Social Enterprise: The Three P's:

Philosophy, Process, and Practicalities

Shelley Williams
February 2005

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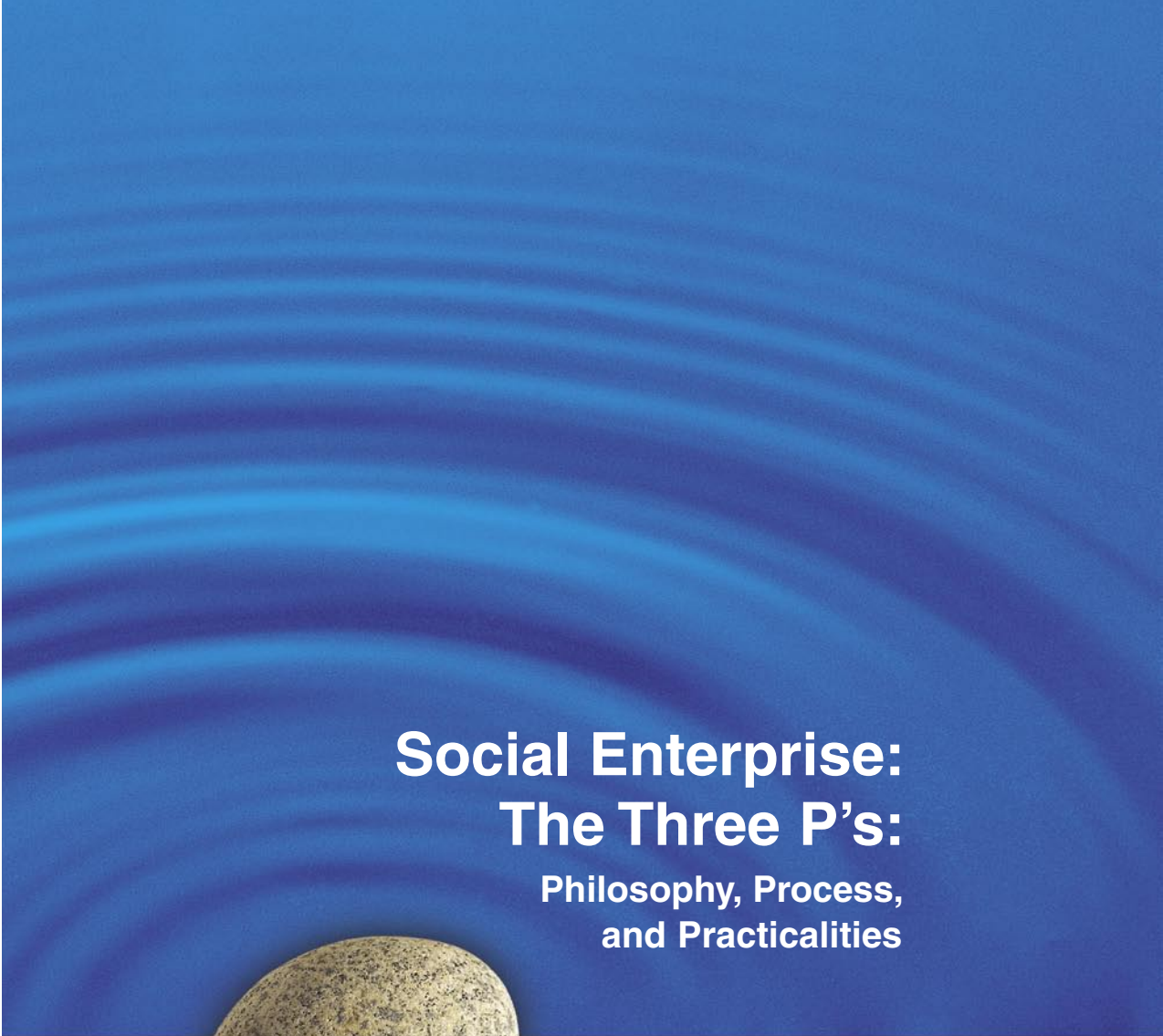
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Acknowledgements

There are many people that have assisted me during my life, all of whom have helped me through the various stages of my career. You have made a difference. It is because of you and your gifts that I have been able to obtain this fellowship and complete this project.

It's difficult to convey the intensity of my thankfulness to The Muttart Foundation. This Fellowship has been a blessing in providing me an opportunity to reflect upon my career—both challenges that I have faced and accomplishments I've been graciously credited with. I feel very privileged to have been awarded this fellowship. Thank you!

My parents, who died over 25 years ago, have stayed with me always and continue to guide me in understanding that no matter who we are and what we do, it is how we live our own life that is critical. Making decisions with integrity, doing what is right (or left as the case may be), not giving up, and never assuming one is better than another no matter who or what the circumstances are; these are the key values they have engrained in me.

My family, who for me also include friends: Greg, Richard, Karen, David, Jackie, Ty, Ingrid, Donna, Paula, Marilyn, Nancy, Lenore, and especially the one and only companion who always has a smile and is excited to see me – Toffeedog. I hope that I am as considerate and supportive when you require my time and energy.

To the organizations and people who participated in this project. Some people gave me a text they thought would be helpful, organizations participated in the interviews, and all the people who have chatted with me regarding their opinions. There is definitely a wide spectrum of opinions concerning social enterprise.

Finally, to the organizations with which I have worked: Rygiel Home, Skills, Edmonton Women's Shelter, YWCA of Edmonton, and a special thanks to Bissell Centre for allowing me to participate in this fellowship year. All agencies have provided me with a wealth of information and hopefully I helped them to further their missions in trying to address issues of our communities that can make a world of difference for a person and/or family.

Preface

Over the past 22 years, as an executive director and senior manager of five different social service agencies, I have been involved and increasingly interested in the concept and potential of social enterprise within the nonprofit sector. Balancing this interest were a series of concerns about the philosophical and practical implications of entrepreneurial ventures within nonprofit agencies. The need to balance the potentially competing interests of revenue generation, service delivery and community responsibility is of real concern. How organizations engaged in social enterprise achieve, or do not achieve, this balance was of particular interest.

My anecdotal observations suggested that some organizations seemed to be very successful at generating revenue from ventures while keeping their clients/participants and service programs as the central focus of the staff and board. Some agencies retained their service focus but were not generating sufficient levels of income to make their ventures worthwhile. Still others were apparently distracted from their mission and service goals by ventures that seemed to be consuming inordinate amounts of time and resources.

Social enterprise exists within the third sector, also often called the voluntary sector. It will continue to exist for the foreseeable future. My goal was to focus my research on what was working, why and how. What became clear during my interviews and literature search was that there are serious philosophical questions needing to be debated before any organization embarks on an entrepreneurial venture.

In addition, I felt a keen responsibility to determine if social enterprise was a desirable and worthy pursuit for organizations. Organizational leadership requires us to understand emerging models and approaches. Based on our analysis of new ideas, individual organizations must decide, "Is this good for us?" and, "What are the potential benefits and costs?" and finally, "What will we do and how will we do it?"

Not all organizations will have to embrace social enterprises to be successful in the future. This is, and should continue to be, a matter for each organization to debate and decide. In and of itself, social enterprise does not represent either a threat to the sector nor a quick fix for revenue problems. Perhaps the most significant risk is that by proving its viability to generate revenue, social enterprise may encourage increased government downloading of funding responsibilities to the third sector.

Unapologetically, I am a feminist deeply concerned with the collision of the importance of social good and corporate greed. Chronic under-funding by all levels of government

coupled with increased needs of the community has created ongoing pressure for organizations to expand services and programs. Creating the revenue to fund these programs seems to have become the responsibility of the organization rather than that of governments. We are expected to demonstrate excellence in our outcomes of services, maintain business-like financial and administrative systems and now, it would seem, also to generate some of our own sustaining financial support. This expectation has grown from fundraising, grant-writing and pilot projects to "profitable business" ventures. In addition to the complexities of planning and operating a venture, the philosophical concern is about becoming over-focused on money, profit, and business operations. This can distract an agency from its primary mission, vision and goals. At this time, it takes conscious and enduring effort for an organization to walk with a foot in both worlds of community service and enterprise.

This book will show that there is an abundance of books, articles, websites, networks, research studies, and conferences on the topic of social enterprise. Most information is coming from the United States. Canadian agencies have been in the business of "social enterprise" for a long time, although we have not been substantially active in capturing what we want to do, how to do it or evaluate it according to desired outcomes. It is hoped that this project will help the third sector in some small way, and realize where we would like to go with social enterprise in Canada.

Section 1:
Introduction

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Introduction

Social enterprise has become more and more a buzz in the nonprofit sector. This book is an attempt to provide individuals and social service agencies with enough information and suggestions to help them decide if and how social enterprise may or may not fit with their specific organization.

During my career, I have been the executive director of three agencies that have run social enterprises. Rarely, as an executive director, is there enough time to devote to one particular project of an organization. This fellowship year has given me the opportunity to do this. A year seems like a long time; however, it goes by amazingly quickly and it becomes apparent that there continues to be a need for information in this area—especially about evaluation of such ventures. For example it would be extremely helpful to know which model (business, social, or hybrid) is considered most beneficial of what and for whom. And, was it the best use of time, money, and other resources or could that benefit have been accomplished through other means.

After completing this project, there is no doubt that social enterprise is here to stay and will continue to evolve. I, as an executive director, will be required to continue in managing and supervising such projects within agencies. However, if I were to be involved in an organization that does not presently run a social enterprise, I would definitely highly recommend that the organization think long and hard about the costs and benefits of developing social enterprise.

As much as social enterprises are intriguing, they are not a quick fix to anything. It takes time, money, and thoughtful strategy to develop let alone what it takes to continually manage and develop once implemented. I am not suggesting that organizations do not develop social enterprises, but I am clearly stating that it requires due consideration specific to each organization. No one person or group should insist that an agency go in this direction. It is critical that social enterprise be part of the agency's core strategies for very specific reasons identifying specific outcomes, just like any other program operated by the agency.

Saying that, social enterprise is exciting. Social enterprise is an opportunity for the nonprofit sector to develop new approaches in how it tries to address the mission of its organizations. Social enterprise is not the "only" way of the future for nonprofits looking at alternative revenue sources for financial sustainability. It is merely another approach in trying to address the challenges of managing an organization with today's climate and political and economic changes.

There are many organizations that cannot imagine what their agency would be like without it. It appears that the successful ones are those agencies that have totally integrated enterprises as part of the agency's philosophy or mandate and where

there is a direct link to the core strengths of the organization.

I hope this book will be helpful to individuals and organizations as they endeavour to create an organization that is better able to address their mission and values.

How to Use this Book

This book is divided into seven sections (and a bibliography) that cover different information concerning the development of a social enterprise within a nonprofit organization. It can easily be read from front to back; however, if you are like me…I always read from back to front or in sections that interest me. Adapt it to your needs and interests.

Section One: "Introduction" provides an introduction, terminology, and a guide to using this book.

Section Two: "Four Questions of Principle" identifies questions that are intended to create interest and dialogue around social enterprise. What is the financial support responsibility from the three levels of government to services needed in community? Can "profit" and "nonprofit" motives be integrated? What is the "real" intent of social enterprise? What model of social enterprise should be used?

Section Three: "Process Tips" identifies five principles important to the development process for any social enterprise: creating engagement, learning/networking, valuing inside and outside expertise, strategic planning, and respecting the journey.

Section Four: "The Basic Practicalities" provides a variety of fundamental information necessary and useful to consider when developing a social enterprise. For the purposes of development, it is assumed an organization will develop a venture that is intended to provide a social benefit and will generate revenue for the organization.

Section Five: "The Phases of Development" covers the steps of development an organization must take. These must be adapted depending on the organization's situation and its intended outcomes for the social enterprise. There are six suggested phases for development. Each phase identifies the purpose, expected results, suggested steps, and tools an agency will want to consider to be able to complete the phase.

Section Six: "Words of Wisdom from the Field" summarizes the information from nine interviews that were conducted during 2003-04. It describes the results in five themes:

- enterprise planning and leadership
- enterprise closure
- lessons learned
- benefits of social enterprise
- challenges, issues, and concerns.

Section Seven: "Summary of Worksheets/ Outline Templates" is a summary of the worksheets and templates found within "Practicalities: The Phases of Development." These are intended to be adapted and/or photocopied for your use as appropriate.

Section Eight: "Bibliography and Helpful Information" provides a variety of recommended sources. This section identifies networks and associations, books, magazines, and websites that might be helpful to gain further knowledge or support.

Hopefully, this book will be helpful to you and your organization as it embarks on new initiatives and approaches.

Terminology

One of the first observations I made when beginning to formulate the actual content of this project, was that everyone uses different terms. Often, the term used by one individual will mean something completely different for someone else.

This section is an effort to clarify terminologies. This is by no means an exhaustive list of terms used, nor does it include the different configurations that can be found of each term. Should you agree or disagree doesn't matter as long as you or the organization define the different terms. It is important that all parties in the discussion are aware of the definitions to ensure everyone is on the same page for an insightful conversation.

The definitions below are for the purposes of this book.

Organization/Agency

An organization is any nonprofit agency that is registered through provincial legislation. It might mean it is a limited nonprofit corporation, while others are registered as a nonprofit society or as a co-operative. The main aspect is that the organization is nonprofit and is exempt from paying federal taxes. For this book, this term implies the organization has charitable status with the Canada Revenue Agency (CRA).

Charitable Status

A nonprofit organization that has met the criteria for charitable status from Canada Revenue Agency (CRA) can provide tax-deductible receipts to donors, is exempt from paying federal taxes, and receives a refund portion of GST paid on purchases. CRA used to be known as Canada Customs and Revenue Association (CCRA). CRA requirements regarding social enterprise and its definitions of a related business will be discussed in Section Four.

Social Entrepreneurship

There are many web sites and resources around this term. The Canadian Centre for Social Entrepreneurship provides a short and sweet

definition along with many long convoluted academic definitions. The short and sweet one: "Social Entrepreneurship strives to combine the heart of business with the heart of the community through the creativity of the individual." (www.bus.ualberta.ca/ccse/).

J. Gregory Dees is also very well-known for his definition. He emphasizes the role the social entrepreneur has as a change agent in the social sector by identifying five key roles:

- adopting a mission to create and sustain social value (not just private value),
- recognizing and relentlessly pursuing new opportunities to serve that mission,
- engaging in a process of continuous innovation, adaptation, and learning,
- acting boldly without being limited by resources currently in hand, and
- exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.[1]

Basically, social entrepreneurship is a very broad term encompassing the use of and development of multi-dimensional approaches and models within community to help support community. It includes social enterprise as one approach.

Community Economic Development (CED)

This is a term that is often used within the sector when talking about social enterprise. I do not see them as interchangeable. The definition provided by The Community Economic Development Centre out of Simon Fraser University is: "Community Economic Development is a process by which communities can initiate and generate their own solutions to their common economic problems and thereby build long-term community capacity and foster the integration of economic, social and environmental

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[1] Dees, J. Gregory, et.al. *Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit* (New York: John Wiley & Sons, Inc.), p. 5.

objectives." (www2.sfu.ca/cedc/resources/online/cedconline/ceddefn.htm). This term can be applied very narrowly or broadly within a social economy context.

For the purpose of this book, CED is with and by the people of the community at the same time it provides opportunities for income. In contrast, social enterprise is controlled by the organization. This does not mean that the organization does not involve community in its process, nor does it mean there will not be community benefit. However, the organization owns the enterprise and is fully accountable regarding its success or failure.

Social Partnerships/Collaborations

This is when an individual, or any organization/corporation outside a nonprofit organization, teams up with that nonprofit helping the agency to meet its mission. This could include marketing, providing expertise, revenue or anything else that can be imagined. It is typically mutually beneficial to both. As this is a two-sided coin, corporations refer to this model as Corporate Social Responsibility while the nonprofit sector refers to it as social corporate partnerships/collaborations.

Social Enterprise

A venture/business/activity within a nonprofit organization providing financial and /or social benefits that further its mission. There are three main models of social enterprise. These are the business model (profit-based only), the social service model (need-based only) and, the hybrid model (profit- and social need-based).

Fee-For-Service

A fee (revenue for the nonprofit organization) in exchange for access to a program or service from the organization. This fee could be the full or partial cost. Fee for service could be a way for the organization to receive revenue within a social enterprise. However, charging a fee for a service provided within the mission of the organization is not a social enterprise in and of itself.

Section 2:
Four Questions of Principle

Section 2:

Four Questions of Principle

These four questions are related to both the broader community and the organization. They address the deeper philosophical issues of social enterprise development in the nonprofit sector. There is controversy and conflict about running a business in a nonprofit organization and the long-term implications of it. There is no definitive answer for any of the questions. They, in fact, are only a mechanism to stir interest and dialogue and show that there are still many fundamental questions yet to be sorted out.

1. What is government's ongoing responsibility to provide public support to the third sector? What must be supported and at what level?

It appears that the literature on social enterprise has, for the most part, ignored this consideration. A belief within Canadian nonprofits is that the sector is credible and worthy of tax-funded support by our governments. Most organizational leaders accept the increasing pressure to show outcomes in return for the funding received. They also accept the reality that there are too many needs within society for governments to be expected to "pay for everything."

There is a long-standing acceptance that nonprofits must seek to diversify revenues through fees for services, fundraising, corporate partnerships, and grant writing to foundations. It would be easy to argue that social enterprises are merely an extension of this drive to diversify sources of revenue. The question being asked by some is, "What is the message we are giving to government when we continue to find ways to fund ourselves for services that are publicly demanded and essential to society?" Implied in the question is that we may be creating a dangerous precedent, and in doing so, may be teaching government to provide less support to the sector. The increased autonomy and independence achieved by revenue diversification may become a disincentive for public funds to be channeled to the sector.

At national and regional levels we have yet to begin a dialogue across the three sectors (public, private, and "voluntary") to resolve what governments *must fund* (i.e. what are essential or core services to communities?) and *at what level* (are there or should there be minimum commitments by governments to fund services at a certain level?). This dialogue is just beginning in the fields of health care and education. A similar discussion is needed as it relates to community service nonprofit organizations.

