers of participants/trainees/customers served, sales volume?
Asset Building
There are myriads of ways to build your existing assets. Among them are:
$ Recruiting volunteers with specific skills and expertise you need for the new business;
$ Enlisting the support and talents of individuals, corporations and foundations;
$ Acquiring auction/public properties which are on the tax roles for abandonment or back taxes;
$ Negotiating agreements with individuals, corporations or non-profits for services in exchange for product/services/space/clients. This builds capacity and partnership potential.

Understanding the Key Financial Terms

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<tr>
<th>Term</th>
<th>Definition</th>
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<tr>
<td>Sales Revenue</td>
<td>Income recorded as a result of delivering a produced good or service that constitutes the ongoing operation of a corporation.</td>
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<tr>
<td>Accounts Receivable</td>
<td>Sales or other revenue recorded on the income statement but not collected.</td>
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<tr>
<td>Accounts Payable</td>
<td>Total expenses recorded on the income statement but not yet paid.</td>
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<tr>
<td>Cost of Sales</td>
<td>Those costs directly related to producing goods or services, Services may include the cost of direct labor, materials, etc.</td>
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<td>Adjusted Sales</td>
<td>The difference between the income recorded (sales revenue) Revenues and the costs related to the product or service that was sold.</td>
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<td>Gross Margin</td>
<td>Sales less the cost of goods sold.</td>
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<tr>
<td>Other Revenues</td>
<td>Revenue earned not as a direct result of producing a good or service. Can include grants and donations.</td>
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<tr>
<td>Expenses</td>
<td>Indirect costs of doing business, such as selling, marketing and general expenses such as office supplies, utilities, telephone, etc.</td>
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<tr>
<td>Net Earnings</td>
<td>The difference between all revenues and all costs involved in running the business.</td>
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<tr>
<td>Profitability</td>
<td>The percentage calculation used to recognize the successful operation of a corporation over a specified period of time. Net Earnings divided by revenues.</td>
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<tr>
<td>Assets</td>
<td>Cash or other assets that are reasonable expected to be converted into cash, sold or consumed in one year. Examples are cash, accounts receivable, prepaid expenses and investments. In addition, included are fixed assets which are sometimes referred to as property, plant, and equipment. Fixed assets include land, buildings, equipment and furnishings. Fixed assets are acquired for use in operations and not for resale. They are long-term in nature and are usually subject to depreciation.</td>
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<tr>
<td>Liabilities</td>
<td>Obligations that are expected to be liquidated or paid through the use of current assets or through the creation of other current liabilities. Examples include: accounts payable, wages payable and taxes payable. Included in this section of the balance sheet are loans payable which can be short or long term. Loans are one means of financing the growth of a business.</td>
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<td>Fund Balance</td>
<td>Represents the residual financial interests in a business. It is the difference between total assets and total liabilities.</td>
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<tr>
<td>Solvency</td>
<td>A ratio used to calculate a business’ reasonable balance between assets provided by creditors and assets owned by the business.</td>
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The Business Plan

Business or feasibility plans are used to present and provide an overview of your business concept to potential funders, investors, partners and supporters. On average, feasibility plans are about fifteen pages long and are subdivided into the following sections:

- Summary
- Management/Organization
- Product/Service
- Customer/Market
- Financial
- Appendices

The best way to understand how to prepare a business plan is to write one. The second, is to review existing plans and so we have provided a sample business plan following this section.

Structure of a Business Plan

Summary

This section is written in narrative form and should be no more than one to two pages long. This is the first section of a feasibility plan, but it should be written last.

1. Identify your agency/mission/history.

2. What is your new business?

3. What are your reasons for beginning this business.

4. Where are you in the development of this business?

5. What are the unique aspects of your business/product/service?

6. How did you decide on this business? Community need, customer identification, mesh with mission/vision, community asset, other.

7. How much money do you need for the start-up for your business? Describe specifically how it will be spent and outline your ideas about where you will go to get the funding for your start-up costs.

8. What kind of ongoing financing will your company require? Do you need a line of credit, how large, where will you go to get it and what will be the terms?
Management/Organization

Brief Organizational History

Purpose of the Business/Mesh with Non-Profit Mission/Vision

Identification of Key Management Positions/Personnel
   Include qualifications, skills, experience, education

Compensation Plan

Structure
   Board Role/Responsibilities
   Advisory Board
   Insurance
   Ownership

Product/Service

Purpose

Unique Features
   Focus on mission/vision connectors
   Include cost, design, novelty, quality information

Stage of Development
   Emphasize maturity of the market and your business position in it

Patents, Trademarks, Copyrights, Licenses
   Specify any proprietary requirements for your business

Liability Issues
   List guarantees on products or services
   List insurance requirements for business/injury liability
   Examine nature of business (seasonal cycles, shelf life, etc.)

Related Products/Services/Spin-Offs
   Identify potential products and services that might be added to your business
   Include time lines, costs/profits associated with additions
   Note limitations and status of market (whether growing or declining)

Production/Delivery
   Identify business site benefits/suitability/liabilities
   Include schedule for beginning operations/staffing
   Identify internal/external sources for production/service

Customer/Market

Industry Profile
   Include industry status report with specific information on:
      competition, potential for growth, partners, supporters, markets
   Define your niche
   Identify problems within the industry, specify how your product/services provide solutions for these problems
Market Penetration/Advertising/Promotion

Present your strategies for reaching your market, be specific about: staff/labor/contract, internal, client, volunteer advertising/promotion costs/expected benefits publicity/using non-profit status for business promotion

Identify your customer, group them in appropriate categories

Pricing your product/service/determine and present pricing policies and profit margins

Financial

The financial section is different from previous sections in that it contains an initial narrative focusing on assumptions for projecting sales for the business, production costs and brief bulleted statements dealing with both terms and policies for accounts receivable/payable, etc.

Assumptions

Present the basic assumptions used to determine sales volume, pricing levels, cash flow projections and costs

Accounts Receivable

Explain terms for collection of receivables/policies for credit customers

Accounts Payable

Explain terms for payment of lease/mortgage, inventory costs and operating expenses

Start-up Costs

Identify start-up costs for the business and explain how you arrived at these figures.

Identify how you will meet the start-up costs for the business. Identify funding sources/potential funding. Be specific.

Taxes

List the potential tax liabilities for the business. Be sure to include these payments in your cash flow and in your annual budgets

Incentives/Dividends

Outline any plans for profit sharing/bonus incentives, or dividends offered to key staff or board

Organizational Expenses

Specify what expenses are included in detail

Depreciation

Present the terms for your depreciation schedule and be specific about which facilities, equipment and vehicles are included

Interest

If you are financing the purchase price, start-up costs, operating expenses, list interest rates and terms for those loans in this section. Include them in your summary.

Bad Debt Expenses

Determine, according to industry standards, what percent of your gross sales will be considered bad debt expense.

Appendices, as appropriate

Forms/Worksheets and Examples

Pro forma Income Statements
Salary and Wage Expense Sheets
Cash Flow Sheets
Asset Purchase and Lease/Rental Schedules
Depreciation Expense Report
Retained Earnings Statement
Pro forma Balance Sheets