

# For-profit Businesses with Nonprofit Ideals: An Experiment that Works at RHD

Bob Fishman    25 September 2009

Resources for Human Development was created as an experiment nearly 40 years ago, and by any measure this unique and innovative experiment has worked marvelously. All nonprofits are by definition mission-driven to some degree, but the idea behind RHD was, to quote board chairperson Bertram Wolfson, "to create an organization that from the beginning is based upon ideals." RHD is a values-driven corporation that strives foremost to create healthy workplace communities. As RHD's CEO and founder, I believed such an enterprise could pursue diverse paths, better serve people in need and also be financially viable.

Since 1970, RHD has grown from a single property in Philadelphia with a \$50,000 grant to a human services organization to an organization supporting more than 160 locally managed programs in 13 states, with revenues of nearly \$180 million. Today, Resources for Human Development is one of the largest and most successful nonprofits in the Northeast.

And now it's time for the next experiment. Can nonprofit ideals and practices apply to for-profit ventures? Can these "crossover" businesses – entrepreneurs with a social agenda – succeed?

At RHD, the answer is an unequivocal "yes."

Resources for Human Development fully embraced the for-profit crossover when it created Murex Corporation in 1998. Murex is a social entrepreneurship program, a group of investment funds providing capital to small businesses in the Mid-Atlantic. With more than \$20 million under management, Murex invests in strong companies that share upside with employees. Murex's industry targets include both technology companies that are needed to grow the regional economy and manufacturing and service companies that can provide quality jobs for low-to moderate-income people. Murex invests in new businesses only if they are likely to achieve social as well as financial goals.

Murex management includes professionals with extensive investment and operations experience and it is governed by a Board comprised of some of the region's outstanding investors and entrepreneurs.

Out of Murex have blossomed success stories including the SQA Pharmacy, Service Works, Computer Systems and Solutions and Brothers' Keepers (a program that provides employment to marginalized populations

including ex-offenders and adjudicated youth). Each year RHD launches as many as three new crossover businesses – for-profit enterprises with social agendas.

To be sure, this practice is not RHD's alone. Resources for Human Development is proud to be a member of the Social Venture Network, and one of many organizations seeking the "double bottom line" that balances profit-making with a social agenda. The difference at RHD is that everything springs from the values-driven approach and innovative thinking of the nonprofit organization.

Take, for example, Equal Dollars Community Currency, a community currency RHD founded in 1996. Equal Dollars is a non-interest bearing currency that promotes the exchange of goods, services and labor through a membership network. Businesses that accept the currency build stronger relationships and a greater affinity within the community.

This year, RHD awarded its employees annual bonuses paid partially in Equal Dollars. And in July Equal Dollars issued an interest-free loan to the SHARE food program for the purpose of hiring a new employee. While the United States has a long history of alternative or community currencies used in conjunction with the US dollar, the loan is believed to be the first of its kind in the nation's history.

I founded the One Percent Solution Club at RHD in 2001. I

place 1 percent of my CEO salary into a pool to which employees can contribute to and from which they draw. RHD is a human services nonprofit that works to help society's most vulnerable citizens, but it is still a corporation that pays some people more than others. After quite a bit of conversation about some of the lower salaries RHD is able to pay, and the tensions between fellow workers as a result of large differences in pay, the One Percent Solution evolved.

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RHD believes there is a benefit for the organization when an executive steps forward and gives up a percentage of his or her salary. The purpose is twofold: one is to be able to let people participate in something that entitles them to a piece of an executive salary; the other is to open a discussion about income inequality.

The first time I offered to give up 1 percent of my CEO salary and put it in a pool that anyone could draw from, no one took me up on it. But now at Resources for Human Development, the One Percent Solution is thriving.

Every member – starting with the CEO – contributes 1 percent of his or her salary from each paycheck into a fund. The fund is then divided equally by the number of club members and apportioned into members' paychecks.

As CEO, I make the largest contribution. A young woman

who works with people with disabilities in one of RHD's Florida programs happens to have the lowest salary in the One Percent Solution club and makes the smallest contribution. We both get back the same amount as each of the participants in this year's club (in all, RHD employees make about \$3 million available through One Percent Solution).

Most of the members take home an extra \$10-20 a month, which they tell me is like a penny jar that adds up over time – an extra dinner, some new clothes, babysitting or gas money.

Does this solve the problem of income disparity? No. But it opens up a discussion. Together we form a club that meets to discuss other ways to save money, a group of people willing to say: let's try this. It has given birth to a great many ideas that we've embraced at RHD – including a new food bank.