At the same time there is a critical need for an overhaul of federal and provincial legislation that agencies are required to meet. Many of these legislative policies have been written many years ago (e.g. the federal charitable status legislation was written based on the

last century!) and have not been reviewed let alone updated. The voluntary sector is a huge industry contributing to both the social and economic value of society. It doesn't take a rocket scientist to know that the nonprofit sector has changed in Canada and the rules that govern basic requirements must change to assist organizations in continuing to meet present and future needs of communities. Legislation does need to put parameters around accountability of public money without limiting the sector in moving forward. The Voluntary Sector Initiative has been active over the past few years in trying to address some of these concerns. There is still a long way to go.

2. Can we balance the "profit" motive with our community and social responsibilities?

The most frequently expressed concern of writers, researchers, and organizational leaders relates to the perceived incompatibility of the traditional primary motive of business to generate profit. Of necessity, businesses are market-driven and, therefore, competitive. Their focus is finding and filling a market niche that results in profit.

While socially conscious business-owners and corporations often make sizable and regular contributions to the third sector (in the form of donations, volunteers, facilities, and partnerships), the profit focus is inarguable. The intent of these charitable contributions varies across business. It may be strictly charitable (to do good), it may have a public relations component (to be seen as doing good), or it may further a marketing or sales goal (buy from us because we do good things for your community).

In contrast, fulfilling social responsibility or meeting community needs is deeply entrenched as a primary objective of virtually every nonprofit organization in Canada. The history

of community service organizations supports this observation. All grew out of some form of unmet community need. Of necessity, nonprofits are mission-driven and increasingly focused on collaboration rather than competition.

Culturally, nonprofits have therefore eschewed "profit" or business motives as less than pure. In addition, a commonly held belief is that nonprofits achieve their goals with greater honesty and integrity, and in better ways. While all nonprofits recognize the importance of balanced revenue–expenditure picture (called "top-line thinking"), few believe that to create revenue/profits, money must be expended first (called "bottom-line thinking"). Nonprofits believe that revenues determine future costs. Money received is to be spent on programs and services. Businesses believe that costs are incurred to create future profits (revenue).

This question is therefore relevant to the entire sector as well as for individual organizations as they explore and make decisions in the development of social enterprise. Assuming an organization decides to create a new venture, it will not necessarily have the in-house expertise based on a "business" development model to design, implement, and operate ventures that return net profits or surpluses. Nor do nonprofits always have the undesignated capital resources required to kick-start the venture. And if nonprofits develop this set of skills to run a "business," will it actually decrease the ability of that agency to focus on and meet community needs?

3. What is the "real" intent of social enterprise?

- increased independence or autonomy
- channeling increased revenue to meet ever increasing community needs
- greater influence on government policy?

An increase in the demands (and their complexity) of public funders is becoming

a burden for many organizations. Funding reapplications, proposal writing, tendering processes, accountability for program outcomes, and accounting for funds consume substantial resources within all nonprofits. These activities consume time and money that could be directed to service delivery and meeting community needs.

Complicating this situation is the ongoing shifting in funding priorities by governments and other larger funders. For example, in Alberta, regionalization of health programs resulted in early intervention services for children not being listed as a core (i.e. priority and mandatory) program. Early intervention agencies were made extremely vulnerable by this policy shift.

As a result, an increasingly common goal for both individual organizations and the sector as a whole is to decrease reliance on public sources and to diversify revenue, thereby increasing the percentage of unencumbered income. Increased self-reliance or autonomy allows greater independence in decision-making for the organization. Agencies can channel self-generated income to expand government-funded programs, increase compensation for employees, fund administrative costs, pay for facility construction, renovation and maintenance, and/or meet unmet community needs.

A second possible goal of social enterprise is to either directly or indirectly meet the ever-increasing needs of the community. Growth within the sector and of individual organizations has been well-documented. This growth has been driven by increased awareness of needs and increased public demand for service. Growth in government funding has not kept up with demand. Many funders are also requiring agencies to demonstrate a capacity to "self-fund" a portion of programs as a criteria for approval of government, foundation, or other funder support. This may force the hand of some agencies to develop social enterprises without

adequate consideration, planning, resources, or internal expertise.

Creative fundraising and increasing reliance on fees-for-services have helped some organizations, but is not sufficient for meeting unmet needs. Increasing competition for public and corporate donations and very sophisticated professionally organized fundraising campaigns run by, for example, large health care organizations, has left smaller or less well-resourced organizations in the dark. Social enterprise has been sought out as a possible solution to this dilemma.

A third possible goal is the potential increased influence that a more autonomous sector (and individual agencies) will have on government policy and decision-making. The potential for the sector to sit at the table as an equal with other sectors (public and private) is certainly appealing to some. This idea is in its infancy. Several national and regional initiatives (e.g. the Voluntary Sector Initiative and creation of Chambers of Charities) are beginning to advance dialogue and early-stage activities to influence public decision-makers. The hope for some organizations is that a more financially autonomous sector will advance this goal.

Two potential threats emerge, however. One, already identified, is that governments will see this as an opportunity to decrease funding to organizations that demonstrate greater self-reliance. In addition, funders may increasingly *require* organizations to generate more and more of their own funding through enterprise. The second threat comes from the private sector, business, and industry. Nonprofits and charities are granted certain municipal and federal tax advantages. Some business owners within the private sector have taken exception to nonprofits competing for market share in a way they consider unfair.

4. What model should be used to create social enterprise?

- business (profit-based)
- social service (needs-based)
- hybrid (profit and social benefit-based)?

One school of thought suggests that any type of venture is acceptable within a nonprofit organization as long as the agency meets the statutory requirements of provincial and federal bodies. Unrelated businesses (not allowed by CRA for nonprofit organizations wishing to maintain their charitable status) may be established by creating a separate legally incorporated entity. The primary objective is for the venture to make money (profit-based). It is assumed that the net revenue will be directed to assist the organization in realizing its mission. For example, a women's support and counselling organization operates a property management company under a separate legal entity.

Contrasting this is a belief that nonprofits should only create ventures that are directly linked and help fulfill an organization's mission, vision, and/or mandate (needs-based). Often these ventures are offshoots of or are integrated into the agency's services or programs. The primary objective for the venture is typically directly linked to the target population served by the agency. The venture may or may not actually return net revenue to the organization. An organization will identify that if the venture is not making revenue for the agency, it still provides a "needed" and "valued" service to the clientele and, therefore, is worth the agency's financial subsidization. For example, an organization serving people with disabilities offers facility-based wellness support for both the general community and for its disabled clients.

A third option is that the venture would help meet the organizational mission (social benefit) while *also* generating net revenue (profit). The venture may not necessarily be directly linked to meeting the needs of the agency's target client group but is related to the mission. The net gain in revenue obtained from the financial success of the social enterprise is directed to support other organizational activities within the mission. For example, an agency providing support to immigrants also sells language-interpreting services to businesses, other agencies, and the public.

There is much debate over which model should be sought by an organization. Should an agency, just for revenue, buy a business, purchase a franchise or develop its own business not linked to its mission? Should an enterprise always relate to the agency's mission? Should an agency develop a social enterprise that only provides a direct support to the mandated target population? Is it best to integrate the model within the structure of the organization or keep it totally separate from the agency? Can an agency really balance an enterprise providing social good and profit?

Each of these options is potentially successful depending on the outcomes identified by the agency. A key decision for the organization is to actually make a conscious decision on the type of model, develop the outcomes accordingly, and monitor its progress.

Section 3:
Process Tips

Section 3:

Process Tips

As is the case with any major organizational change, it is very helpful to identify the principles an agency wants to incorporate in the planning and implementation process. Articulating these principles at the outset of planning, and referring to them throughout the process, helps leaders stay focused on the importance of people in the organization.

This section is based on the author's experiences working with several organizations as they initiated substantial change. Organizational energy can easily be spent on things like policies, procedures, services, and funding. However, organizations are comprised of people and it is just as important to spend agency energy and resources developing relationships. Identifying and committing to these principles communicates clearly the values with which the agency will accomplish its goals.

This section identifies five principles important to the development process for any social enterprise:

- creating engagement
- learning a networking
- valuing inside *and* outside expertise
- strategic planning
- respecting the journey.

Each agency must make adjustments to these to suit its own situations.

Creating Engagement

This principle is based on the notion that two (or more!) heads are better than one. There is a fundamental belief that the inclusion of people in a process will lead to more creative and innovative ideas or solutions because of the range of knowledge and experiences individuals bring.

For people to participate, there is a fundamental need for dialogue. Dialogue means there is opportunity for positive, interactive, open, and honest discussion. When dialogue is encouraged, leaders must be prepared to listen and respond. This does not necessarily mean that everyone is involved at every step. Nor does it mean that everyone will agree with all the directions or decisions made. Part of creating engagement is to help people understand new directions and why these are necessary by offering a formal opportunity for debate.

During these sessions, managers will be challenged by operational staff to ensure the new venture takes into consideration the current philosophy and mission, ongoing needs of current clients, staff, programs, and facilities. Even staff who embrace the new idea will ask questions about how the venture will fit and what impact it will have on what they do now. Managers must take this input seriously and reflect these concerns in both the content and timing of the plans for social enterprise.

A top-down approach of "management decides and everyone else must just get used to the idea" will cause future resistance and conflict that may compromise the success of the entire venture down the road.

Participation can be accomplished through formal communication systems such as individual staff supervision, and team, management, and general staff meetings. It also often happens through committee work. When developing committees to accomplish work or as a means of communication, it is important to develop clear terms of reference. Committees will be used throughout the development steps of social enterprise.

When developing terms of reference consider the following:

- **Name of committee**
- **Type:** task force (ad hoc), standing, sub-committee of board or staff and identify who the committee reports to (board or executive director)
- **Decision authority:** clarify if the committee is identifying options, or recommendations for decisions, or making the decision
- **Purpose:** a short, general statement
- **Members:** participants on the committee, include chair and secretary
- **Frequency of meetings:** dates and times
- **Decision-making process at meetings** (general consensus or voting)
- **Outcomes, goals, objectives**
- **Action plan:** identifying who is doing what by when
- **Resources:** available or needed to be able to accomplish the work
- **Budget:** money needed to be able to accomplish the work
- **Final report:** written and due date
- **Anticipated termination date** of committee.

A working template can be found in Section 7.

Learning and Networking

The agency is breaking new ground as it creates a social enterprise. Much information is available on how to go about this. However, there is no magic formula. Reading, research, networking, and attending workshops and conferences are all necessary activities for those leading venture development.

Creativity and improvisation are important. Information gathered in the form of books, research reports, and strategies used by other organizations must be adapted to fit the unique culture of each agency and its specific enterprise. There are two dangers. The first is that the agency might embark on an enterprise without adequate education and research. Knowledge provides opportunity for those involved to be creative and innovative.

The second danger is the agency would try to replicate what others have done. The learning experiences, successes, and failures of others are an opportunity for an agency to take different perspectives into consideration. Learn from networking and asking questions (lots of questions!) of those who have created ventures inside their nonprofit organizations. Most are more than willing to share their experiences, what they would do again, and what they would do differently. Taking the time to research and network means obvious mistakes and resulting frustrations can be avoided.

Valuing Inside *and* Outside Expertise

Organizations are full of multi-talented people. Board members (both past and present), volunteers, clients (and their families), and staff have many things to offer the development process. Some people have talents that we have not yet discovered. Some are waiting to be challenged to move outside their comfort zones and will embrace the opportunities for learning and growth presented by the new venture. Leaders must create ways for the

internal skills and interests of the organization's human resources to be identified, analyzed, and put to best use. Using and expanding the skills of people already inside the agency also helps support the goals of creating ownership of, and support for, the new venture at all levels in the organization. When internal talent is used, care must be taken to reallocate current workloads for staff that take on new duties. Staff burnout is a real risk of venture development if new activities are added to existing work. The resulting resentment undermines the support by staff for the venture and impacts negatively on the trust staff have for agency leaders. Care must also be taken when allocating staff and other resources of the organization if the agency has charitable status.

Even though managers and staff are multi-skilled, they rarely have all the expertise and time required to accomplish the development and implementation of a new social enterprise. Trying to "do it all" can lead to unnecessary delays and mistakes that take time and often money to correct. Assess the knowledge, skill and time resources within the agency realistically. For most agencies, outside expertise will be required periodically throughout the development and implementation process.

An agency may look to hire staff with a specific skill set that complements the expertise within the organization. A clear position description, objectives with timelines, and ongoing supervision will assist in keeping the momentum going. Some agencies reported hiring and retaining staff with knowledge in both business and nonprofit has been difficult.

Most often in the development stage, outside consultants are contracted. Care must be taken to select consultants who have real practical experience in the area where help is needed. For any consultant being considered, ensure you ask previous clients about their satisfaction with the consultant's work. Where possible, ask to see a copy of what the consultant produced.

Experts come with a cost attached. They should be used selectively to fill in the gaps in staff or volunteer skills or when other priorities require an extra set of hands to ensure venture development maintains momentum. Managers must also commit time to supporting and guiding the consultant's work. More than one project has gone astray because managers took a hands-off approach and assumed that "no news was good news" until it was too late.

Strategic Planning

A strategic plan is an essential tool to create clarity for all involved about the future directions. It also shows how the agency will work to realize its mission and mandate and how it will be accountable for the directions and decisions.

In this critical organizational document, an agency might first identify that social enterprise is something it wishes to explore. It will help to determine why the agency might be considering social enterprise as an option.

Two key elements are involved in this principle. The first element relates to the culture of the agency and the second is the planning process itself. Both of these are essential considerations for the agency to be able to make decisions today regarding services and resources for tomorrow.

The agency's culture must support proactive rather than reactive activities by people who work and volunteer in the agency. Discussion and thinking should be about the future and the potential opportunity rather than being solely focused on the day-to-day operations. It requires all people to know, understand, and implement the mission, vision, values, and mandate both in the present and in the future.

The plan is usually developed in conjunction with some background material. This sometimes includes environmental scanning and a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis.

The environmental scan provides information concerning external trends that may have a future impact on the agency in providing services and programs. It might include trends at national, regional, and municipal levels. It may include statistics and projections of changes in areas such as:

- demographics
- economy (labour and business)
- political policy
- nonprofit sector
- funding trends
- local and/or sister nonprofit organizational structures and cultures
- program/service trends.

The SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis provides a mechanism for the agency to look at the internal impacts from both the external trends (environment scan) and assessing the agency's internal capabilities. The steps of the SWOT are to write:

- the agency's strengths (what it does well and its major assets)
- weaknesses (what it does not do well and could do better).

Then, based on the strengths, weaknesses, and an environmental scan, identify:

- the potential threats (what changes can potentially have a negative impact)
- possible opportunities (what potential is there for the agency given the strengths and trends to progress the mission and mandate) for the organization.

This analysis is helpful to have when an agency is deciding on the directions outlined in a strategic plan.

Typically, environmental scans and SWOT analyses are not completed every year. However, these are extremely helpful when an agency is about to go through substantial change.

The strategic plan identifies the general directions of the agency over the next three to five years. It also includes very specific objectives and action plans on a year-to-year basis. The plan translates the areas of strength it wants to maintain and the areas of improvement for each major area of the organization. Depending on the agency, strategic plans are updated annually or biannually. Specific goals and objectives are developed and evaluated annually. Accomplishments, goals still in progress, and goals deleted or changed, are identified during regular updates.

Generally, a strategic plan includes:

- Agency description
- History
- Mission, vision, values, and mandate and/or end statements
- Three- to five-year future directions and specific year goals and objectives in the categories of
  - Services/programs
  - Human resources
  - Financial
  - Facility
  - Administration systems including technology and information management
  - Communications/marketing/public relations
  - Growth
- Conclusion, include schedule of review and updates
- Appendix
  - Environmental scan
  - SWOT Analysis
  - Other (i.e. program specific goals and objectives)

A key concept in the strategic planning principle is that the agency already shows its commitment and strength in assessing the agency, identifying directions, planning and implementing them. This is crucial for an agency to minimize the risks associated with social enterprise and may provide a greater chance of success.

Respecting the Journey

This principle says that there are no "real" finishing points. There will always be an ongoing process of change so it is important to enjoy work in the present. In this context, there is a need for those involved with the enterprise to balance work with their personal lives. The journey should not burn people out. It is just as healthy to enjoy the flowers as it is to succeed in getting to the top of the mountain.

Flexibility is another key principle in the change process. It acknowledges that although the steps may be well thought out, the plan can change relatively quickly depending on many external and internal factors. It is critical that a plan includes detailed steps and timeframes, but they too will probably change. An agency must have the system and wisdom to know when to adapt to its ever-changing circumstances. If there has been no movement towards the direction desired, it is usually due to some limitations. It is important for the agency to assess the progress and determine if the direction is still desired. If so, what other resources are needed to get the momentum going again and maintain it?

One final aspect to journey is a belief in the value of intuition. Intuition is a knowing or feeling (usually immediate without too much analysis). Typically, it is based on individual experiences. Intuition is very important to listen to and it is just as important to listen to others when they are intuitive. This does not mean that critical decisions should be made without proper analysis. Often intuition provides something very worthwhile looking into.

I believe in intuition and inspiration. At times I feel certain that I am right while not knowing the reason. Imagination is more important than knowledge. For knowledge is limited, whereas imagination embraces the entire world, stimulating progress, giving birth to evolution.

—Albert Einstein[2]

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[2] Rolfe Larson, *Venture Forth* (St. Paul, MN: Amherst H. Wilder Foundation), p. 18.

Section 4:
The Basic Practicalities

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The Basic Practicalities

The purpose of this section is to provide information that will be necessary at various points during the stages and steps of social enterprise development.

Models of Social Enterprise

As mentioned in an earlier section, there are basically three models of social enterprise described in the literature. It is critical that an agency determine the type of model as this will be instrumental in determining potential structures of the venture in conjunction with the structure of the agency. It will also help to determine the main outcome the agency wants the social enterprise to accomplish.

