

Social Good Doesn't Have a Price Tag

Eve Pytel 19 May 2018

Best Practices for Nonprofit Led Social Enterprises



Deconstruction training in Gary, Indiana in 2017

Photo source: Eve Pytel

What makes a viable, thriving social enterprise? The truth is many social enterprises created by nonprofit parent organizations, that work to accomplish their mission through the sale of goods and services, struggle.

Survey data and interviews with Chicago's nonprofit social enterprise leaders indicate that key decisions at the formation of these organizations pertaining to strategy,

marketing, staffing, and product design either enable success or portend struggle. This article identifies critical decision points and how those choices influence future success.

A nonprofit led social enterprise may be for profit or not-for-profit, but they are formed by nonprofit parent organizations to maximize mission impact by selling a product or service that enhances social, economic, and/or environmental benefit. There are critical factors that help to ensure the viability of a social enterprise that are important to know about before entering into a social enterprise.

At their core, nonprofit led social enterprises are businesses that compete with the private sector. However, often nonprofits face additional constraints with land, labor, capital, and entrepreneurship than their for profit peers. For example, a nonprofit led social enterprise may be executing a service using workforce trainees with barriers to employment (Labor), operating in a particularly challenging location (Land), working within the limits of restricted funding (Capital), or their board charged with fiduciary responsibility is ill-suited to work with innovative risk takers (Entrepreneurship).

Due to the interest and hype around social enterprises, there have been many attempts to reconfigure services typically funded by local and state governments or through private philanthropy to transition fee-for-service

or social enterprise modes. While these can be successful, a product or service sold by the social enterprise must be clearly defined and have a customer base. More importantly, the product or service generated might potentially generate revenue, but development of the product or service does not offset or reduce the need to provide the core services that may represent significant costs for the parent nonprofit.

For example, a nonprofit led social enterprise might have its clients make goods that are sold, but the parent organization must still provide the services to the client. Therefore, servicing clients is not the social enterprise, the social enterprise is the production and sale of the goods. Here's a real example of a successfully operating social enterprise.

Knockout Pickles is a nonprofit-led social enterprise started by its parent organization, Opportunity Knocks, which is a nonprofit serving young people with developmental disabilities. Knockout Pickles is a small batch line of farm-to-jar pickles that is produced, marketed, sold, and distributed all by young people with intellectual and developmental disabilities. The production and sale of Knockout Pickles achieves Opportunity Knocks' mission.

The excitement around social enterprises has resulted in nonprofits attempting to receive funding through services typically funded by local and state governments or

through private philanthropy. In the case of Knockout Pickles, its parent nonprofit, Opportunity Knocks, bares the cost of case management and provides client support and Knockout Pickles generates enough revenue to produce, market, and sell the pickles. Knockout Pickles does not alleviate or minimize the cost of service provision to Opportunity Knocks.

Best Practices

While the private and public sector flock to social enterprises in hopes of doing well by doing good, it is important that nonprofits consider the following best practices at the formation of a nonprofit led social enterprise to start off on the right foot.

Entrepreneurship is the capacity and willingness to develop, organize, and manage a business venture along with any of its risks in order to make a profit. When we envision entrepreneurs, we typically think of someone with an exciting idea with the capacity, acumen, and appetite for taking risk.

The principle requirement of risk accepting behavior is diametrically opposed to the role of the nonprofit board. Nonprofit board members are the fiduciaries who steer the organization towards a sustainable future by adopting sound, ethical, and legal governance and financial management policies, as well as by making sure the nonprofit has adequate resources to advance its mission.

By definition nonprofit boards are risk averse, which can hamper entrepreneurship, and thus a nonprofit led social enterprise. To ensure that the parent nonprofit can support such an enterprise, nonprofit leadership should consider the following best practices:

- Recruit board members with the personality, experience, and background to thoughtfully assess and provide leadership on a social enterprise.
- Create a committee to determine the process and steps for assessing and forming a social enterprise.
- Create a process and plan adopted by the full board of directors that addresses business planning, risks management, long term participation and exit strategies.

Capital refers specifically to the financial resources to plan, develop, start, and manage the social enterprise. However, venture capital, lines of credit, and angel investments that are often essential to for profit startups are rarely reported for nonprofit led social enterprise funding. This is often because additional reporting and administrative requirements are placed on nonprofit businesses that the private sector is immune from.

Nearly all leaders interviewed believed a greater amount of capital and diversity of capital is foundational to success. Support for social enterprises can come in a variety of funding forms. However, inconsistent government funding can cause social enterprises

uncertainty and possible instability.

Without enough capital or the right types of capital, it is hard to be successful. Successful nonprofit social enterprises typically have:

- Multiple funding sources for the parent nonprofit and the social enterprise such as private foundations, individual donations and sponsorships, government grants and contracts.
- Board members and staff with the capacity to raise adequate funds.
- Reasonable expectations for profit.

Despite the fact that creating a successful social enterprise is an uphill battle with even more challenges than those faced by startup businesses, where 50-70 percent of those businesses fail, there are tremendous opportunities for nonprofits, their clients, and partners. If you are going to form a social enterprise prepare accordingly, expect an uphill battle, but enjoy the view.

Author Bio

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