

Nonprofit Enterprise Development

Description

There is almost a contradiction in the very name of this approach - almost but not quite. A nonprofit business is indeed a business, even though it is intended primarily to provide a social benefit. As a business it must attend to the key fact of how many dollars go out compared to how many come in. In short, while profit is not an aim, sustainability for providing the social benefit is; and that means surpluses (a useful substitute name for profits in a nonprofit group) need to be generated. Those surpluses are required as insurance against occasional temporary losses and as a source of capital for re-investment in the business (including such things as expanded advertising) so that it can provide the social benefit even more effectively and broadly.

The source of the surpluses will vary from case to case. In one instance, revenues derived from the sale of the goods or services marketed by the nonprofit enterprise may be the sole or major source of extra cash not immediately needed for operational expenses and loan payments. In another instance, gifts and grants may be the major source of capital for emergencies and/or expansion, but that source can never substitute in total or over the long term for the on-going revenues that should be generated to defray on-going costs.

The extent of surpluses will vary from case to case too, primarily upon the basis of the degree of success in marketing the product/service. However, as a nonprofit, the business may come under unfriendly tax scrutiny if surpluses are very large, unless they are clearly destined for the two purposes already mentioned. Again, if they are too skimpy, the venture is very much at risk.

Products and services can be virtually any marketable item. Generally speaking, the businesses are in relatively low-wage sectors, where it is likely to recruit relatively unskilled workers who otherwise might not find jobs. Historically, nonprofit enterprises have offered a great variety of products or services. They have baked bread, repaired bicycles, managed computer services, manufactured furniture, built housing, run cleaning services, re-painted commercial vessels, etc. The choice will be made in each case on the basis of both what is feasible and what fits best the social purposes or benefits to be derived. Clearly there is no point in entering a market that will not support the enterprise. But equally, some lucrative services or products (say, a liquor store where a demand but no competition exists) will simply not be tolerable to the CEDO or other sponsor.

The selected social benefits can also vary widely, depending upon the organizers' goals and the needs of the community. However, they are usually concerned with employment and training for those marginalized in the traditional labour markets.

For a CEDO, developing one or more such businesses is basically no different from developing a for-profit enterprise. The same feasibility studies and business planning approach is required, the same reliance upon relevant expertise, entrepreneurial skills, and initial capital; and there will also be the same requirement for 'after-care' of the growing business. Perhaps the main variation is that the social benefits are apt to be more specific and precisely identified, particularly in terms of the category of potential employees (say, young offenders) or other low-income beneficiaries.

It is appropriate to stress that the nonprofit enterprise is not necessarily an element in a CED strategy. It may instead be pursued by another sort of agency primarily as an aid to a very specialized category of needy residents - for example, consumers of the mental health system. Thus social agencies concerned with such specialized clientele may be the most likely to consider a nonprofit enterprise to serve them.

As a means of dealing with an unskilled and/or welfare-dependent population however, a CEDO can make a significant impact on community resilience with a nonprofit business that serves that group. Ordinarily the impact is not so much directly by the business itself or the employment generated by it as it is in improving the chances of its workers for later employment elsewhere with the experience they have gained in the nonprofit enterprise.

Benefits

As implied earlier, the nonprofit enterprise has the advantage of paying more specific attention to the target group of needful potential employees of a particular background. While all CED businesses will merge social and economic goals, the nonprofit enterprise clearly puts the social benefit at the forefront, even though surpluses too must be generated. As such, it may acquire special support from those who have some personal or institutional reason to be concerned with the particular target group.

Major challenges

Sponsoring groups, which have a special and strong interest in a particular clientele, usually come out of a tradition that downplays the business approach. So, maintaining a steady commitment to developing revenue surpluses tends to be very difficult. It is all too easy to assume that others should somehow financially support an enterprise (buying from it or otherwise supporting it) when it is so obviously worthwhile as a social endeavour; and the managers may depend on that assumption rather than on careful businesslike revenue

generation. Interestingly enough, even some funders may not be sensitive enough to this facet of developing such an enterprise.

Another troublesome matter is that simply maintaining the enterprise as such is often not enough to serve the targeted clientele. Those marginalized in the labour market ordinarily have multiple problems and most often just landing a job does not work out for them. Thus managers of a nonprofit enterprise must carry out or have access to a comprehensive set of supportive services designed for the common problems of the target group. Without attention to all the surrounding life issues, the enterprise cannot be effective in its main social objective. And yet those supportive services have their own costs. How are they to be met? That can be a major challenge.

On the one hand, without the potential definition of for-profit status, quite often the enterprise may have greater difficulty in finding capital for pre-development and start-up costs. On the other hand, this may be counter-balanced by the attractiveness of the venture to government and other funding support for the social objectives chosen.

Finally, nonprofits in business often run up against a prejudice from the traditional business sector. That is, conventional businesses in the same field often complain of “subsidy” or special treatment, which they experience as unfair competition. If indeed the nonprofit venture receives anything like subsidy support or special treatment, it should be easily possible to link that to the special costs that the venture accepts that conventional businesses do not. However, to make that case is not necessarily easy, and there have been instances in which the nonprofit has been forced out of business on these improper grounds.

Resource organizations & contacts

- The National Center for Social Entrepreneurship (612-831-5506) offers workshops, consultation, and other resources.
- The Canadian CED Network can refer groups to technical assistance sources (toll-free: 877-202-2268).

Publications

- *New Social Entrepreneurs: The Success, Challenge and Lesson of Non-Profit Enterprise Creation*, published by the Roberts Foundation Homeless Economic Development Fund (415-561-6533). This essential resource has over 400 pages and even includes a list of recommended CD musical recordings to listen to when you are working on the project! There *are* also additional helpful recommended readings.
- ***Case Study:** “The Struggle for Sustainability.” A principal in Waterloo, Ontario region’s Opportunities 2000 project reflects on earned income and other financial strategies for

Tools & Techniques

nonprofit community-based organizations. Some are less “exotic” than others, but all require specific capacity in-house. (The entire issue of Spring 2000 issue of *Making Waves* is devoted to nonprofit enterprise.)