The Business Model
(profit-based only)

Under this model, any type of venture is acceptable within a nonprofit organization as long as the agency meets the statutory requirements of provincial and federal bodies. For example, unrelated businesses (not allowed by CRA for nonprofit organizations wishing to maintain their charitable status) may be established by creating a separate legally incorporated entity. The primary objective is for the venture to make money. It is assumed that the net revenue will be directed to assist the organization in realizing its mission. For example:

- A women's support and counselling organization operates a property management company under a separate legal entity.
- An agency providing residential and vocational support to people with disabilities purchases and runs a coffee kiosk in a mall.
- An agency providing vocational and residential services to people with disabilities operates a dry cleaning drop-off and pick-up business.

The Social Service Model
(need-based only)

Under this model, a venture is directly linked to fulfilling the organization's mission, vision, and/or mandate. These ventures are offshoots of or are integrated into the agency's services or programs. The venture's primary objective is typically directly linked to the target population the agency serves. The venture may or may not actually return net revenue to the organization. Often, an organization will identify that if the venture is not making revenue for the agency, it is still providing a "needed" and "valued" service to the clientele and, therefore, worth the financial subsidization required by the agency to have the venture continue. For example:

- An organization serving people with disabilities offers facility-based wellness support for both general community members and for its client group of disabled citizens

- An organization providing support to people dealing with mental health issues operates a catering company hiring clients as employees
- An organization providing supports to youth in the inner city offers contract services to the municipal government.

The Hybrid Model (double bottom line—profit and social benefit)

Under this model, a venture is linked to and helps fulfill the organization's mission, vision, and/or mandate while *also* generating net revenue. The venture may not necessarily be directly linked to meeting the needs of the agency's target client group but is related to the mission. The net gain in revenue obtained from the financial success of the social enterprise is directed to support other organizational activities within the mission. For example:

- An agency providing support to immigrants also provides language-interpreting services to businesses, other agencies, or the public.
- An agency providing support to people in crisis offers critical debriefing counselling, and workshops to the general public.
- An agency providing supports to people with disabilities offers in-home care services to the general public.

Profit Versus Nonprofit Framework

Much has been written about the differences and similarities of nonprofit and for-profit businesses. For some people, social enterprise within the nonprofit sector requires a change in thinking and in language.

Demand Versus Need

This concept refers to the basic differences between an organization that concentrates on making a profit compared to an organization providing a community good. Nonprofits focus on meeting the *needs* of the community by

developing and providing services. The agency spends time looking for gaps in services or determining where people are falling through cracks. In contrast, the for-profit looks for products/services that will fill a *demand*. A for-profit will spend energy on ensuring there is sufficient demand to warrant the development of a product or service. An agency that sees a need and thinks that an entrepreneurial product or service may fill this need, must also consider whether there are people who will buy (pay for) this product or service. In other words, the nonprofit must consider the question "Is there sufficient demand for what we will offer?"

This is an important concept for nonprofits considering social enterprise development. Just because a nonprofit offers a product or service doesn't mean that it is either demanded nor do people purchase products solely for the reason it is offered by the nonprofit. An organization must ensure its product/service is in demand and of quality to warrant purchase. The shift in thinking and language is especially important when completing the feasibility study and planning the marketing of the enterprise.

Mission Versus Economic Mission

Nonprofits may also struggle with the broadening of their focus from being exclusively on "human mission" to include intention to create "profit" for human and organizational benefit. More and more emphasis is being placed on organizations to show results in both human and economic terms.

Nonprofit institutions generally find it almost impossible to abandon anything. Everything they do is "the Lord's work" or "a good cause." But nonprofits have to distinguish between moral causes and economic causes. A moral cause is an absolute good. Preachers have been thundering against fornication for five thousand years. Results, alas, have been nil, but that only proves how deeply entrenched evil is. The absence of results indicates only that efforts have to be increased. This is the essence of a moral

cause. In an economic cause, one asks: Is this the best application of our scarce resources? There is so much work to be done. Let's put our resources where the results are. We cannot afford to be righteous and continue this project where we seem to be unable to achieve the results we've set for ourselves.

To believe that whatever we do is a moral cause, and should be pursued whether there are results or not, is a perennial temptation for nonprofit executives—and even more for their boards.

The nonprofits are human-change agents. And their results are therefore always a change in people—in their behavior. The nonprofit institution therefore needs to set specific (as opposed to open-ended) goals in terms of its services to people.[3]

This quote argues that clear specific goals help to show that an organization is spending its money wisely and effectively making a difference.

Purpose of Investment

Businesses consider money spent as an investment toward increased revenue and profits. In contrast, nonprofits regard money spent as necessary for providing services to meet needs. For a business, spending money is an investment for profit. For nonprofits, spending money is an investment in people. The challenge then, for nonprofits, is to be able to embrace this duality. Funded services remain people-focused and the social enterprise must be profit-focused with the understanding that profits are then directed back to both the enterprise for future profit and to the agency for social benefit.

Federal and Provincial Legislative Requirements

It is critical that an agency speak with specialized legal counsel regarding their provincial and federal legislative requirements and receive information regarding the implications and possible structures of the social enterprise it is considering.

Compliance with Canadian Revenue Association (CRA) regulations is extremely important for agencies that already have or hope to gain charitable status. Organizations with charitable status must operate within the legal requirements established by CRA. The related business requirements only apply if the social enterprise is operated within the charity. Nonprofits must also comply with their provincial legislation. The CRA website (www.ccra-adrc.gc.ca) is helpful for identifying the charitable legal requirements, interpretation of regulation, examples of related and unrelated business, as well as a decision-tree. Readers are advised to consult the site directly. As requirements change, this information will change accordingly.

Charitable Status and Related Business Requirements

Charitable status and related business requirement (CRA) states that:

Charities are not businesses. The key distinction is not so much one of corporate structure as the purpose of the entity concerned: a charity exists to confer a benefit or gift on the community, while the purpose of a business is to make a profit. Charities can and do charge fees for their charitable programs, but when their fees are high

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[3] Peter Drucker, *Managing for Performance* (New York: HarperCollins, 2002), pp.111-12.

enough that they exclude those in need of the service or provide a return above the break-even point, it raises the question of whether their purpose is indeed charitable. A key to identifying whether a training business or social business is a charitable program in its own right (as opposed to a potentially "related" business) is to determine whether its focus is on helping the clientele or on making a profit.

The question of related business (as opposed to charitable programs for which a fee is charged) arises in the context of allowable business activities for an organization seeking to raise funds for its charitable programs. The Income Tax Act *allows all charities except private foundations to carry on related businesses; by implication, it bars unrelated businesses.*[4]

CRA identifies related businesses as businesses run (90 per cent) by volunteers *or* businesses linked to a charity's purpose and subordinate to it. For the business to be considered linked, the *very nature* of the business is considered, not just the fact that the profits are applied to a charitable purpose. For linkage, the business must be:

- A usual and necessary concomitant of charitable programs; it must either supplement programs or improve quality of service.
- An offshoot of a charitable program; the charity may have an asset as a by-product of achieving its charitable purpose.
- A use of excess capacity; it must use assets and staff during periods when they are not being used to full capacity.
- The sale of items that promote the charity or its objects where sales promote or symbolize the charity or its objects. For subordinate status, the business must

be deemed subservient to the dominant purpose according to four criteria:

- o Relative to the charity's operations as a whole, the business activity receives a minor portion of the charity's attention and resources.
- o The business is integrated into the charity's operations, rather that acting as a self-contained unit.
- o The organization's charitable goals continue to dominate its decision-making.
- o The organization continues to operate for an exclusively charitable purpose by, among other things, permitting no element of private benefit to enter into its operations.

CRA does not consider soliciting donations or selling donated goods to be businesses within charities. Solicitations are not a commercial activity because donors do not expect any good or service in return for their contributions. Since the activity is not commercial, it is not considered to be a business. Selling donated goods is not considered to be a commercial activity because businesses do not depend on donations to create their inventories. Further, in selling off donated items, the charity does not assume the costs or level of risk usually associated with running a business. Rather, it merely seeks to convert a donated asset into cash.

Further, CRA identifies that business involves commercial activity with the intention to earn a profit. CRA considers four criteria when deciding if a charity is running a business:

- The intended course of action. If the rationale for operating a given activity is to generate a profit, then the activity is likely a business.
- The potential to show a profit. Even if an activity does not yield a profit, it may nonetheless be capable of earning a profit.

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[4] www.ccra-adrc.gc.ca.

In determining whether a particular activity is a business, it is the intention and capacity to make a profit at some point that are relevant. On the other hand, if the activity is structured so that it is incapable of returning a profit, then it is not a business.

- The existence of profits in past years. When the activity has been carried on for some time, a history of its returning a profit would generally imply that a business exists.

- The expertise and experience of the person or organization that undertakes the activity. If the person or organization undertaking the activity has been selected for the position because of his/her/its commercial knowledge, skill, or experience, it may indicate that the activity is commercial in nature and so may be a business.

Finally, CRA describes how charities with unrelated businesses will be treated:

- If an organization applying for registration is operating an unrelated business, its application will be denied. If a charity already registered is operating an unrelated business, it is in breach of the law and could have its registration revoked.

- However, before proceeding to revocation, a charity should normally be invited to wind-up the unrelated business or to place it in a separate taxable corporation. The charity would be expected to rectify the situation within a reasonable timeframe. If it does not do so, and there are no extenuating circumstances, its registration should be revoked.

- If the charity establishes a separate taxable corporation, it can invest in the corporation on the same basis that it can invest in any other for-profit business. The charity's directors/trustees would need to satisfy themselves that the investment represents a prudent use of the charity's assets. They also need to be alert to ensure no benefit of a private nature is conferred on the corporation.

- As long as its own governing documents and provincial legislation allow it to do so, the charity (if it is a charitable organization) can retain control over the taxable corporation through share holdings or a power to nominate the board of directors. However, *The Income Tax Act* does not allow a charity that is a foundation to acquire more than half of the voting shares of a taxable corporation, unless the shares are donated to the foundation.

The CRA-Related Business Decision Tree can be found in Section 7.

Summary Chart of CRA-Related Business

Related Business	Not Considered a Business	Assesses
Run by volunteers (90 per cent)	Soliciting donations • Including fundraising events	Intent to profit
And/or linked to charity purpose • Supplements/improves quality of service • Asset by product • Use of excess capacity • Sale of promotional items	Selling donated goods	Potential to profit
And subordinate to charity purpose • Relative to purpose • Integrated rather than self-contained unit • Charity's goal continue to dominate • Continues to operate exclusively for a "charitable" purpose	Fee for service • Defray cost of program with no intent to generate profit	History of profit
	Managing investment funds	Expertise and experience of person or organization undertaking the activity
	Occasional (i.e. one-time) business transactions	

GST Requirements

Nonprofit agencies that are already registered with CRA must both collect Goods and Services Tax (GST) for certain types of revenue and remit the net GST according to regulation. Operating a business under a nonprofit umbrella or with charitable status has further implications. This is a complicated area of legislation and regulation.

A website relating to GST may be found at (www.ccra-ardc.gc.ca). However, the information contained on the site is not particularly clear and cannot replace the advice of qualified professionals.

Therefore, it is strongly recommended that any organization undertaking a venture that results in revenue from taxable goods and services obtain advice from qualified tax accountants and tax lawyers specializing in the area of GST.

Structure Options

A number of significant issues arise when trying to determine the best structure an organization might use to establish a social enterprise. Two areas that will require close legal scrutiny are provincial incorporating legislation and the *Income Tax Act*. **It is critical that any organization developing social enterprise obtain specialized legal counsel to assist in minimizing potential liability risks regarding the development and structure of a social enterprise.** Two main legal requirements must be considered:

1. CRA-related business requirements. This requirement is for agencies that want to obtain, have, or wish to maintain their federal charitable status. Specific information regarding this area can be found in the previous section or on CRA's web site www.cra.ca.

2. The specific provincial legislation under which the organization is registered. Some provinces have a *Societies Act*; some

have a *Corporations Act*, while other provinces have both. Cooperatives also have legislation that must be followed. As legislation varies with each province, it is important for the agency to obtain appropriate legal counsel regarding social enterprise structure. For example, in Alberta an organization can be registered under the *Societies Act* or the *Companies Act*. Under the *Societies Act* in Alberta, an agency cannot carry on a trade or business. This basically means, whether the organization's purpose of the social enterprise is to make a profit or not, it legally cannot run a trade or business within its Society's structure. However, it could operate a social enterprise by establishing a subsidiary corporation.

The agency must be aware of the provincial and federal statutory requirements together with interpretations that are given to them. An organization needs to make clear decisions concerning the model and purpose of the social enterprise, obtain appropriate legal advice, and make a conscious decision regarding the structure within which the enterprise will operate. Be aware, some may take significant time and assistance to determine and establish accordingly.

Given these key considerations, there are only a limited number of ways in which organizations can address the structure question.

- Operate the social enterprise within the organization. This structure would typically have either the executive director or a manager/coordinator supervise the venture.
- Register a subsidiary corporation (nonprofit or for-profit) to the agency.
- Register a public charitable foundation (private foundations are not allowed to operate businesses) to operate the social enterprise, if it meets the CRA tests.

The Role of the Board of Directors

All organizations are different as are their boards of directors. However, there are a few key areas that all boards are responsible for. The 10 responsibilities of boards as identified in *Great Boards Plain and Simple: A Guidebook for Nonprofit Managers and Board Members*[5] are to:

- hire, guide, direct, and evaluate the executive director
- understand and practice good governance
- ensure the long-term financial health of the organization
- practice risk assessment and liability prevention
- ensure its own continuity
- ensure effective facilitation of board and committee meetings, focusing on important issues and tasks
- be ambassadors for the organization, enhancing its public image in the community
- ensure the programs and services are effective and efficient
- ensure policies are set, kept up-to-date and are effective
- ensure the organization has strategic direction which will further its mission and vision.

From this list, it is obvious that the board has a role in developing any social enterprise. Each board must determine its specific role depending on its structure and functions within the organization. The board may:

- be a leading force in the development of the social enterprise
- be an active participant during the different phases of development
- not be very actively involved.

As the organization's legal entity, the board is ultimately held accountable for all decisions and actions. Key board decisions include:

- deciding to investigate a social enterprise as part of the strategic plan or separately from the strategic planning process.
- following investigation, approving the development of a social enterprise. This is crucial at the beginning so that no work is done in vain. It also provides opportunity to establish the level of support and to clarify the specific roles of the board and executive director.
- approving and monitoring development and implementation based on:
    - o strategic directions
    - o public image
    - o risk assessment
    - o financial capacity
    - o responsible use of agency funds (i.e. not using donations received for specific purposes)
    - o a detailed social enterprise business plan.

The board may also want to review its recruitment practices. In his book, *Selling Social Change (Without Selling Out): Earned Income Strategies for Nonprofits,* Robinson states:

When recruiting board members, seek wisdom, passion, energy, good politics—and self-employed people who understand how business works and can bring useful relationships to the table. Don't automatically look for corporate officers; a small business owner or working artist may prove a better choice.[6]

At the same time, it is important to balance the skills and expertise necessary for the whole organization and especially in relation to the specific goals and objectives of the board itself.

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[5] Paula MacLean, *Great Boards Plain and Simple: A Guidebook for Nonprofit Managers and Board Members* (Edmonton: Silver Creek Press, 2003), pp. 314-320.

[6] Andy Robinson, *Selling Social Change (Without Selling Out): Earned Income Strategies for Nonprofits.* (San Francisco: Jossey-Bass, 2002), p. 34.

Advantages and Disadvantages of Social Enterprise

The following chart generally outlines cited advantages and disadvantages of organizations operating social ventures. These *may* or *may not* be true for each organization depending on the social enterprise along with internal and external factors.

Advantages	**Disadvantages**
• May bring in more revenue to the overall agency • The agency may become more self-sufficient • Financial diversification • Increases the agency's visibility • Expansion of contacts within community including donors • Develops skills and knowledge within the organization • Opportunity to be innovative in developing services/programs • Puts the agency on the same playing field as the other sectors giving more credibility and power to influence policy change • Will not have to always dance to the funders' tune.	• Lose focus or change mission and philosophy of the agency • Level of human resource expenditure • Level of financial start-up expenditures • Too much, not only an expert in running an organization, but now also need to be expert as an entrepreneur • Internal philosophical conflicts • Risk of financial loss if the venture is not successful • Risk of increased financial expenditure if the venture requires unanticipated subsidization • Board liability • It is a big structural change • It is a big cultural change (changes relationships with all stakeholders) • Just another phase, wait it out until the next flavour of the decade

Mission

There is often a fear that the agency will substantially change its philosophy of meeting community needs when involved with social enterprise. This is likely due to a change in thinking toward "profit-making" rather than meeting community needs. Another factor in changing mission is related to the resources spent within the organization around the social enterprise. Often a significant time commitment is required of the executive director during planning and start-up. This results in less time being focused on the agency's administration, services, and day-to-day operations.

These concerns are tempered by a belief that there is a direct benefit to both the clients served and the agency when a social enterprise is developed. A social enterprise may be designed so that it directly benefits the target population of the agency's mission by offering supports, training, and positions to people who may access agency services.

Financial

There are concerns that an agency undertaking a venture will be risking funds and ultimately jeopardizing the organization's financial stability. The board of directors and the executive director must be prudent with any investments available to fund social enterprise. Depending on the start-up costs, money must be sought for the purpose of development and implementation. During the development phase, the agency *must* address issues of financial concern and minimize potential financial risks associated with running a business.

Some funders are increasingly supportive of organizations taking initiatives to diversify their revenue sources. These funders are also beginning to provide expertise and financial support. Partnerships with businesses may also yield financial support required to

develop, start, and run an enterprise. In these circumstances, it is important to recognize the potential impact on how the organization will be perceived by the community. Developing clear policies to minimize any potential conflict of interest issues may help address this concern.

The agency may not bring in net revenue to benefit the overall financial condition. Assuming the agency is developing a hybrid model with goals of accomplishing both financial and social returns, the phases of development include specific tasks to determine feasibility before implementing. Commitment to planning and prudence in decision-making are critical for minimizing board liability and financial loss.

