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Report # 77

Social Enterprise: New Revenues For Nonprofits

July 2005

Reinventing The Nonprofit

Getting down to business

Nonprofits eye social enterprises to raise funds

Going into business on their own to earn money for their mission is no longer an idea nonprofits can dismiss out of hand as an unacceptable departure from convention.

This marriage between a nonprofit and an income-generating business is nothing new. Goodwill Industries is a high-profile, long-standing example of such a mission-supporting business venture. However, the practice is receiving much greater consideration today as more nonprofits search for ways to cope with trying to satisfy the demand for their services while traditional revenue streams are tightening and competition for available funds is growing fierce.

Social enterprise, social entrepreneurship, and community wealth are a few of the terms used to describe the concept of nonprofits advancing their missions through business ventures, such as selling products and services and entering into corporate partnerships.

When successful, these business ventures deliver benefits ranging from unrestricted funds to heightened public awareness of the nonprofit's mission. Social enterprise ventures are not free of risk, however. Some ventures fail and nonprofits could lose money and encounter other problems. They are not for every organization.

Knowing whether such a venture is a good fit is one of an important determinations nonprofit officials must make based on an honest assessment of potential business opportunities as well as the organization's capacity for launching and sustaining a business.

Social Enterprise

Simply put, a social enterprise is a business started by a nonprofit that generates revenue and helps the organization fulfill its mission.

Unlike a for-profit venture in the business sector, the return on the financial investment is not the sole measure of success. A social enterprise is often measured by a "double bottom line" – the revenues it generates and other outcomes that advance a nonprofit's mission, such as raising awareness of the nonprofit's work in the community.

Marketable Assets

To be successful in business, nonprofits must be able to identify their assets, the value of those assets, and whether a viable market exists for them.

Social enterprises have been created from a wide range of nonprofit assets identified by examining what the nonprofit does and what it has. Assets most often tapped for building a business around include:

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- Services that the nonprofit specializes in providing.
- The expertise, skills, and people within the organization.
- Products related to the nonprofit organization or to its mission.
- Facilities, real estate, equipment, and other tangible assets owned by the nonprofit.
- Name recognition, logos, or standing in the community that might be valuable in promoting a product or service for the nonprofit or for a business partner.

In western Pennsylvania, 72% of social enterprises market a nonprofit's services such as literacy training, curriculum development, and renting office or meeting space, according to a regional survey. About 22% of the nonprofits operate retail ventures.¹

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Similar trends are reported nationwide: 74% of nonprofits that run businesses provide services and 47% of the business are product-related.²

One high-profile social enterprise is the Children's Television Workshop, which licenses its "Sesame Street" characters for books, toys, and other products. The Girl Scouts, in partnership with a bakery, uses its name recognition, reputation, and wide volunteer network to sell more than \$200 million in cookies each year to support the organization.

In Pittsburgh, the Manchester Craftsmen's Guild and Bidwell Training Center have started a number of successful ventures related to its missions, including one that grows and sells orchids while introducing inner-city youth and under-employed adults to careers in horticulture and business principles.

Fruits Of Success

When successful, social enterprise ventures provide significant benefits, including:

- New revenue outside traditional revenue streams.
- Unrestricted funds that nonprofits can spend to advance their mission as they see fit, giving them greater flexibility and opportunities to weather funding shortfalls from traditional sources.
- Greater diversity of funding sources, which allows nonprofits to become less dependent on one or two outside funders.
- Better business practices that promote financial discipline, better decision-making, and other important organizational skills.
- Heightened visibility that raises public awareness of the nonprofit's core mission.

Outcomes that most often are

viewed by western Pennsylvania nonprofits and others as measures of a successful social enterprise include:³

- More diverse sources of income, less dependence on funders, and a positive change in the new fund balances/net financial position are considered the most important financial indicators of success.
- Efficient, business practices within the organization and more clients/customers being served are the most important non-financial indicators of success.

Nationally, nonprofits say financial return is the chief reason they started a social enterprise venture – but not the only one.⁴ Some 39% of nonprofits say their businesses also provide jobs, training, and therapeutic opportunities for constituents; 34% say they improve community relations; and 23% say they help revitalize their neighborhoods and communities.

Not Without Risk

Starting a business is not without risk.⁵ A social enterprise venture could fail, for example, and the nonprofit could end up losing money.

Starting a business could lead to a decrease in funding from more traditional revenue streams or divert attention away from the central mission of the organization.

A business could consume more management and staff time than is justified by its benefits. It might overly tax a nonprofit by demanding new skills among staff and by increasing the complexity of the organization. And a nonprofit's staff and board may feel sold out if they feel the venture as a distraction to the organization's mission.

Nevertheless, the social enterprises is increasingly seen as an attractive option as more traditional revenue sources become clouded with uncertainty.



references

This report is based on the following publications:

The Forbes Funds. (2004). Assessing social return on investment for social enterprises in the Pittsburgh region. *Tropman Reports*, 3 (1). www.forbesfund.org.

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References noted in the text follow:

¹ The Forbes Funds. (2002). Profit making in nonprofits: An assessment of entrepreneurial ventures in nonprofit organizations. *Tropman Reports*, 1 (5). www.forbesfund.org.

² Massarsky, C.W., & Beinhacker, S.L. (2003). *Enterprising Nonprofits: Revenue Generation in the Nonprofit Sector*. Yale School of Management – The Goldman Sachs Foundation Partnership on Nonprofit Ventures. www.ventures.yale.edu.

³ The Forbes Funds. (2004). Assessing social return on investment for social enterprises in the Pittsburgh region. *Tropman Reports*, 3 (1). www.forbesfund.org.

⁴ Massarsky, & Beinhacker, op. cit.

⁵ Community Wealth Ventures, Inc. *Children's Trust Fund Conference: Social Entrepreneurship and Creating Dynamic Communities Workshop. April 23, 2002*.

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