

background

Report # 78

Social Enterprise: Characteristics Of Success

July 2005

Reinventing The Nonprofit

Good business sense

Savvy nonprofits reap social enterprise benefits

Nonprofits that rush into a mission-supporting business venture armed only with good intentions wade into treacherous waters. Every entrepreneurial venture carries a degree of risk. For nonprofits, that could spell outright failure, loss of precious funds, and staff dissent.

Many nonprofits do succeed in reaping the benefits of a social enterprise – but only those with the patience, foresight, and willingness to take the steps necessary to prosper in the business world, the most critical being thorough assessment, planning, and a realistic sense of what they are getting into.

A social enterprise is a business started by a nonprofit that generates revenue and helps the organization fulfill its mission. When successful, these business ventures deliver benefits ranging from unrestricted funds to heightened public awareness of the nonprofit's mission. More nonprofits are considering this option as traditional sources of revenue tighten and competition for funds increases.

But success is not guaranteed. And when social enterprises fail, it is often because nonprofits fail to carefully think through the venture from concept to implementation and beyond.

“The majority of failures for new venture start-ups occur because the leaders of those start-ups don't plan it all out,” says Timothy Zak, President of the nonprofit Pittsburgh Social Enterprise Accelerator, which was founded in 2002 to assist southwestern Pennsylvania nonprofit organizations develop

social enterprise ventures.

Whether the nonprofit has the organizational capacity to run a business is another key consideration. Does the nonprofit have a strong, capable leadership team? Is the board proactive and committed to the organization's mission? Are the nonprofit's core processes – from operating programs to paying the bills – robust and consistent?

Nonprofits do not need to have all of the resources necessary to run a business in-house. What is necessary is the ability to recognize what resources they need and how to get them.

Early Planning Is Essential

Several traits of successful social enterprises have been identified.¹

Successful social enterprises take the time to do thorough planning before launching a business, including a systematic assessment of management practices, resources, and the commitment to addressing the risks and de-

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mands that come with a business venture.

This includes garnering staff and board support for starting a business venture, carefully assessing and developing the nonprofit's capacity to undertake a business venture, anticipating challenges, and drafting well-defined strategic and financial plans.

Early planning also includes a “venture audit,” in which ideas are generated, opportunities are assessed, and a venture is eventually selected. This often includes getting technical and business expertise, legal and tax advice, and mentors from the business community. Enterprise ideas also are matched to resources and market demand.

Knowing The Market

Success is more likely when the nonprofit thoroughly investigates and quantifies the market opportunity for the venture's products and services.

For example, successful social enter-

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prises research other ventures providing a similar product or service, determine their competitive advantages, research the needs of potential customers, conduct a feasibility study, and rely only on factual information to inform decisions.

Other Key Steps

Most successful ventures take the time to draft a comprehensive plan for meeting the financial, human resource, development, marketing, and operational requirements of the business.

Reasonable assumptions are made about the projected financial position of the proposed business and its impact on the organization. For example, success is made more likely when nonprofits identify sources of financial support for the business over a number of years, draft a pro forma budget, determine cash flow needs, conduct a break-even analysis, and set a minimum profit margin or return on investment.

They also complete a comprehensive business plan documenting critical issues, such as the design of the venture, management, market potential, resource demands, and potential for success.

And once a social enterprise venture is up and running, regular reviews help to measure progress and assess how accurate earlier assumptions about the business proved to be.

Even if a nonprofit decides against launching a business, it will likely benefit from the planning process, Zak said. "You are forced, by going through that process of evaluation, to adopt more business-like principles, approaches that the corporate sector does in finance and marketing. Going through the process of discovery is going to make the organization fundamentally stronger, whether it actually launches a formal social enterprise or not."

resources

Organizations that provide information about social enterprise ventures:

- **Pittsburgh Social Enterprise Accelerator** (www.pghaccelerator.org): This nonprofit was created to help nonprofits develop social enterprise ventures.
- **The Forbes Funds** (www.forbesfunds.org): Publishes reports on social enterprise and seeks to advance capacity-building among nonprofit organizations in the region through three interrelated funds: The Copeland Fund for Nonprofit Management, The Tropman Fund for Nonprofit Research, and The Wishart Fund for Nonprofit Leadership.
- **Community Wealth Ventures, Inc.** (www.communitywealth.com): A for-profit subsidiary of Share Our Strength, an anti-hunger and anti-poverty organization, it is a consulting firm to help nonprofits increase revenue through business ventures and corporate sponsorships.
- **University of Pittsburgh Small Business Development Center** (www.sbdc.pitt.edu): The center's consultants, supported by undergraduate and graduate students, offer consulting services, education and training to regional entrepreneurs. It is a member of the Pennsylvania Small Business Development Centers and the Association of Small Business Development Centers.
- **Pennsylvania Small Business Development Centers** (www.pasbdc.org): This public-private program is a network of 16 college- and university-based centers that works with entrepreneurs and small businesses to help them to compete and grow.

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.

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

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

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. www.communitywealth.com.

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