It is important to note that no one suggests that social enterprise is a "money bag" for agencies. It is not a short-term solution to revenue problems. An agency should be stable prior to undertaking such a venture. It can be quite difficult to determine financial success as many agencies have identified the difficulty in appropriately tracking all revenues and costs. When an agency is running a "social purpose" enterprise, the "real" costs may get lost in the overall agency designation of programs/services versus administration fees. This is one area that clearly requires improvement. Of the nine agencies interviewed for this project, 44 per cent appeared to be making a profit, 33 per cent were not yet making a profit, and profitability was undetermined for 22 per cent. Another study by Community Wealth Ventures indicated that 69 per cent of the 72 agencies (representing 105 ventures) break even (27 per cent) and or are profitable (42 per cent), 13 per cent were not making a profit, while 17 per cent did not know. Of the 42 per cent making a profit, only 13 percent generated more than $50,000 while 29 per cent of the ventures earned a profit of less than $50,000.[7]

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[7] *Powering Social Change: Lessons on Community Wealth Generation for Nonprofit Sustainability* (Washington, DC: Community Wealth Ventures, 2003), p. 58.

Organizations identify that the ventures diversify their revenue base and enhance sustainability. The agency is more autonomous and is less likely to be controlled by major funders. Greater financial independence increases an agency's freedom to set its own directions and influence funders' policies and have less fear of withdrawal of program funding.

Human Resources

Agencies must seriously consider dedicating human resources to the development of the enterprise. Do not redistribute responsibilities of those involved in the enterprise in such a way that other staff then have excessive workloads. It is also important that the staff have either the knowledge and experience or the passion to learn about business and the role of business in the nonprofit sector. Agencies involved with social enterprises indicate that staff involved in the development of social enterprise has helped in providing opportunities to gain knowledge and have become more creative.

There has also been a concern that social enterprise may lead to internal staffing conflicts. These problems center around philosophy and potentially on compensation differences. Again, one of the key success factors for agencies undertaking development has been to engage in discussions with all people in the organization.

Culture and Focus

A common concern of agency leaders relates to an expectation that, not only does the agency have to deliver quality services in an increasingly complex environment; it is now also expected to become entrepreneurial. The time required for leaders to plan, implement and manage social enterprise is seen by many as an unwelcome distraction from the primary focus of the agency to meet community needs.

An enterprise may therefore bump up against the traditional culture of service and meeting community need. The past is littered with examples of "quick fixes" that had only marginal benefit and eventually faded away. Some hope that social enterprise will be just another fad. However, social enterprise has been around for a long time in various forms. We are just beginning to discover more sophisticated and effective ways of developing successful ventures.

Stakeholders

There are often concerns identified that social enterprise will have a negative impact on a number of other stakeholders in the agency. There is a fear that donors may redirect their donation to an organization "in need." Feedback from agencies in the literature and studies indicate that donors feel the agency is innovative and credible, and they actually want to continue their support. It is also suggested that in the process of developing and running an enterprise that the agency expands its contacts in the community both to potential donors and to businesses. Greater awareness can result in increased donations, corporate partnerships, or more volunteer expertise.

Characteristics and Factors for Success

The most significant characteristics that appear to influence the success of a social enterprise follow.

Creative, Visionary, and Mission-Focused

This quality identifies that an agency is future-focused. Leadership is always looking for opportunities to try new and innovative ideas based on the premise that innovation will benefit people in the long run. The agency has the ability to look at issues and identify solutions "outside the box."

Passionate

Passion relates to the desire, motivation, intensity, and enthusiasm of the people within the organization to pursue the venture.

Decision-Making

This factor focuses on making decisions from today on for the future. Also important is the willingness to take calculated risks based on research, information, and analysis. There is acknowledgement of a need to balance moving too fast and not moving fast enough.

Flexible

This quality refers to the ability of an agency to change and adapt in order to accomplish desired tasks. Adaptability is critical when plans change because of situations that emerged or were not predicted and planned for.

Planning

This quality refers to the ability to organize, plan, implement, and evaluate. All of these are necessary when undertaking major changes or developing new initiatives. It also means the agency assesses its strengths and is fully aware of its limitations and ensures that these are addressed. The agency must commit to obtaining and integrating feedback to determine potential changes to the plan.

Active

The organization is committed to the goals that help achieve its mission and mandate. It is prepared to do the work and get to know the information and phases of development as well as implementing them.

In the article "The Meaning of Social Entrepreneurship," J. Gregory Dees states that social entrepreneurs play the role of change agent by:

- adopting a mission to create and sustain social value (not just private value)
- recognizing and relentlessly pursuing new opportunities to serve that mission
- engaging in a process of continuous innovation, adaptation, and learning
- acting boldly without being limited by resources currently in hand
- exhibiting a heightened sense of accountability to the constituencies served and for the outcomes created.[8]

These are some factors an agency may want to consider as it moves toward developing a social venture. Four key success factors include:

- The social enterprise has a *champion*. This means that there is at least one individual who will lead the way to this goal and keep the momentum going.
- The *organization is supportive* of the social enterprise development. This means that the agency has an atmosphere that encourages open discussion. If this doesn't happen, there may be internal conflict, which ironically must be resolved through further dialogue.
- *Leadership ensures both business and social mission skills*. This is the hardest to balance. Typically, staff will have skills in either one or the other. Recruiting for both skills increases the likelihood that there will be success in obtaining the double bottom line (financial profit and social benefit). If it is necessary, a leader will obtain (hire) expertise where and when it is needed.
- The social enterprise is *complementary to the strengths and resources* of the organization. This requires the agency to know its competencies and be able to accurately describe its unique strengths. Evaluating if the enterprise idea is "really" a match to the organization is seen as helpful to ensure a smoother development and implementation.

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[8] J. Gregory Dees, et al. *Strategic Tools for Social Entrepreneaurs: Enhancing the Performance of Your Enterprising Nonprofit* (New York: John Wiley & Sons, Inc.), p. 5.

A number of the challenges identified from both interviews and the literature identify other factors organizations might want to aware of and consider:

- the planning process takes longer than anticipated
- finding funding to support the development process and start-up costs
- developing realistic financial projections
- balancing the allocation of staff with required skills to execute specific tasks and use of external expertise (e.g. hiring consultants, technical support in organization assessments, feasibility studies and social enterprise business plans)
- the ability to hire and keep staff with both business skills and clear understanding of organizational mission and vision
- financial tracking to be able to really determine if and when the social enterprise is returning a profit
- the ability to determine when to "close" an enterprise which is not meeting its financial targets or social returns
- the ability to determine and evaluate measurable social returns of an enterprise
- the availability or opportunity to network with other agencies involved in social enterprise and the time to reflect on and integrate what is being learned.

In *Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit*, J. Gregory Dees identifies 11 main risk factors in three general categories:

Organizational Risk Factors

- *Quality of management. A good manager can succeed with a bad enterprise, but a bad manager will kill a good enterprise. Does your team have the necessary skills?*

- *Quality of the workforce. Can your employees perform at market level? This issue is especially critical for social-purpose enterprises seeking to employ a given target population.*
- *Culture of the organization. Does your culture affirm entrepreneurial approaches?*
- *Strength of organizational infrastructure. Does your organization have the capacity to manage a dynamic, market-based venture?*

Enterprise Risk Factors

- *Basic enterprise concept. Is the strategy tested and reliable or new and uncertain? Does it have greater risk than other similar enterprises? What factors make it risky?*
- *Level of capitalization. How much money will you need to launch this venture? Can you secure it? Are you taking on "risky" capital, such as debt that you have to service?*
- *Prospects of long-term funding. What do you need to support the enterprise? Are those funds readily available? What cash flow is necessary to support start-up and expansion?*

External Environment Risk Factors

- *Changes in the marketplace. Consider potential shifts in the capital markets, public policies, charitable interests of donors, and tastes or routines of consumers.*
- *Changes in technology. Think about effects on internal operating technologies as well as the potential impact of technological advances on your industry.*
- *Stakeholder backlash. We've said it before and we'll say it again—you may meet opposition from those who believe that "Charity is charity and business is business!"*
- *Competitor reaction. It will happen, so be prepared. Know your market segment and*

its players, understand the competitive advantages of each, and engage in competition yourself based on integrity and consistency with your core values.''[9]

Social Benefits

In all cases, social enterprise is assumed to help an organization address its mission. The business model provides revenue to further enhance areas determined by the organization. The social model usually directly benefits the clientele of the organizations while the hybrid model provides a benefit related to the organization's mission and provides revenue.

The literature provides little help for agencies trying to formally evaluate their social enterprises. There is little emphasis on the social benefit aspect in the development phases of social enterprise or in the monitoring of progress. Agencies will describe, in general terms, how the enterprises benefit their organization and help meet their mission but do not clearly outline the specific outcomes and identify how, if, and when they are being achieved.

There is one main approach that has been developed in the United States to assist nonprofits in being able to determine economic and socio-economic value of agencies and their social enterprises. It is known as SROI (Social Return On Investment). It was first developed in 1996 by the Roberts Enterprise Development Fund (REDF) and continues to evolve. REDF acknowledges that this model is only one tool that may be helpful and that the measurements are only valuable when put into context with other data and qualitative information. "SROI reports are similar to stock reports for for-profit companies, including analysis and descriptions of the organizations and their efforts."[10] There are many documents/reports available on their web site (www.redf.org) describing the method and reporting on social enterprises that have been tracked over the past couple of years.

This model is complex and may be difficult to apply but definitely worth the read to determine if and how some or all the components may be integrated with your venture.

The United Way of America developed a tool that may also the helpful to agencies in determining the social benefit of their enterprise. The Logic Model of Outcome Measurement has agencies rationalize (statement of need, strategy, and goals) each program area and identify a variety of factors (inputs, outputs, activities, and outcomes), which are monitored through different means to determine success.

Both of these tools are trying to develop a model that will help organizations show how they effectively make a difference.

As there is no "real" standard in determining social benefit of a social enterprise, the best approach would be for the organization to develop, implement, and monitor the evaluation tool presently used in the agency. This way, the agency already has the expertise of its evaluation model and may not feel so overwhelmed in trying to learn yet another new method.

In furthering social enterprise, it will become more and more necessary for agencies to be able to identify how ventures make a difference in the lives of individuals, families, and communities. Clearly articulating and proving what the successes are will confirm and reassure that organizations are effectively and responsibly operating a viable agency.

Types of Social Enterprise

Social enterprises are considered different from regular businesses partly because they are often related to the mission of the organization. There have been numerous attempts to describe

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[9] J. Gregory Dees et al., *Strategic Tools for Social Entrepreneurs: Enhancing the Performance of Your Enterprising Nonprofit* (New York: John Wiley & Sons, Inc., 2001), pp. 208-209.

[10] www.communitiesbychoice.org/printime.cfm?ID=49&print=1.

the different types of social enterprise. The Enterprising Nonprofits Program (ENP)[11] recently released a report describing five main types of social enterprise:

- **Mission-related services/fee-for-service**
  Provides services that are related to the organization's program areas (i.e. professional training, consulting, translation services)

- **Mission-related products**
  Selling of products that directly contribute to the mission (e.g. *Canadian Geographic* magazine, communication aids for the deaf and hard of hearing)

- **Training business**
  The principal purpose is to provide transitional employment or short-term training and skills development on the job (e.g. café/restaurant, labour employment)

- **Social purpose business**
  Aim is to provide permanent, flexible employment, and/or income-generating opportunities to people who face barriers to employment in the market (e.g. bottle depot, woodworking production, street magazine, landscaping)

- **Other business**
  A business not linked to the agency's mission or mandate.

Types of Business of Business Classifications

The chart gives an organization a wealth of ideas about different types of businesses. It opens many more possibilities for an organization to consider and play with compared to the traditional categories of social enterprise. Be creative but ensure the enterprise meets the goals set forth by the agency.

The list of business categories is defined by North American Industry Classification System (NAICS). It is used by Industry Canada. It was designed to provide common definitions of the industrial structure of three countries (Canada, Mexico, and the United States). It also provides a common statistical framework to facilitate the analysis of the three economies (Statistics Canada 2004). Information is tracked by Statistics Canada on each business type that is information that may be helpful during the idea testing and feasibility phases of development. The current system, NAICS 2002, will be revised in 2007.

NAICS divides the economy into 20 sectors. Within each sector are sub-sectors at greater level of detail. The following tables show the 20 major sectors and *only* the first level of detail for each.

[11] Irene Gannitsos. *Enterprising Non-Profits Program: A Report on Non-Profits and their Social Enterprises 2000-2002.* (Vancouver: Enterprising Non-Profits Program, VanCity Community Foundation, 2003), p. 5.

The major sectors

11	Agriculture, Forestry, Fishing and Hunting		**54**	Professional, Scientific and Technical Services
21	Mining and Oil and Gas Extraction		**55**	Management of Companies and Enterprises
22	Utilities		**56**	Administrative and Support, Waste Management, and Remediation Services
23	Construction			
31-33	Manufacturing		**61**	Educational Services
41	Wholesale Trade		**62**	Health Care and Social Assistance
44-45	Retail Trade			
48-49	Transportation and Warehousing		**71**	Arts, Entertainment and Recreation
51	Information and Cultural Industries		**72**	Accommodation and Food Services
52	Finance and Insurance		**81**	Other Services (except Public Administration)
53	Real Estate and Rental and Leasing		**91**	Public Administration

Sectors with one level of detail

11	**Agriculture, Forestry, Fishing and Hunting**		**111**	Crop Production
			112	Animal Production
			113	Forestry and Logging
			114	Fishing, Hunting, and Trapping
			115	Support Activities for Agriculture and Forestry
21	**Mining and Oil and Gas Extraction**		**211**	Oil and Gas Extraction
			212	Mining (except Oil and Gas)
			213	Support Activities for Mining and Oil and Gas Extraction
22	**Utilities**		**221**	Utilities

23	Construction	236	Construction of Buildings
		237	Heavy and Civil Engineering Construction
		238	Specialty Trade Contractors
31-33	Manufacturing	311	Food Manufacturing
		312	Beverage and Tobacco Product Manufacturing
		313	Textile Mills
		314	Textile Product Mills
		315	Clothing Manufacturing
		316	Leather and Allied Product Manufacturing
		321	Wood Product Manufacturing
		322	Paper Manufacturing
		323	Printing and Related Support Activities
		324	Petroleum and Coal Products Manufacturing
		325	Chemical Manufacturing
		326	Plastics and Rubber Products Manufacturing
		327	Non-Metallic Mineral Product Manufacturing
		331	Primary Metal Manufacturing
		332	Fabricated Metal Product Manufacturing
		333	Machinery Manufacturing
		334	Computer and Electronic Product Manufacturing
		335	Electrical Equipment, Appliance and Component Manufacturing
		336	Transportation Equipment Manufacturing
		337	Furniture and Related Product Manufacturing
		339	Miscellaneous Manufacturing

41	**Wholesale Trade**	411	Farm Product Wholesaler-Distributors
		412	Petroleum Product Wholesaler-Distributors
		413	Food, Beverage, and Tobacco Wholesaler-Distributors
		414	Personal and Household Goods Wholesaler-Distributors
		415	Motor Vehicle and Parts Wholesaler-Distributors
		416	Building Material and Supplies Wholesaler-Distributors
		417	Machinery, Equipment, and Supplies Wholesaler-Distributors
		418	Miscellaneous Wholesaler-Distributors
		419	Wholesale Agents and Brokers
44-45	**Retail Trade**	441	Motor Vehicle and Parts Dealers
		442	Furniture and Home Furnishings Stores
		443	Electronics and Appliance Stores
		444	Building Material and Garden Equipment and Supplies Dealers
		445	Food and Beverage Stores
		446	Health and Personal Care Stores
		447	Gasoline Stations
		448	Clothing and Clothing Accessories Stores
		451	Sporting Goods, Hobby, Book, and Music Stores
		452	General Merchandise Stores
		453	Miscellaneous Store Retailers
		454	Non-Store Retailers

48-49	**Transportation and Warehousing**	**481**	Air Transportation
		482	Rail Transportation
		483	Water Transportation
		484	Truck Transportation
		485	Transit and Ground Passenger Transportation
		486	Pipeline Transportation
		487	Scenic and Sightseeing Transportation
		488	Support Activities for Transportation
		491	Postal Service
		492	Couriers and Messengers
		493	Warehousing and Storage
51	**Information and Cultural Industries**	**511**	Publishing Industries (except Internet)
		512	Motion Picture and Sound Recording Industries
		515	Broadcasting (except Internet)
		516	Internet Publishing and Broadcasting
		517	Telecommunications
		518	Internet Service Providers, Web Search Portals, and Data Processing Services
		519	Other Information Services
52	**Finance and Insurance**	**521**	MonetaryAuthorities-CentralBank
		522	Credit Intermediation and Related Activities
		523	Securities, Commodity Contracts, and Other Financial Investment and Related Activities
		524	Insurance Carriers and Related Activities
		526	Funds and Other Financial Vehicles

53	Real Estate and Rental and Leasing	531	Real Estate
		532	Rental and Leasing Services
		533	Lessors of Non-Financial Intangible Assets (Except Copyrighted Works)
54	Professional, Scientific, and Technical Services	541	Professional, Scientific, and Technical Services
55	Management of Companies and Enterprises	551	Management of Companies and Enterprises
56	Administrative and Support, Waste Management, and Remediation Services	561	Administrative and Support Services
		562	Waste Management and Remediation Services
61	Educational Services	611	Educational Services
62	Health Care and Social Assistance	621	Ambulatory Health Care Services
		622	Hospitals
		623	Nursing and Residential Care Facilities
		624	Social Assistance
71	Arts, Entertainment, and Recreation	711	Performing Arts, Spectator Sports, and Related Industries
		712	Heritage Institutions
		713	Amusement, Gambling, and Recreation Industries
72	Accommodation and Food Services	721	Accommodation Services
		722	Food Services and Drinking Places

81	**Other Services (except Public Administration)**	811	Repair and Maintenance
		812	Personal and Laundry Services
		813	Religious, Grant-Making, Civic, and Professional and Similar Organizations
		814	Private Households
91	**Public Administration**	911	Federal Government Public Administration
		912	Provincial and Territorial Public Administration
		913	Local, Municipal, and Regional Public Administration
		914	Aboriginal Public Administration
		919	International and Other Extra-Territorial Public Administration

Statistics Canada. 2004. *North American Industry Classification System (NAICS) 2002 – Canada*. Statistics Canada web site.[12]

Section 5:
The Phases of Development

Section 5:
The Phases of Development

Each organization is different and develops an enterprise for a variety of reasons. Six phases of social enterprise development provide a "recipe" that should be adapted to meet your organizational goals and preferences. Within each phase are critical ingredients that will help minimize risks. Ensure that your organization makes a conscious decision of the steps it will complete.