Many of RHD's for-profit crossovers are ideas that emerged from discussions like those. Experienced Paper, RHD's latest venture, is office paper that has been used on one side, then collected and rebound to create a new pad. The idea came from just such a discussion, in which someone thought it was wasteful to use all that paper just once. Experienced Paper is in its infancy, but RHD has a history of making these experiments work.

Computer Systems and Solutions (CSS) is a laptop repair

facility in the business of refurbishing, recycling, and promoting the reuse of laptops. RHD invested in CSS through a \$65,000 loan in 1990, and at the time it was one of only a handful of computer organizations owned by a woman. CSS is now expanding into the realm of Green Technology Recycling, promoting an environmental state-of-the-art recycling program for the proper disposal of computer technology.

CSS generates about \$8 million per year in revenues. As a 30 percent owner, Murex uses its share of the profits to invest in other socially responsible businesses.

The SQA Pharmacy (the acronym stands for Service, Quality, Accuracy) is an operating, closed-door (non-retail) pharmacy that delivers medication to individuals in residential facilities. RHD started the SQA Pharmacy in 2006 with a co-investment from Murex. Its initial clients were RHD's residential group homes for those with intellectual disabilities and behavioral health issues in the Philadelphia area. Today, SQA generates more than \$5 million in revenues annually.

SQA's profits go largely to the community. RHD established a foundation to distribute about 75 percent of SQA profits to nonprofits serving those who have no health care insurance or who are underinsured. This year, SQA made a \$10,000 contribution to the Pennsylvania Department of Public Welfare.

This was our way of demonstrating support for the DPW, which does so much for low-income Pennsylvanians desperate for affordably priced, accessible health care. We helped start SQA Pharmacy Services three years ago with the hope that one day we could give most of its profits to organizations who share our commitment to decent health care for everyone. And we can say our experiment has worked.

The ServiceWorks Company was an industrial cleaning company located in West Philadelphia and owned for ten years by an African-American entrepreneur and Resources for Human Development. ServiceWorks employed up to 100 individuals, many of whom were homeless or had past criminal convictions. The company generated \$1.7 million in revenue in 2006, with a payroll of about \$600,000.

ServiceWorks was a remarkable success story for a short time, employing economically disadvantaged people, compensating them fairly and empowering them to become leaders and gain management skills. After separating from RHD, ServiceWorks could not sustain itself and folded. But the idea lives on; this year, Resources for Human Development helped found Brothers' Keepers, a group of businesses that employ marginalized populations including ex-offenders and adjudicated youth.

Brothers' Keepers provides life skills coaching and financial and credit counseling, and it encourages employees to take part in the company through an employee ownership plan. Brothers' Keepers is the brainchild of social entrepreneur Gerald Hatten, who has built a wide-ranging business that offers services including home remodeling and repair, landscaping, car detailing and commercial cleaning services.

Among the organizations that helped Brothers' Keepers get started financially was Equal Dollars, which issued a zero-interest loan in community currency. The nonprofit corporation and the for-profit business function together and work toward the same end.

These and other for-profit ventures spring largely from my interest in the Mondragon Cooperative system, which is based in the Basque region of Spain. It is the best example I know of common-good investments by a system of for-profit businesses. Father Don José Arizmendiarieta, a Basque Catholic priest, started Mondragon in 1956 with five young engineers. Last year Mondragon employed more than 100,000 worker/owners and generated US\$24 billion while addressing the social needs of its community by developing a research institute, more than 40 schools, a health maintenance system and a health insurance system.

Mondragon is based on broad stakeholder participation and businesses run by groups. It is this idea, that a group



pulling together is more likely to achieve success than an individual entrepreneur, that feeds RHD's ventures into for-profit enterprises. This has allowed the nonprofit to have a significant stake in for-profit corporations, which are better positioned to engage in constructive community work.

A nonprofit naturally devotes most of its time and energy to people in need, from the developmentally disabled to the homeless to those in addiction recovery. There is perilously little opportunity to help people before they reach that point, to pursue sustainable improvement of distressed communities by supporting progressive, high-performing companies in underserved markets.

A for-profit corporation is far more likely to have the financial resources to do that job. Resources for Human Development has proven that for-profit enterprises with nonprofit ideals can be efficient, profitable and grow while still improving the community.

**Bob Fishman is CEO and founder of Resources for Human Development, a human services non-profit based on an organizational structure that encourages and empowers employees to be more responsive to the people they serve – and to each other -- and one of the largest and fastest-growing non-profit corporations in the country.**

**He is married with three children, to Barbara Fishman.**