These six phases assume the development of a hybrid model, meaning there is both a social and financial benefit. These phases of development are still applicable to the agency deciding to develop any of the three models of social enterprise. It will require adaptations or deletions of some of the suggestions provided.

With each phase there will be a reminder to consider a number of factors related to the principles of process. It will include the following:

- Do we want to use a committee during this step, or at any point throughout this step? Who is involved and what is our system of communication?
- What information will be valuable to learn at this stage?
- Do we want to develop specific worksheets to help us move through this phase?
- Are there opportunities to network?
- Do we need help (expertise internally or externally) to accomplish this phase?

- Who is going to be responsible to motivate and monitor progress?
- Who is going to be responsible for making key decisions?

The six phases are:

- **Phase One: Are We Interested in Social Enterprise?** The general purpose of Phase One is to determine if a social enterprise is a match with your organization.
- **Phase Two: Are We Ready for Social Enterprise?** The general purpose of Phase Two is to identify the agency's strengths and areas needing development in order to develop a social enterprise.
- **Phase Three: Generating the Social Enterprise Idea.** The main purpose of this phase is to develop a social enterprise idea that is a good match with the agency's evaluation criteria.
- **Phase Four: Initial Testing of the Social Enterprise Idea.** During this phase, the agency will determine if an idea is worth spending the resources on completing a full feasibility study.
- **Phase Five: Feasibility Study.** During Phase Five, determine whether or not the social enterprise will likely be successful in terms of the agency's financial and social benefit goals given the resources and capacities of the agency. This phase is an indepth continuation of the initial testing phase and is quite detailed in analysis.

- **Phase Six: Social Enterprise Business Plan.** This final phase completes development and begins implementation of the social enterprise. The social enterprise business plan (SEBP) is a full detailed description and explanation of the venture. It will clearly identify who is going to do what, and by when.

Phase One: Are We Interested in Social Enterprise?

The general purpose of Phase One is to determine if a social enterprise is a match with your organization.

Upon completion of this phase, the agency will have:

- determined the level of interest/support for social enterprise
- decided if social enterprise is compatible with the agency mission, vision, values, mandate, and directions
- determined what further discussions are needed with stakeholders
- agreed on terminology
- determined the purpose, type, and principles to guide the development of the social enterprise.

Remember:

- Do we want to use a committee during this step, or at any point throughout this step? Who is involved and what is our system of communication?
- What information will be valuable to learn at this stage?
- Do we want to develop specific worksheets to help us move through this phase?
- Are there opportunities to network?
- Do we need help to accomplish this stage?
- Who is going to be responsible to motivate and monitor progress?
- Who is responsible for making key decisions?

Step 1—Dialogue

At this point, the only goal is to have an opportunity to informally dialogue with people and see if there is support. In some circumstances, the decision to explore the concept of social enterprise will have been identified as an objective from the agency's strategic planning document.

These discussions can be held with staff, participants/clients, the board of directors, community, and anyone else you think will provide a diverse perspective. Include a couple of organizations that run a social enterprise and some people who oppose social enterprise. It is a good idea to get the full spectrum of advantages and disadvantages.

During these discussions:

- Know your terminology. Identify key words needing definition.
- Listen to the issues, positive and negative, and try to hear "real" messages.
- Determine who might be supporters.
- Acknowledge that this is a long-term process and not a short-term solution to some other issue.
- Have a copy of the agency's mission, vision, values, mandate, and/or key strategic directions to provide as appropriate.
- Determine key questions to engage the conversation
  - o What do you know about social enterprise? (Ensure consistent understanding of terminology.)
  - o Do you think it fits with our agency philosophically? Why or why not?
  - o What do you think the benefits and/or risks are in running a social enterprise?
  - o Do you know of anyone else who might provide you with some valuable perspective or information?

At this point, you will have a better idea of the interest and support available to you in developing social enterprise within the organization.

Step 2—Compatibility with agency mission, vision, values, and mandate

During Step 2 the agency will determine why social enterprise fits or does not fit with the agency. If it is compatible, what would be its purpose? This is not a quick step. Give people the chance to read about, explore, and dialogue. It will take longer than expected. Be patient! This is a key step to ensure there is the support and momentum for continuing. There is no point in going forward if it will result in on overturned decision by the board or if it will cause internal staff conflicts. Decide what is in the best interest of the organization in relation to its philosophy, mission, and mandate.

Identify what information would be valuable for leading indepth discussions. (e.g. broad philosophical questions, principles of process, models of social enterprise, advantages and disadvantages, CRA requirements).

Determine how (individual interviews, focus groups and/or regular scheduled meetings) this information will be discussed and with whom:

- board
- staff
- volunteers
- clients/program participants
- funders
- donors
- sister organizations
- community leaders.

Develop questions for each target group. Some examples include:

- Why would we want to pursue a social enterprise?
- Is someone or some group putting pressure on us as an agency?
- Are we trying to solve an issue or problem?
- Given our mission, how does social enterprise fit? As an agency and as a member of the nonprofit sector? Do we need to develop any specific parameter policies to ensure consistency with the mission? What might they be?
- What might the specific advantages and potential disadvantages for our organization be?
- Which model of social enterprise do we think fits best (e.g. business, social, hybrid)?
- Is this a direction worth pursuing?
- Who is interested in actively participating/assisting if the agency continues to pursue this direction?
- Do you know anyone else who might be helpful in gathering information and/or might be supportive in the future?

Manage meeting carefully by:

- determining the logistics, including:
  - o facilitator or chair of meeting
  - o location
  - o room layout
  - o time and length
  - o materials needed (i.e. handouts, overhead, flip-chart, markers).
- establishing the agenda
  - o introduction: including purpose, terminology, and information available to those interested
  - o names of participants: for statistical information and for sending notes of appreciation for participating
- concluding the meeting by letting everyone know that this is only a preliminary discussion to help the agency determine if it should continue to pursue this as a direction. Inform participants when and how they will be communicated with regarding the outcome of these meetings.
- sending out appreciation notes and an information package to those who participated in the session.

Consolidate feedback into a report. Identify common themes in the areas of:

- Compatibility with the agency mission, vision, values, mandate, and directions
- Supportive stakeholders and identified benefits
- Apprehensions or concerns expressed. Identify if it is a general concern or related to a specific stakeholder group.
- If there is considerable energy against the development,
  o Identify if these can be addressed in order to continue the pursuit of social enterprise development.
  o Identify if social enterprise should or could be explored in the future and when that might be.
  o Identify the reasons why it should not be pursued.
- If there is general agreement to continue:
  o Identify the purpose and model of social enterprise (business, social, hybrid) that would best suit the agency's circumstances at this time.
  o Identify the process principles the agency would want to incorporate throughout the development process.

A working template can be found in Section 7.

Step 3—Make a decision to move to the next phase: Are We Ready for Social Enterprise Development.

Phase Two: Are We Ready for Social Enterprise Development?

The general purpose of Phase Two is to identify the agency's strengths and areas needing development in order to develop a social enterprise.

Upon completion of this step, the agency will have:
- described the attributes and strengths for successful social enterprise development
- described what areas might need improvement and how they will be

addressed prior to the implementation of the social enterprise business plan
- described the expertise the agency has and what outside help is needed during the different phases of development.

Remember:
- Do we want to use a committee during this step, or at any point throughout this step? Who is involved and what is our system of communication?
- What information will be valuable to learn at this stage?
- Do we want to develop specific worksheets to help us move through this phase?
- Are there opportunities to network?
- Do we need help to accomplish this stage?
- Who is going to be responsible to motivate and monitor progress?
- Who is responsible for making key decisions?

Step 1—Determining the Qualities and Competencies for Social Enterprise

Complete the following questionnaire, making adjustments to questions as required to fit your type of venture.

Evaluating the Qualities and Competencies for Social Enterprise

1. Is the agency focused on mission? Identify examples how the agency focuses on addressing the mission.

2. Does the agency positively embrace its work? Provide examples.

3. Over the past three years, has the agency developed a strategic plan? How well was it implemented? Were the goals accomplished and within what timeframe?

4. Does the agency have an evaluation system established? What is it and how might it work with social enterprise?

5. Does the agency take time to reflect and learn from its experiences? How is this done? Give an example.

6. Has the agency made quick decisions with some level of risk? What were the results?

7. Has the agency been required to make changes from an established plan and what internal changes were necessary to be made in order to accommodate that change? Who was involved? What were the results?

8. Has there been a recent history of new developments? How well has the agency and staff coped with the growth?

Financial

9. Has the agency been financially stable over the past few years?

10. Does the agency have a good relationship with funders and bankers?

11. Does the agency have a line of credit that is appropriate for its budget?

12. Does the agency have a fund for cash flow fluctuations? Is it equivalent to 90 days operating costs?

13. Are the policies up to date? Which specific ones need to be revised?

14. Is the financial tracking system able to accommodate a social enterprise?

15. Does the financial department have expertise in the financial aspects (i.e. pricing, determining break-even analysis) of managing a social enterprise?

Human Resources

16. Does the agency have a low staff turnover and high staff satisfaction rate?

17. Are the majority of staff supportive of social enterprise development?

18. Does the organization have staff who could be designated to look for and obtain funding for the development of social enterprise?

19. Are the policies up to date? Which specific ones need to be revised?

20. Are there staff with knowledge and expertise with business development?

21. Is there one staff member prepared to take a lead role?

22. Does the agency have the resources and is it prepared to hire outside expertise?

Other

23. Is the board of directors aware and supportive? What will its role be?

24. What expertise and support might there be from other volunteers?

25. Are there mechanisms in place for good communication, including regularly scheduled supervisions, team, and management meetings?

26. What does the agency do well that is unique in relation to the structure, systems, and/or programs?

Social Enterprise

27. Is the agency clear on the desired outcome as a mix of financial and social benefit, as financial gain alone, or as primarily for social benefit?

28. Has the agency discussed the impact and risk (legislative and financial) inherent in new business development?

29. Is the agency clear that the resources spent on the enterprise are an investment in future profits?

30. Does the agency understand the difference between need and demand?

A working template can be found in Section 7.

Step 2—Are We Ready Final Report

Summarize the information gathered in Step 1 in a written report that includes the following:

1. Is the organization generally supportive of the idea to develop a social enterprise?

2. What are the agency's three to five greatest strengths?

3. What do we do or have that is unique to our association?

4. Are there any areas (general, financial, human resources, other) within the organization that need development prior to involvement with a social enterprise? If so, who will do what by when to address these areas?

5. Who will take the lead role (be the champion) in developing this new direction? What position responsibilities and structural changes would need to happen to allow this person the time needed to be involved with this development?

6. Identify what internal and external resources might be needed.

7. Does the agency need to spend more time on understanding any of the basic concepts of social enterprise? If so, which aspects need to be better understood?

8. Are we ready, willing and able to take on social enterprise development?

A working template can be found in Secion 7.

Step 3—Decide to move to the next phase: Generating the Social Enterprise Idea.

Phase Three: Generating the Social Enterprise Idea

The main purpose of this phase is to develop a social enterprise idea that is a good match with the agency's evaluation criteria.

Upon the completion of this phase, the agency will have:

- generated numerous social enterprise ideas
- determined base criteria for evaluating the ideas
- decided on one idea to take forward to Phase Four: Initial Testing.

Remember:

- Do we want to use a committee during this step or at any point throughout this step? Who is involved and what is our system of communication?
- What information will be valuable to learn at this stage?
- Do we want to develop specific worksheets to help us move through this phase?

- Are there opportunities to network?
- Do we need help to accomplish this stage?
- Who is going to be responsible to motivate and monitor progress?
- Who is responsible for making key decisions?

Step 1—Brainstorming the Social Enterprise Idea

There are actually two ways for an agency to develop ideas. An agency may decide to keep watch for, and be responsive to, community opportunities. Often, these opportunities arise from people within the agency being mindful of social enterprise as a direction. The agency will understand the trends within the community and sector and will be able to apply ideas to their organization as they arise. Ideas also arise from discussions at external meetings (e.g. with networks) or through staff, board, or volunteer connections.

An agency may also use brainstorming sessions with various stakeholders to develop numerous social enterprise ideas for consideration.

For brainstorming sessions:
Determine who and how many people will be involved and when they will come together. Consider representatives from any of the stakeholders. Be sure they have the knowledge and ability to actively participate in the discussion. Participants may include:

- board
- staff
- volunteers
- clients/program participants
- funders
- donors
- sister organizations
- community leaders
- supportive people with business expertise.

Determine who will facilitate the session and develop the agenda. Ensure all participants are aware of the purpose of the session and

provide a brief summary of the activities and developments to date.

When developing the agenda, to set the participants up for brainstorming, two tools might be helpful. A list of questions identified in *Selling Social Change (Without Selling Out): Earned Income Strategies for Nonprofits* might be helpful to engage or trigger ideas.

- **What do you do well?** Write three things about your organization— accomplishments, structure, the people involved, and so on—that you are most proud of.
- **What makes your group unique?** What do you have or what do you do that no one else has or does?
- **What assets do you have—products, services, expertise, intellectual property —which someone might want?** For ideas, look at your answers to the first two questions.
- **Given your mission and expertise, what additional goods and services could you develop?** (Another way of asking this question: How can you repackage what you already do and what you already know to serve more people or provide new benefits to the people you already serve?)
- **Who might want what you have to offer?** Who are you trying to reach? List all current and potential audiences, customers, clients, and so on.
- **How can you reach your prospective customers?** Brainstorm as many promotional strategies as you can.
- **Who are your potential partners?** Who can help you develop or market these goods and services?[13]

Also refer to "The Venture Brainstorming Pyramid" from *Venture Forth: The Essential Guide to Starting a Moneymaking Business in*

Your Nonprofit Organization that also can be helpful to the facilitator and group during the brainstorming session.

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[13] Andy Robinson. *Selling Social Change (Without Selling Out): Earned Income Srateies for Nonprofits* (San Francisco: Jossey-Bass, 2002), pp. 50-51.

This figure…underscores the point that the best venture ideas are those closest to the organization's existing customers—those at or near the bottom of the pyramid. The higher you go on the pyramid, the greater the risk and difficulty your venture will have in succeeding. While the spirit of brainstorming allows for all types of ideas, the job of the project leader is to make sure there are enough ideas from the base of the pyramid. [14]

❹
Find new customers and new products.
Start from scratch. Requires great marketing skill. Rarely successful for nonprofits. **Example:** Counselling agency opens a janitorial service

❸
Find new customer segments for existing products. Repackage existing content or services for new customers. **Example:** Goodwill Industries opens an online auction site.

❷
Develop new products for existing customer segments.
Develop new products or services for currrent customer segments. **Example:** Advocacy group sells training workshops.

❶
Expand sales/improve profits from existing customer segments.
Improve marketing and service resulting in more business with current customer segments; achieve efficiency gains so as to improve profits from sales to these customers. **Example:** Animal humane society earns additional fees by establishing adopt-a-pet day at the local shopping mall.

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[14] Rolfe Larson. *Venture Forth: The Essential Guide to Starting a Moneymaking Business in Your Nonprofit Organization* (St. Paul, MN: Amherst H. Wilder Foundation, 2002), pp. 45-46.

The Brainstorming Process
- Review the rules of brainstorming (see below).
- Write all ideas down on flipcharts so everyone can see (have flip-chart paper and markers available).
- Keep participants focused; avoid spending too much time on the details of one idea.
- Ensure everyone is invited to contribute.
- Establish a time limit. Remind people when there are only two minutes left.

Rules of Brainstorming
- No idea is a bad idea; suspend judgment.
- Be creative; write all ideas down even if they are totally outrageous and impractical.
- Quantity is better than quality; the ideas will be assessed later.
- Have fun.
- Build on ideas; try to add or build on the ideas others have put forward.
- Let everyone participate.

At the end of brainstorming, there will be many ideas for consideration. Have the group consolidate the list. Look for ideas that are repeated or very similar and can be grouped together. Remove those that are obviously "not in the running."

Discuss the consolidated list, make any minor adjustments to ensure clarity and then have the participants vote to determine the three to five best ideas. It may appear obvious to some people which ideas are most worthy of further consideration; however, determining and working the three to five best ideas through the matrix evaluation (see Step 2) will help confirm it and will also ensure ideas are not overlooked.

Step 2—Determining the Best Idea for the Next Phase

During this step, three to six key criteria are identified to complete a mini matrix evaluation of the top brainstormed ideas. The criteria will be different for each organization depending on the agency's mission and purpose/intent of the social enterprise.

Criteria that might be considered include; does the idea:
- Fit with the mission, vision, and values of the organization?
- Have the potential to provide a social return?
- Have the potential to generate revenue or break-even?
- Fit with the agency's strengths and capacities?
- Create a passion to develop the idea?
- Have someone to champion its development?
- Identify a potential customer base?
- Create a positive response when described to others?
- Have the potential for social and financial return that outweighs the costs of development and implementation?

Determine the criteria and evaluate using a matrix system illustrated below.

Social Enterprise Idea	Criteria #1	Criteria #2	Criteria #3	Criteria #4	Criteria #5	Criteria #6
#1						
#2						
#3						

Determine if one idea is recommended to move forward or if further information or process is required.

A working template can be found in Section 7.

Phase Four: Initial Testing of the Social Enterprise Idea

During this phase, the agency will determine if an idea is worth spending the resources on completing a full feasibility study.

Upon completion of this phase, the agency will have:

- acquired feedback from some stakeholders regarding the idea
- visited competitor businesses sites (if appropriate)
- checked statistical and general information regarding the social enterprise
- identified and chatted with potential customers
- compared the enterprise to the agency's core competencies.

Remember:

- Do we want to use a committee during this step, or at any point throughout this step? Who is involved and what is our system of communication?
- What information will be valuable to learn at this stage?
- Do we want to develop specific worksheets to help us move through this phase?
- Are there opportunities to network?
- Do we need help to accomplish this stage?
- Who is going to be responsible to motivate and monitor progress?
- Who is responsible for making key decisions?

Step 1—Determining the Contacts and Questions

In this step, you gather information and receive feedback from a variety of people regarding your social enterprise. First determine what general and statistical information about the enterprise might be useful. Identify a list of contacts that might be able to provide information and feedback regarding the enterprise idea. *At this stage you are only seeking information and opinions regarding the feasibility to determine if the agency wants to spend the resources on completing a full detailed feasibility study*. During the discussions the individuals might also give you some ideas of what information might be helpful and where it might be found. The agency may want to seek legal counsel prior to external discussions to minimize any negative impact on future copyright or patent aspect.

Consider the following groups as potential sources of useful information and advice:

- business/corporation contacts
- nonprofit corporate lawyer
- nonprofit agencies
- funders
- specific individuals.

Develop a list of any similar enterprises that could be visited. Identify if they could be interviewed or just complete an observational visit. Consider:

- Are they willing to be interviewed?
- Where are they located?
- What is the facility/layout like?
- Who are their customers?
- What is the atmosphere of the business?
- What is the product like?

Identify what key information, questions or observations you will want answers for. Use the Initial Testing Questionnaire found in the next step of this phase to help develop your questions. Complete the following chart.

Question developer: Summarize the responses from each area.

Target	Specifics	Information/ statistics needed, questions, or observations	Who will complete
Information • Statistics (success rate, number of competitors, etc.) • General information about the business	Web sites Books Magazines		
Supportive Contacts • Nonprofits • Business people • Funders • Individuals	Names and phone numbers		
Potential Customers	Names and phone numbers		

A working template can be found in Section 7.

Step 2—Complete the Initial Testing Questionnaire

Using the summary information from Step 1, along with the completion of the information from Phase 2 ("Evaluating the Qualities and Competencies for Social Enterprise" Questionnaire and the "Are We Ready for Social Enterprise? Report"), complete the "Initial Testing Worksheet Questionnaire." If you are having difficulty answering one of the questions, identify what information is still needed and determine how you will gather that information before deciding to complete a feasibility study.

"Initial Testing Worksheet Questionnaire"

1. Describe the Social Enterprise. As specifically as possible, identify the actual product or service.

2. Describe how this fits with your mission.

3. What are the possible or potential social benefits?

4. Does this enterprise meet provincial and legislative requirements specific to your organization. (e.g. if the agency has charitable status, does the enterprise fit with the CRA "related" business definition?). What does a nonprofit corporate lawyer advise regarding the legal structure of your organization?

5. What skills and or knowledge do you think are required to manage such a venture and how does it compare to the skill set of the organization?

6. What are the strengths of the agency in relation to the development and implementation of this specific social enterprise? What expertise is in the agency specific to this enterprise development and implementation?

7. Who will be your customers and how will they know you will offer the service/product? How much will they, or do they, typically pay?

8. Why do you think there is a demand versus a need for this product/service?

9. What do you think the start-up costs might be? Is this a small, medium, or large cost?

10. What are your best estimates for ongoing operating costs? What would be the required income needed or sales volume required to break even? How long do you think it will take before profit is generated?

11. What do you think are the limitations of the agency in implementing the venture?

12. What outside sources might be needed to support the agency in developing this social enterprise? What would each need to contribute (time, money, expertise)?

13. How do you think stakeholders will perceive the venture?
    o clients/participants
    o staff, paid, and unpaid including board members and program volunteers
    o funders
    o donors
    o community in general
    o business corporations, both those associated with the agency and potential business competition.

14. Do you think the estimated net gain in social benefit and reasonable financial projections outweigh the resource cost (time, effort, and money) involved in developing and implementing this social enterprise?

A working template can be found in Section 7.

Step 3—Decide to move to the next phase: Feasibility Study.

Phase Five: Feasibility Study

During Phase Five, you will determine whether or not the social enterprise will likely be successful in terms of the agency's financial and social benefit goals given its resources and capacities. *This phase is an indepth continuation of the initial testing phase and is quite detailed in analysis.*

Upon completion of this phase, the agency will have:

- gathered specific information to better describe the social enterprise idea
- gained feedback from a variety of sources identifying what and how they think about the venture
- determined if there is a demand for the product/service
- gained knowledge about the competition
- developed a clear understanding of the required financial resources and expectations
- developed a clear understanding of who the customers will be.

The agency must carefully assess its own capability and skills to complete a good comprehensive feasibility study using internal resources only. This is one of the areas organizations have difficulty in completing. Many did not do a comprehensive feasibility study. Completing this step may significantly reduce risks and increase success. At this stage, the agency is obviously serious in its intent to develop a social enterprise and it may require spending to "do it right."

An external expert could complete the feasibility study with help from agency staff. This helps maintain a balanced focus on mission and enterprise. It will also help in providing an unbiased view, especially when challenging "pet" projects. Still, hiring outside expertise does not guarantee a good product. In order to help ensure a good outcome, ensure that the external consultant:

- has knowledge of social enterprise
- has experience in facilitating feasibility studies
- produces a study in which the outcomes,

process, and reports include the agency's principles and objectives

- meets specific timelines for completion and a fixed budget to prevent cost over-runs during the study.

Remember:

- Do we want to use a committee during this step, or at any point throughout this step? Who is involved and what is our system of communication?
- What information will be valuable to learn at this stage?
- Do we want to develop specific worksheets to help us move through this phase?
- Are there opportunities to network?
- Do we need help to accomplish this stage?
- Who is going to be responsible to motivate and monitor progress?
- Who is responsible for making key decisions?

Step 1—Gathering information and feedback

Information

Based on the contacts made and information gathered in Phase Four, identify sources, networks, reading materials, and statistical information required for the next level of analysis. Read and learn as much as possible about the enterprise. Stretch your research to include information gathered more broadly (e.g. nationally and internationally). Information gained may lead to further questions for exploration.

Contacts

Decide how the feedback will be gathered and by whom. The process could include surveys, focus groups, or individual interviews. Methods of information gathering and specific questions will need to vary depending on the stakeholder group. Questions should focus on determining what is required for the venture to be successful.

Target groups include:

- potential customers
- potential business partners
- board members (past and present)
- staff
- clients/participants
- volunteers
- funders
- donors
- general community
- potential competition.

Complete a detailed workplan similar to the initial testing chart found in Phase Four. This step takes time to complete. When developing the questions, refer to the "Summary of Results" to help determine the information you might be seeking.

Summary of Results

At this stage, the following sections and questions should be answered in detail. Use the information gathered in previous phases as well as information from the feasibility study to complete.

- Proposed Name of the Social Enterprise
  - o Describe the social enterprise.
  - o What is its product?
  - o What will be the product or service development process? (start to finish)
  - o What will be the hours of operation?
- Mission
  - o Identify the mission of the organization
  - o Describe how the social enterprise fits with the mission.
  - o Will it contribute to meeting the mission and how?
- Structure
  - o Based on legal advice, describe how the social enterprise will fit within or outside of the agency.

- Competitors
  - What are the trends in the industry and identify any opportunities or threats. What is the price range (low/floor price—high/ceiling price)?
  - Identify the typical pricing calculation for this industry (i.e. 50 per cent mark-up in retail)
  - Identify specific competitors: names, locations, prices charged, quality of product, number of customers, rate of success, size of business, rate of growth.
- Customers
  - Who are they?
  - Where are they?
  - How are they associated with the agency?
  - Do they want this product and how do you know?
  - Why do they want this product?
  - Why would they want to buy it from us?
  - What is the best way for them to know what, when, and where the product is available?
  - How much are they willing to pay?
- Supporters
  - How do the agency stakeholders perceive this venture?
  - Is there support for the development of this enterprise?
  - Why and why not?
  - Are there businesses in the community that could help support the development (donate, volunteer, provide a deal) or ongoing requirements of the enterprise?
  - Are there any grants available from government, foundations, or businesses to help support any aspect of the development or ongoing requirements of the enterprise?

A working template can be found in Section 7.

Step 2—Money Matters

This step requires you to project the costs of starting and operating the enterprise. If you need outside expertise or additional information, it is recommended that you take the time to get it! Use your network. Complete the following:

1. Projected Financial Expenditures

Start – Up Costs

- staffing (wages)
- building (buy/mortgage or lease)
- renovation cost (capital and labour)
- utilities (heat, water, electricity)
- equipment (phone, computers, other technology, cash register, credit card, vehicles)
- marketing and advertising
- supplies (paper, pens, etc.)

Operating Costs

Fixed staffing costs: Identify the number staff and their hours, include costs associated with human resource policies, (e.g. replacement costs, holiday, sick time, and other benefits). Fixed staffing costs are positions that will receive pay whether or not a product is sold or not.

Administration fees: This is one of the key figures that sometimes make it debatable as to whether the enterprise is actually breaking even or not. Check this figure with realistic expectations of revenue.

- Typically calculated as a percentage based on the revenue/expenses of the whole organization
- Is sometimes adapted as appropriate to the actual ratio of time and number of staff involved in administering the enterprise
- It is sometimes waived until the enterprise shows progress.

Other fixed costs: Expenses that will occur even if you do not sell your product/service.

Variable costs: This will vary with different types of social enterprise. If the venture is to provide training workshops, variable costs will include facilitator fees, room and equipment rental, refreshments, etc. The number of workshops, the location, and other costs will vary during any given year. If a product is being produced, variable costs will change with the volume of items made.

2. Break-Even Analysis

This is the point where gross revenue from sales equals the costs (fixed and variable). Varying the price of the product or service will change the break-even point, as do changes to the input costs. Calculating various break-even points helps determine the price of the product/service. In *Social Entrepreneurship: The Art of Mission-Based Venture Development*, Brinckerhoff writes:

this technique helps you to decide how much you have to charge at various levels of sales, how much you have to sell at various prices in order to get a return equal to your expenses, or whether you will have to wait forever to have enough income to cover your expenses. The formula for breakeven is: Break-even volume = fixed cost / (price – variable cost per item).[15]

3. Pricing

Identify the price of the products/services and describe how it was calculated. If there is a range of prices (high or low), describe why this particular price is being suggested. Pricing is often difficult for nonprofits as there is a focus on break-even budgeting (zero-based budgeting). Agencies want to ensure services are accessible which means they typically undervalue "real" worth. To help determine price, consider:

- Cost (start-up, fixed, and variable). Calculate, when possible, cost per unit of product/service.
- Customers (willingness to pay what amount)
- Industry and competition range prices (low – high)
- Profit margin (use the profit calculation typical to the specific industry).

4. Performance Financials

This is the projected financial performance for the social enterprise calculated monthly over a three-year period. It includes any increases of fixed and variable costs that can be estimated now. It should also identify changes of revenue due to pricing, expansion of products or services, or improvements in sales volume. It is important that these figures are challenged to reflect a "realistic" potential. They should be conservative but not overly so. Other than some tinkering that may occur in the Social Enterprise Business Plan, these are the financial figures that the agency will be comparing to for evidence of financial results.

5. Cash Flow Projection

This projection should be calculated by month over a three-year period. It will indicate to the agency the money needed to cover operating costs until the venture is self-sustaining. The overall agency's cash flow must also be considered in the analysis to determine if the organization has the capacity to sustain the cash requirements of the new venture. It is very important for the executive director and the board to ensure prudent fiscal decisions are being made about the use of any agency funds. If unsure, get legal advice. As already noted, additional support in the form of grants, loans, or funds from partners will probably be necessary in the early stages of any venture.

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[15] Peter C. Brinckerhoff. *Social Entrepreneurship: The Art of Mission-Based Venture Development* (New York: John Wiley and Sons, Inc., 2000), p. 104.

6. Financial Risk Impact Statement

This is a summary identifying what the financial impact would be if the social enterprise does not meet the sales projection for a break even. Clearly identify the negative impact on cash flow and profit for 10, 20, 30, 40, 50 per cent shortfalls. Identify any general strategies that might be instituted to minimize these costs.

A working template can be found in Section 7.

Step 3—Decide whether to move to the next phase: Social Enterprise Business Plan

Phase Six: Social Enterprise Business Plan (SEBP)

This final phase completes development and begins implementation of the social enterprise. The Social Enterprise Business Plan (SEBP) is a full detailed description and explanation of the venture. It will clearly identify who is going to do what and by when.

Most information in the plan stems from the work completed in the previous phases. There are however, a number of areas still to be developed. Upon completion of the phase, the agency will have:

- described the social benefits (outputs and outcomes) and how they will be monitored
- developed a marketing plan
- identified what might go wrong and developed contingency plans
- established a termination policy
- established a clear action plan and evaluation timeframe
- written a detailed social enterprise business plan.

Many organizations consider the plan to be confidential. Ensure you make a decision regarding confidentiality and distribution.

The agency must carefully assess its own capacity to complete a good comprehensive SEBP using internal resources. Like the feasibility study, the business plan was also difficult for organizations to develop. As a result, all but one agency did not complete a comprehensive plan. Work put in at this point minimizes risks and surprises and decreases the time spent reconfiguring the business during and after implementation. Having an external expert complete some or all of the plan may also help agency staff maintain a balanced focus on mission and enterprise. Even with outside expertise, staff involvement in the development of the plan is essential. Timeframes established must be realistic and consider the flow of work within the agency.

This is a critical document. Of the agencies running social enterprises that were interviewed, all clearly recommended that agencies do their homework. To fully complete this plan, it will require rolling up the sleeves and working to put together a clear, concise, practical step–by–step guide for implementation and evaluation of the social enterprise.

Remember:

- Do we want to use a committee during this step, or at any point throughout this step? Who is involved and what is our system of communication?
- What information will be valuable to learn at this stage?
- Do we want to develop specific worksheets to help us move through this phase?
- Are there opportunities to network?
- Do we need help to accomplish this stage?
- Who is going to be responsible to motivate and monitor progress?
- Who is responsible for making key decisions?

Step 1—Complete a Social Enterprise Business Plan (SEBP)

The following outline provides a guide for the major sections that must be included in the Social Enterprise Business Plan. Additions or changes will be necessary to fit each agency's specific venture.

Social Enterprise Business Plan (SEBP) Outline

1. Executive Summary

   Description of agency
   o Description of social enterprise
   o Summary of each main category of the plan

2. Background/History
   o Purpose of the social enterprise
   o Structure in relationship to the agency
   o Relationship to the organization's mission
   o Relationship to the agency's core competencies
   o Steps taken to get to this point
   o People who have been involved so far

3. Demand
   o Who are the customers?
   o Where are they?
   o How many are there?
   o Why will they buy from us?
   o What makes us unique?
   o What are the backup statistics?
      - About customers
      - Identified trends indicating demand
      - Information on competitors (size, locations, success rates)

4. Physical Structure
   o What facility/office space is required?
   o Where it will be located and why?
   o Describe process of social enterprise from supply to demand.
   o List the hours of operation.
   o Identify any business or legal requirements associated with this enterprise.
   o Review staffing.
      - Manager: what skills and qualifications are needed
      - Ongoing staffing requirements, scheduling system

      - Role of volunteers
      - General position descriptions
   o Outline potential growth.

5. Financial
   o Financial Statements: along with the financial numbers, include notes to each of the appropriate categories and identify external and internal sources of revenue
      - start-up costs
      - operating expenditures (fixed and variable)
      - administrative fees.

   o Pricing: in this section describe how it was calculated based on what costs and industry profit (pricing) calculation. Chart a comparison between yours and the competitors. Identify the price range in the industry.
   o Break-even analysis
   o Budget projected revenue and expenditure per month annually for three years. Include notes identifying assumptions with the budget.
   o Project cash flow per month annually for three years. Include notes identifying assumptions with the budget.
   o Identify how the budget and cash flow relate to the overall organization and if it will have a negative or positive impact.
   o Summarize when the projection is at a break-even point and when the social enterprise will profit.
   o Identify the key priority areas for any annual profit. This might include:
      - one-third for future social enterprise needs/desires/growth
      - one-third agency contingency funds e.g. capital, repair, and maintenance, stabilization fund to maintain agency stability during a time of substantial financial changes

- one-third either the subsidization of present services or a fund for the development of future programs and services.
  - o Summarize: indicate that it is financially realistic and worth implementing.

6. Social Benefit
   - o Identify the social benefits from operating the social enterprise.
   - o Indicate the goals, the anticipated outputs, and outcomes.
   - o Identify how and when the social enterprise will track and monitor the benefits.

7. Marketing
   - o Who and how are we going to tell people (customers, stakeholders) when this is available?
   - o Will there be an official kick-off day?
   - o Are there other businesses/ organizations/individuals who are important to include for what and when?
   - o How can the media be used to promote a new initiative? Try to get free advertising through TV, radio, newspaper, and magazines.
   - o What ongoing promotion and advertising will be used?
   - o What marketing is identified within the budget and can be done within the budget?

8. Contingency
   - o Identify the most serious risks and how they might be addressed. What concerns keep you awake at night or might become your worst nightmare? These will include:
     - "Financial Risk Impact Statement." Identify how the agency might address sale shortfalls and at what point.

- Potential changes in other costs. (i.e. staffing, supply items, renovations)
- Staff recruitment and retention
- Social benefit.
  - o Clearly indicate what will you do with each of these nightmares should they arise.

9. Termination/Exit Strategy
   This is a difficult decision to make for anyone running a business, especially if there is passion and belief in the potential of the venture. For a nonprofit it can also create havoc because of the implications of the social benefits and agency profile.

   It is important that specific times are established to evaluate the work and progress. These will be identified in the next section of the SEBP.
   - o Identify key decision points based on impact and timeframes.
   - o Decide if there is an alternative strategy that can still accomplish what needs to get done. If not, decide on the best process to either stop or put on hold until it is appropriate to move forward. Be strategic in your thinking and manage communication clearly, stating a prepared message. Frame the experience as a learning opportunity, not a failure. Then learn the lesson and move on.

10. Timeline Summary
    - o Develop a critical path indicating when key decision points need to be made.
    - o Develop a detailed action plan. Who is going to do what under what categories by when?

Develop a detailed action plan:

When	Category	What (task)	Who

o Develop an evaluation timeline (e.g. monthly, bi-monthly).

o Identify an evaluation report format.
  - update work/tasks
    • Completed
    • In process with reason
    • Changed with reason
    • Not competed or deleted with reason
  - identify potential stumbling areas and what strategies might be required.
  - summarize general progress to date.
  - recommend changes accordingly (minor changes or if the implementation plan needs revision).

o Identify who will be consolidating the evaluation report.

o Identify who will be monitoring the report

A working template can be found in Section 7.

Step 2—Distribution and Feedback

After the draft plan is complete, the entire plan should be given to a small number of individuals for final feedback. These people should have been closely involved in the process from the outset (e.g. a board member, business partner, funder, or external consultant) but should not have been involved in writing the final plan. It may also be desirable to give specific sections of the plan to others who have a working knowledge of the project and expertise in a particular area. For example, the financial section could be given to the agency's auditor, banker, or other financial advisors for critique. The evaluation section could be given to a consultant who specializes in evaluations. Care should be taken to give each person instructions regarding the type of feedback that is needed. At this stage, feedback on the "idea" is no longer needed, but feedback on the details could be very helpful.

The completed plan should be distributed to the board of directors for final approval through a motion of the board. Although perhaps it doesn't feel necessary because the board has already approved and supported the venture throughout its development, this motion acts as final commitment and confirmation that the board is "on board." Members are aware of the risks and support through motion the implementation of the social enterprise.

Congratulations! Now the fun begins… implementation.

Section 6:
Words of Wisdom from the Field

Section 6:
Words of Wisdom from the Field

This section summarizes the information from nine interviews conducted with executive directors or senior managers of nonprofit agencies between October 2003 and February 2004. These interviews were designed to:

- speak with agencies that have experiences running social enterprise
- discuss leadership perspectives and identify information that could be helpful to other organizations considering social enterprise
- complement the information contained in literature and other written material.

Each person interviewed was invited to be as open and honest as possible when relating his or her experiences. A commitment was made that individual comments, information, and written materials provided would not be attributed to a person or organization to ensure confidentiality. The nine organizations selected:

- represented a range of sizes and differing types of social supports/services provided to different target populations
- were all involved with social enterprise (currently operating, developing, and/or expanding an enterprise)

Name of Agency	Name of Contact	City, Province
Cosmos	Diane Lehr, Executive Director	Red Deer, Alberta
Developmental Disabilities Resource Centre of Calgary (DDRC)	Patty Morris Executive Director	Calgary, Alberta
The Vocational and Rehabilitation Research Institute	Leslie Tamagi Executive Director	Calgary, Alberta
YM/YWCA Ottawa	Bill Whillans Executive Director	Ottawa, Ontario
Rideau Youth Services	Jan Sisteck, Executive Director	Ottawa, Ontario
Causeway Work Centre	Rhonda Beauregard Program Manager	Ottawa, Ontario
Crisis Intervention and Suicide Prevention Centre of British Columbia	Ian Ross Executive Director	Vancouver, British Columbia
Atira Women's Resource Society	Janice Abbott Executive Director	White Rock, British Columbia
Institute for Media, Policy, and Civil Society (IMPACS)	Catherine Ludgate Director, Communication Centre	Vancouver, British Columbia

- agreed to participate in a one-and-a-half hour face-to-face interview
- are located in three different provinces (Alberta, British Columbia, and Ontario).

It is important to note that results are based on perceptions of those interviewed and any written information provided. Some agencies provided a wealth of written material, while others provided only limited materials. One agency did not provide any written material. It is a snapshot at one point in time and circumstances and results with the same group would be different today. The nature of the project did not allow a comprehensive analysis or case study of any of the social enterprises.

Results

Nine agencies were interviewed. The types of agencies were:
- three agencies support people with developmental disabilities
- one supports marginalized youth
- one supports people dealing with mental health issues
- one operates a crisis/support line
- one provides community supports to women, men, and families
- one provides support and resources to women experiencing abuse by their partners
- one works nationally and internationally to strengthen democracy and civil society.

Eight agencies (88 per cent) identified that the enterprises were linked to the organization's mission. One agency's venture was not a "related" business as described by the Canadian Revenue Agency. This agency registered a for-profit corporation and is the shareholder of that corporation.

Four agencies (44 per cent) have social enterprise/s that are directly linked to providing supports, services, and/or employment to their target population. All nine agencies regarded

the ventures as an important part of the organizational fabric.

Reasons identified for operating social enterprise included:
- All three agencies providing supports to people with developmental disabilities indicated that a change of philosophy, causing a shift from operating sheltered workshops to community-based employment, was instrumental in developing social enterprises.
- It provides another way the agency is able to address the mission.
- It was a way to 'venture' an expertise already within the agency.
- It was an idea of the people accessing the agency services to develop.
- It provides opportunities for employment training and developing a healthier and more supportive environment.
- It is part of the agency's philosophy to minimize dependency on government grants.
- It is an opportunity to bring in revenue for the agency to use in advancing the mission.

Five agencies (55 per cent) operated more than one social enterprise.

The nine agencies operated a total of 19 enterprises. Including:
- two bottle depots
- two facility rentals
- two health and wellness/recreational facilities
- one specialty advertising
- one communication consultation
- three training workshop centres (including one research centre)
- three property management
- two catering businesses
- three contract business
  - o health services

- o employment contracts (steel recycling, cleaning)
- o baggage cart retrieval.

Three agencies (33 per cent) at the time of the interview identified that they were fully engaged in the development or expansion of a social enterprise. One was expanding its present business and two were developing new enterprises.

Five agencies (55 per cent) had operated other social enterprises that are now closed. Closures were due to a variety of reasons including: changes in applying the philosophy of the organization, changes in the demand for the product/service, changes in personnel, not the expertise of the agency to operate, and not meeting financial goals.

It appears from the interviews and from the financial information provided that four (44 per cent) are providing positive revenue for the organization annually. For two (22 per cent) agencies, it was not possible to establish if the ventures were breaking-even or making a profit (either through the interview or financials provided), three agencies (33 per cent) clearly stated they were not making a profit at this time.

Seven agencies (77 per cent) indicated that they are keeping good financial tracking records to determine break-even, losses, or net gains. Two acknowledged that they could definitely do better financial tracking.

All agency managers interviewed felt it was extremely important to keep clearly differentiated financial records for the social enterprise from any money received from governments, contracts, and/or donors.

Themes

Theme One: Enterprise Planning and Leadership

The boards of directors of the agencies were not directly involved in either the development or management of the social enterprise. The boards typically made the final approval of any social enterprise development or expansion. Participants indicated that some of their board members with area-specific expertise provided helpful advice to the organization at certain points (e.g. expediting the termination of a social enterprise that was no longer viable).

Executive directors were the key people involved in developing and managing the social enterprises. The number of hours they worked was enormous, and they felt that the agency had to have other talented staff to ensure a mission/service focus was maintained. None of the participants had formal business education or training. Expertise in social enterprise was gained on the job, and many reported a steep and stressful learning curve.

Only one agency went through a "formal step-by-step" planning process. Many accessed specialized help at various stages (marketing, business plan development, redevelopment, looking for new options) at different times. Almost everyone indicated that they would have done some things differently. All wish they had more time to reflect and learn.

Theme Two: Enterprise Closure

While some agencies closed enterprises because of a change in applying their philosophy, others indicated that the decision was extremely difficult due to the agency's values, especially when the enterprises were directly integrated with or linked to the target population. One indicated that they held onto the enterprise longer than they should have. No one indicated that they had set up a termination principle or policy prior to implementing the business

None of the agencies indicated that they do a formal evaluation of how the enterprise provides a social benefit. All indicated interest in developing a social return specific system.

Theme Three: Lessons Learned

Almost all the interview participants made five general comments:

- Be prepared for the time (at least three years) and resources it will take before breaking even or receiving net gains. The investment and return varies with the enterprise and the level of capital and start-up costs.
- The agency needs expertise in both business and social service.
- Not all agencies should undertake social enterprise. It should not be forced on any organization.
- Someone in the agency must have a passion for the social enterprise and be prepared to stick with it until fruition.
- Social enterprise will continue to develop and be an option for agencies

Participants also provided a list of things agencies definitely should do:

- Be realistic. It takes time to develop and implement.
- Join networks or association (e.g. Social Enterprise Alliance).
- Apply for government grants as appropriate (e.g. purchase of service contracts/ subsidization spaces).
- Allow debate and dialogue among staff and other stakeholders.
- Be a strategic "business thinker."
- Determine a termination (wind-down) policy.
- Take advantage of natural strengths and core competencies in conjunction with opportunities.
- Compare possible options with strengths, capacities, need, mission, and revenue potential.
- Access supports from educational institutions (e.g. MBA programs).
- Get competent advice from good advisors, both supportive ones and those who will challenge your thinking, perspective, and direction.

- Be transparent with plans, decisions, and activities.
- Ensure the internal staff, structures, and systems are stable as the executive director's time will be focused on the enterprise rather than ongoing operations.
- Do your homework.
  o Provide a quality business service/ product at a competitive price.
  o Know CRA requirements.
  o Complete a feasibility/market analysis.
  o Complete a business plan.
  o Determine the potential risks and have a plan to address them.
  o Know your competitors.
  o Do a financial analysis, ensure pricing covers all expenses and provides for a profit.
  o Prepare long-term projections for returns.
  o Ensure cash flow capacity.
  o Be realistic.

Theme Four: Benefits of Social Enterprise

Those interviewed provided a list of benefits to the organization and its stakeholders. These included:

- benefits to the agency clientele
- employment opportunities (to target and non-target groups)
- increased credibility with funders
- increased credibility with corporate donors and other donors
- allows agency to subsidize and/or provide services for which it would not have received funds
- increased or developed new business partnerships
- increased awareness of the agency by the general community
- increased autonomy through greater diversity of revenue streams.

Theme Five: Challenges, Issues, and Concerns

Participants also identified a substantial number of concerns and issues that go hand in hand with enterprise development. These included:

- level of time, commitment, resources required of both the agency and of the executive director
- increasing pressure to continue to develop, grow, and expand enterprises
- worry about CRA "related" business requirement and ensuring the agency is in compliance
- difficulty in asking for help when you do not know what to ask for
- maintaining clear roles and boundaries between "clients" and "employees"
- managing the impact on the culture of the organization (e.g. poor versus rich cousin, capitalist versus social justice)
- managing the result that the community only knows the agency's "business" not its services and programs
- responding to government funder suggestions that revenue gained from the social enterprise should be used to subsidize wages of staff sponsored by government contracts
- difficulties with competitors understanding that the social enterprise is not receiving special funding and therefore not at an advantage
- changing profile and perceptions of the agency by other community organizations.

Connected to these concerns, interviewed participants suggested definitely not to:

- Undertake social enterprises that require a lot of capital.
- Always look at a building for a business; consider softer services.
- Compromise values or mission.
- Apply for "pilot" projects as it takes away energy and causes disruptions when funding ends.

- Make overnight decisions; be strategic.
- Assume it will operate like any other business. It does have a social benefit component, and you may be eligible for specific grants.
- Assume you will be able to survive without any other funding for services or programs.
- Be too impatient; understand and know risks and do not terminate the venture too soon or, alternatively, be too patient and not terminate soon enough.
- Develop the enterprise in isolation; there is a wealth of information and supports available.

Section 7:
Summary of Worksheet/Outline Templates

Committee Terms of Reference

When developing a terms of reference consider the general categories:

1. **Name of committee**

2. **Type: task force (ad hoc), standing, sub-committee of board or staff and identify who the committee reports to (board or executive director)**

3. **Decision authority: clarify if the committee is identifying options, or recommendations for decisions, or making the decision**

Notes

4.   **Purpose: a short, general statement**

5.   **Members: participants on the committee, include chair and secretary**

6.   **Frequency of meetings: dates and times**

7.   **Decision-making process at meetings (general consensus or voting)**

8.   Outcomes, goals, objectives

9.   Action plan identifying who is doing what by when

10. Resources available or needed to be able to accomplish the work

11. **Budget: money needed to be able to accomplish the work**

12. **Final report: written and due date**

13. **Anticipated termination date of committee**

CRA-Related Business Decision Tree

Please refer to the CRA web site to ensure information is up to date. (http://www.cra-arc.gc.ca/tax/charities/policy/cps/cps-019-e.html)

For Identifying an Unrelated Business

1. **Is a particular activity a business carried on by the charity?**

   • Is the activity commercial in nature? That is, does the charity derive revenue in consideration for the provision of goods or services?

   • Does the charity intend to profit from the activity?

   Note:

   • A history of profits suggests an intention to profit. However, this intention may still be present even if there are currently no profits.

   • The mere presence of a fee charged to users of a charitable program does not confirm an intention to profit.

If *no,* to either question, the *activity is not a business*.
If yes to both questions, is the income-earning activity simply the sale of donated goods?

If *yes*: the income-earning *activity is not a business*.
If *no*, is the income-earning activity carried out on a systematic, regular basis?

If *no*, the income-earning *activity is not the carrying on of a business*.
If *yes*, the income-earning *activity is the carrying on of a business*.

2. Is the business of a charity an unrelated business? Are substantially all the people running the business volunteers?

If *yes*, the charity is *carrying on a related business*.
If *no*, are the business activities linked to the charity's purpose?

If *no*, the charity is *carrying on an unrelated business*.
If *yes,* are the business activities subordinate to a dominant charitable purpose?

If *no*, the charity is *carrying on an unrelated business*.
If *yes*, the charity is *carrying on a related business*.

Phase One: Are We Interested in Social Enterprise?—Final Report

Consolidate feedback into the following themes

Compatibility

Does it appear from the feedback that social enterprise fits with the agency's mission, vision, values, mandate, and directions?

Support

Were the people supportive of the idea and what did they identify as potential benefits?

Apprehensions or concerns

What were the concerns identified? Were these concerns related to a specific stakeholder group? (e.g. staff, funders). Can these concerns be addressed if the agency were to continue the pursuit of social enterprise development?

Recommendation

Identify if social enterprise should or could be explored in the future and when that might be.

> If no, identify why and if it can or should be explored as a possible direction for the agency in the future.
> If yes, identify if there is a model of social enterprise (business, social, hybrid) that would best suit the agency's circumstances at this time.

Identify the process principles the agency would want to incorporate throughout the development process.

Decision to continue in the development of Social Enterprise

Approved by: _____

Date _____

Phase Two: Are We Ready for Social Enterprise—Evaluating Qualities and Competencies

Notes

When completing the following questionnaire, be as specific as possible to help determine what work might need before developing the social enterprise where it may have a negative impact. Remember, this can be adapted to suit your organization's situation and goals. Add and delete questions as appropriate.

1. **Is the agency focused on mission? Identify examples of what or how the agency focuses on addressing the mission.**

2. **Does the agency positively embrace its work? Provide examples.**

3. **Over the past three years, has the agency developed a strategic plan? How well was it implemented? Were the goals accomplished and within what timeframe?**

4. **Does the agency have an evaluation system established? What is it and how might it work with social enterprise?**

5. **Does the agency take time to reflect and learn from its experiences? How is this done? Give an example.**

6. **Has the agency made quick decisions with some level of risk? What were the results?**

7. **Has the agency been required to make changes from an established plan and what internal changes were necessary to be made in order to accommodate that change? Who was involved? What were the results?**

8. **Has there been a recent history of new developments? How well have the agency and staff coped with the growth?**

Financial

9. **Has the agency been financially stable over the past few years?**

10. **Does the agency have a good relationship with funders and bankers?**

11. **Does the agency have a line of credit that is appropriate for its budget?**

12. **Does the agency have a fund for cash flow fluctuations? Is it equivalent to 90 days operating costs?**

13. **Are the policies up to date? Which specific ones need to be revised?**

14. **Is the financial tracking system able to accommodate a social enterprise?**

15. **Does the financial department have expertise in the financial aspects (i.e. pricing, determining break-even analysis) of managing a social enterprise?**

Human Resources

16. Does the agency have a low staff turnover and high staff satisfaction rate?

17. Are the majority of staff supportive of social enterprise development?

18. Does the organization have staff that could be designated to look for and obtain funding for the development of social enterprise?

19. Are the policies up to date? Which specific ones need to be revised?

20. **Are there staff with knowledge and expertise with business development?**

21. **Is there one staff member prepared to take a lead role?**

22. **Does the agency have the resources and is it prepared to hire outside expertise?**

Other

23. **Is the board of directors aware and supportive? What will its role be?**

24. What expertise and support might there be from other volunteers?

25. Are there mechanisms in place for good communication, including regularly scheduled supervisions, team and management meetings?

26. What does the agency do well that is unique in relation to the structure, systems, and/or programs?

Social Enterprise

27. Is the agency clear on the desired outcome as a mix of financial and social benefit, as financial gain alone or as primarily for social benefit?

28. Has the agency discussed the impact and risk (legislative and financial requirements) inherent in new business development?

29. Is the agency clear that the resources spent on the enterprise are an investment in future profits?

30. Does the agency understand the difference between need and demand?

Phase Two: Are We Ready for Social Enterprise—Final Report

Summarize the information gathered in Step 1 in a written report that includes the following:

1. **Is the organization generally supportive of the idea to develop a social enterprise?**

2. **What are the agency's three to five greatest strengths?**

3. **What do we do or have that is unique to our association?**

4. **Are there any areas (general, financial, human resources, other) within the organization that needs development prior to involvement with a social enterprise? If so, who will do what by when to address these areas?**

5. **Who will take the lead role (be the champion) in developing this new direction? What position responsibilities and structural changes would need to happen to allow this person the time needed to be involved with this development?**

6. **Identify what internal and external resources that might be needed.**

7. **Does the agency need to spend more time on understanding any of the basic concepts of social enterprise? If so, which aspects need to be better understood?**

8. **Are we ready, willing, and able to take on social enterprise development?**

Decision to continue in the development of Social Enterprise

Approved by: _____

Date _____

Phase 3: Matrix Evaluation of Social Enterprise Idea

Criteria that might be considered include, does the idea:

Notes

- Fit with the mission, vision, and values of the organization?

- Have the potential to provide a social return?

- Have the potential to generate revenue or break-even?

- Fit with the agency's strengths and capacities?

- Create a passion to develop the idea?

- Have someone to champion its development?

- Identify a potential customer base?

- Create a positive response when described to others?

- Have the potential for social and financial return that outweighs the costs of development and implementation?

Determine the criteria and evaluate using a matrix system illustrated on the next page.

Phase Three: Matrix Evaluation Grid

Social Enterprise Idea	Criteria #1	Criteria #2	Criteria #3	Criteria #4

Phase Four:
Initial Testing—Action Plan Chart

This is a general format that an organization might want to use
when determining the information it is seeking during this phase.

Target	Specifics	Information/ statistics needed, questions, or observations	Who will complete
Information • Statistics (success rate, number of competitors, etc.) • General information about the business	Web sites Books Magazines		
Supportive Contacts • Nonprofits • Business people • Funders • Individuals	Names and phone numbers		
Potential Customers	Names and phone numbers		
Similar Enterprise	Name and address		

Phase Four: Initial Testing—Final Report

Notes

1. Describe the social enterprise. Be as specific as possible; identify the actual product or service.

2. Describe how this fits with your mission.

3. What are the possible or potential social benefits?

4. Does this enterprise meet provincial and legislative requirements specific to your organization. (e.g. if the agency has charitable status does the enterprise fit with the CRA "related" business definition). What does a nonprofit corporate lawyer advise regarding the legal structure of your organization?

5. **What skills and or knowledge do you think is required to manage such a venture and how does it compare to the skill set of the organization?**

6. **What are the strengths of the agency in relation to the development and implementation of this specific social enterprise? What expertise is in the agency specific to this enterprise development and implementation?**

7. **Who will be your customers and how will they know you will offer the service/product? How much will they, or do they, typically pay?**

8. **Why do you think there is a demand versus a need for this product/service?**

9. **What do you think the start-up costs might be? Is this a small, medium, or large cost?**

Notes

10. **What are your best estimates for ongoing operating costs? What would be the required income needed or sales volume required to break even? How long do you think it will take before profit is generated?**

11. **What do you think are the limitations of the agency in implementing the venture?**

12. **What outside sources might be needed to support the agency in developing this social enterprise? What would each need to contribute (time, money, expertise)?**

13. How do you think stakeholders will perceive the venture?

- Clients/participants

- Staff, paid and unpaid, including board members and program volunteers

- Funders

- Donors

• Community in general

Notes

• Business corporations, both those associated with the agency and potential business competition.

14. Do you think the estimated net gain in social benefit and reasonable financial projections outweigh the resource cost (time, effort, and money) in developing and implementing this social enterprise?

Decision to continue in the development of Social Enterprise

Approved by: _____

Date _____

Phase Five: Feasibility Feedback —Summary Report

1. Proposed Name of the Social Enterprise

- Describe the social enterprise. What is its product?
- What will be the product or service development process (start to finish)?
- What will be the hours of operation?

2. Mission

- Identify the mission of the organization
- Describe how the social enterprise fits with the mission. Will it contribute to meeting the mission and how?

3. Structure

- Based on legal advice, describe how the social enterprise will fit within or outside of the agency.

4. Competitors

- What are the trends in the industry? Identify any opportunities or threats. What is the price range (low/floor price—high/ceiling price)?
- Identify the typical pricing calculation for this industry (i.e. 50 per cent mark-up in retail).
- Identify specific competitors—names, locations, prices charged, quality of product, number of customers, rate of success, size of business, rate of growth.

Notes

5. Customers

- Who are they? Where are they? How are they associated with the agency? Do they want this product and how do you know? Why do they want this product? Why would they want to buy it from us? What is the best way for them to know what, when, and where the product is available? How much are they willing to pay?

6. Supporters

Notes

- How do the agency stakeholders perceive this venture? Is there support for the development of this enterprise? Why and why not?
- Are there businesses in the community that could help support (donate, volunteer, provide a deal) the development or ongoing requirements of the enterprise?
- Are there any grants available from government, foundations, or businesses to help support any aspect of the development or ongoing requirements of the enterprise?

Phase Five: Feasibility—Money Matters

1. **Start-Up Costs**
   - Staffing (wages)
   - Building (buy/mortgage or lease)
   - Renovation cost (capital and labour)
   - Utilities (heat, water, electricity)
   - Equipment (phone, computers, other technology, cash register, credit card, vehicles)
   - Marketing and advertising
   - Supplies (paper, pens, etc.)

2. **Operating Costs**
   - Fixed staffing costs: Identify the number of staff and their hours, include costs associated with human resource policies, (e.g. replacement costs, holiday, sick time, and other benefits). Fixed staffing costs are positions that will receive pay whether a product is sold or not.
   - Administration fees: This is one of the key figures that sometimes make it debatable as to whether the enterprise is actually breaking even or not. Check this figure with realistic expectations of revenue. This is typically calculated as a percentage based on the revenue/expenses of the whole organization It is sometimes adapted as appropriate to the actual ratio of time and number of staff involved in administrating the enterprise. It also is sometimes waived until the enterprise shows progress.
   - Other fixed costs: Expenses that will occur even if you don't sell your product/service.
   - Variable costs: These will vary with different types of social enterprise. If the venture is to provide training workshops, variable costs will include facilitator fees, room and equipment rental, refreshments, etc. The number of workshops, the location, and other costs will vary during any given year. If a product is being produced, variable costs will change with the volume of items made.

3. **Break-Even Analysis**
   - This is the point where gross revenue from sales equals the costs (fixed and variable). Varying the price of the product or service will change the break-even point, as do changes to the input costs. Calculating various break-even points helps determine the price of the product/service. In *Social Entrepreneurship: The Art of Mission-Based*

Venture Development, Brinckerhoff writes that:

This technique helps you to decide how much you have to charge at various levels of sales, how much you have to sell at various prices in order to get a return equal to your expenses, or whether you will have to wait forever to have enough income to cover your expenses. The formula for breakeven is: Break-even volume = fixed cost / (price – variable cost per item).[16]

4. Pricing

- Identify the price of the products/services and describe how it was calculated. If there is a range of prices (high or low), describe why this particular price is being suggested. Pricing is often difficult for nonprofits as there is a focus on break-even budgeting (zero-based budgeting). Agencies want to ensure services are accessible which means they typically undervalue "real" worth. To help determine price, consider:
  - ○ Cost (start–up, fixed, and variable). Calculate, when possible, cost per unit of product/service.
  - ○ Customers (willingness to pay what amount)
  - ○ Industry and competition range prices (low–high)
  - ○ Profit margin (use the profit calculation typical to the specific industry).

5. Performance Financials

- This is the projected financial performance for the social enterprise calculated monthly over a three-year period. It includes any increases of fixed and variable costs that can be estimated now. It should also identify changes of revenue due to pricing, expansion of products or services, or improvements in sales volume. It is important that these figures are challenged to reflect a "realistic" potential. They should be conservative but not overly so. Other than some tinkering that may occur in the Social Enterprise Business Plan, these are the financial figures that the agency will be comparing to for evidence of financial results.

6. Cash flow Projection

- This projection should be calculated by month over a three-year period. It will indicate to the agency the money

Notes

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[16] Peter Brinckerhoff. *Social Entrepreneurship: The Art of Mission-Based Venture Development* (New York: Ohn Wiley & Sons, Inc., 2000), p.104.

needed to cover operating costs until the venture is self-sustaining. The overall agency's cash flow must also be considered in the analysis to determine if the organization has the capacity to sustain the cash requirements of the new venture. It is very important for the executive director and the board to ensure prudent fiscal decisions are being made concerning the use of any agency funds. If unsure, get legal advice. As already noted, additional support in the form of grants, loans, or funds from partners will probably be necessary in the early stages of any venture.

7. Financial Risk Impact Statement

- This is a summary identifying what the financial impact would be if the social enterprise does not meet the sales projection for a break even. Clearly identify the negative impact on cash flow and profit for 10, 20, 30, 40, or 50 per cent shortfalls.

Identify any general strategies that might be instituted to minimize these costs.

Decision to continue in the development of Social Enterprise

Approved by: _____

Date _____

Phase Six: Social Enterprise Business Plan (SEBP) Outline

This is an outline and will be adapted to meet the needs of your organization's requirements. Most of this work has already been completed; it is just putting it into a format.

Notes

1. **Executive Summary**
   - Description of agency
   - Description of social enterprise
   - Summarizes each of the main categories of the plan

2. **Background/History**
   - Purpose of the social enterprise
   - Structure in relationship to the agency
   - How it relates to the mission of the organization
   - How it relates to the agency's core competencies
   - What steps have been taken to get this point
   - Who's been involved so far

3. **Demand**
   - Who are the customers?
   - Where are they?
   - How many are there?
   - Why will they buy from us?
   - What makes us unique?
   - Include backup statistics
     - About customers
     - Identified trends indicating demand
     - Info on competitors (size, locations, success rates)

4. **Physical Structure**
   - Facility/office space required
   - Where it will be located and why?
   - Describe process of social enterprise from supply to demand
   - Hours of operation
   - Identify any business or legal requirements associated with this enterprise

- Staffing
  - o Manager: what skills and qualifications are needed
  - o Ongoing staffing requirements, scheduling system
  - o Role of volunteers
  - o General position descriptions
- Potential growth

5. Financial

- Financial statements: along with the financial numbers, include notes to each of the appropriate categories and identify external and internal sources of revenue
  - o Start-up costs
  - o Operating expenditures (fixed and variable)
  - o Administrative fees
- Pricing: in this section describe how it was calculated based on what costs and industry profit (pricing) calculation. Chart a comparison between yours and the competitors. Identify the price range in the industry.
- Break-even analysis
- Budget (projected revenue and expenditure) per month annually for three years. Include notes identifying assumptions with the budget.
- Cash flow projection per month annually for three years. Include notes identifying assumptions with the budget.
- Identify how the budget and cash flow relates to the overall organization and if it will have a negative or positive impact.
- Summarize when the projection is at a break-even point and when the social enterprise will profit.
- Identify the key priority areas for any annual profit. This might include:
  - o One-third for future social enterprise needs/desires/ growth
  - o One-third agency contingency funds (e.g. capital, repair and maintenance stabilization fund—to maintain agency stability during a time of substantial financial changes)
  - o One-third either the subsidization of present services or a fund for the development of future programs and services.
- Summarize: indicate that it is financially realistic and worth implementing

6. Social Benefit

- Identify the social benefits from operating the social enterprise.
- Indicate the goals, the anticipated outputs, and outcomes.
- Identify how and when the social enterprise will track and monitor the benefits.

7. Marketing

- Who and how are we going to tell people (customers and agency stakeholders) when this is available?
- Will there be an official kick-off day?
- Are there other businesses/organizations/individuals/who are important to include for what and when?
- Describe potential use of media in promoting a new initiative. Try to get free advertising through TV, radio, newspaper, and magazines.
- Outline ongoing promotion/ advertising.
- Identify what is in the budget and can be done within the budget.

8. Contingency

- Identify what are the most serious risks and how might they be addressed. What are the concerns that keep you awake at night or might become your worst nightmare. This will include:
  - o Financial Risk Impact Statement: Identify how the agency might address sale shortfalls and at what point.
  - o Potential changes in other costs. (i.e. staffing, supply items, renovations)
  - o Staff recruitment and retention
  - o Social benefit.
- Clearly indicate what will you do with each of these nightmares should they arise.

9. Termination/Exit Strategy

- This is a difficult decision to make for anyone running a business, especially if there is passion and belief in the potential of the venture. For a nonprofit it can also create havoc because of the implications of the social benefits and agency profile.
- It is important that specific times are established to evaluate the work and progress. These will be identified in the next section of the SEBP.
- Identify key decision points based on impact and timeframes.

Notes

- Decide if there is an alternative strategy that can still accomplish what needs to get done. If not, decide on the best process to either stop or put on hold until it is appropriate to move forward. Be strategic in your thinking and manage communication clearly stating a prepared message. Frame the experience as a learning opportunity, not a failure. Then learn the lesson and move on.

10. Timeline Summary

- Develop a critical path indicating when key decision points need to be made.
- Develop a detailed action plan. Who is going to do what under what categories by when:

Develop a detailed action plan:

When	Category	What (task)	Who

- Develop an evaluation timeline (e.g. monthly, bi-monthly)
- Identify an evaluation report format. Consider:
  - Update of work/tasks
    - Completed
    - In process with reason
    - Changed with reason
    - Not competed or deleted with reason.
  - Identify potential stumbling areas and what strategies might be required.
  - Summarize general progress to date.
  - Recommend changes accordingly (minor changes or if the implementation plan needs revision).
- Identify who will consolidate the evaluation report.
- Identify who will monitor the report

Section 8:
Helpful Information and Bibliography

Section 8:
Helpful Information and Bibliography

This is by no means an exhaustive list of available information for individuals and organizations. It does give an idea of the different types of information found various places. Libraries (public and post-secondary institutions) along with bookstores are an amazing place to start. Take a peek at the business section of magazine sections. It is phenomenal just how much is out there once one starts looking. Spend a few hours on the Internet; it has an abundance of information, networks, and associations regarding social enterprise. Talk to other people to find out what they recommend and why.

*Canadian

Social Enterprise

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Quinn Patton, Michael. *Utilization-Focused Evaluation: The New Century Text*. (Thousand Oaks, CA: Sage Publishing: 1996)

Social Return on Investment

- www.redf.org

United Way of America (Outcome Development)

- www.national.unitedway.org/outcomes

Reports/Lessons

*Gannitsos, Irene. *Enterprising Non-Profits Program: A Report on Non-Profits and their Social Enterprises 2000 -2002*. (Vancouver: Enterprising Non-Profits Program, VanCity Community Foundation 2003).

Community Wealth Ventures. *Powering Social Change: Lessons on Community Wealth Generation for Nonprofit Sustainability*. (Washington, DC: Community Wealth Ventures, 2003).

Business

*Gallander, Benj. *Canadian Small Business Survival Guide*. Dundurn Press, 2002.

*Good, Walter S. *Building A Dream: A Canadian Guide to Starting Your Own Business*. McGraw-Hill Ryerson, 2003.

*Gray, Douglas and Diane Gray. *The Complete Canadian Small Business Guide*. McGraw-Hill Ryerson, 2000.

*Kerr, Margaret and JoAnn Kurtz. *Canadian Small Business Kit for Dummies*. Wiley Canada, 2002.

Don't forget about the wealth of information that can be obtained through magazines…and on-line.

- Alberta Venture (Provincial Magazine; every province has at least one)
- Money Sense
- Canadian Business Magazine

Interesting Web Pages

*Ashoka Canada
- www.ashoka.org/us-canada/about/can_aboutus.cfm

*CanadaOne Magazine
- www.canadaone.com/magazine

*Canadian Centre for Philanthropy
- www.ccp.ca
- www.nonprofitscan.ca

*Canadian Centre for Social Entrepreneurship
- www.bus.ualberta.ca/ccse

*Canadian Revenue Agency (CRA)
- www.cra-arc.gc.ca

Center for Community Futures
- www.cencomfut.com

*Charities and Democracy (IMPACS)
- www.impacs.org

*Community Economic Development Canada
- www.cedcanada.ca

*Community Economic Development Technical Assistance Program (CEDtap)
- www.carleton.ca/cedtap

*Enterprising Nonprofits Program
- www.vancity.com/Community/AboutUs/Subsidiaries/VanCityCommunityFoundation/EnterprisingNonprofitsProgram

Federal Publishing Inc. (charities)
- www.fedpubs.com/subject/charities

Harvard Business School Social Enterprise
- www.hbs.edu/socialenterprise

The Institute for Social Entrepreneurs Sourcebook
- www.socialent.org/sourcebook

Leader to Leader Institute (formally Drucker Foundation)
- www.pfdf.org

*Peter Drucker Foundation Canada
- www.innovation-award.ca

Roberts Enterprise Development Fund
- www.redf.org

*Social Capital Partners
- www.socialcapitalpartners.ca

*Social Enterprise Alliance (has Canadian members)
- www.se-alliance.org

Social Enterprise Coalition
- www.socialenterprise.org.uk

Social Enterprise Magazine Online (SEM-O)
- www.socialenterprisemagazine.org

*Social Enterprise Resource Data
- http://www.dtes.ca/embers/Enterprise per cent20Resource per cent20LIbrary per cent20online per cent20 (student per cent20proj)/index.htm

Social Return on Investment
- www.redf.org

United Way of America (Logic Model of Outcome Development)
- www.national.unitedway.org/outcomes

*Voluntary Sector Initiative
- www.vsi-isbc.ca

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Biography

Currently executive director at the Bissell Centre in Edmonton, Shelley Williams has worked in the nonprofit world for more than 25 years. Prior to Bissell, Shelley was a management consultant and executive director of the YWCA of Edmonton and Edmonton Women's Shelter—WIN Houses.

Her leadership experience has taken her to Ontario, New Zealand, and the Ukraine. Shelley is passionate about her work and is known for her expertise in organizational development, strategic planning, and implementing change. She focuses on fostering community collaboration and partnerships among those with whom she works.

Shelley is also known for her expertise in board governance. She was a volunteer board trainer with the Government of Alberta's Board Development Program and over the years has served on many boards and advisory committees.

In 1993, Shelley was awarded the Canada 125 Commemorative Medal for contributions made within her community.

An avid cyclist, Shelley bicycled unsupported across Canada in 1997 and cycled across the United States in 1999 for breast cancer awareness and research. She enjoys hiking in the Alberta mountains and playing badminton. Her favourite pastime is walking her dog Toffee, in Edmonton's Millcreek ravine.