

IF THE SHOE FITS

**Nonprofit or For-Profit?
The Choice Matters.**

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The perspectives in this paper come from over 10 years of REDF's experience mixing business practices with social mission. REDF (formerly known as The Roberts Enterprise Development Fund) provides guidance, leadership and investment to a portfolio of nonprofit social enterprises, changing the lives of people who face poverty, homelessness, mental illness, and other barriers to employment. We help people move out of poverty; we increase the organizational ability of nonprofits to provide sustainable, long-term solutions to chronic poverty and homelessness; and we introduce new ideas and innovative methods that further the ability of our communities to eliminate poverty. More information about REDF can be found on our website, www.redf.org.

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“The herald blew a blast upon the trumpet, and then read a proclamation saying that the King’s son would wed any lady in the land who could fit the slipper upon her foot... Of course, the sisters tried to squeeze their feet into the slipper, but it was of no use—they were much too large.”¹

– Cinderella

ABSTRACT

“Should it be for-profit or nonprofit?” has become a popular topic in online discussions,² academic articles³ and in-person gatherings among those of us who are interested in bringing together social mission and business practices. Practitioner-entrepreneurs want to figure out the most advantageous legal structure for their social mission activities, philanthropists want to make sure they aren’t ignoring innovations in social change efforts, and academics try to give us a bird’s eye-view of the whole matter. Increasingly, social entrepreneurs and philanthropists see that business practices from the private sector can advance social mission goals. This appreciation of private sector practices has extended into deliberations about how to fit social mission activities into the for-profit legal structure itself. But is the for-profit structure a good fit for social mission work? REDF takes the position that a tax-exempt nonprofit legal structure is the best fit for supporting social mission-focused activities.⁴

A for-profit structure brings profit pressures; a nonprofit structure brings social mission⁵ pressures. Sometimes these pressures can co-exist productively but often they pull an organization in different directions. Taking note of these conflicting pressures does not preclude holding for-profit corporations responsible for good corporate behavior, nor does it prevent nonprofit organizations from engaging in commercial activity. It does suggest that there are limits to how much and what we can expect from either a for-profit or a nonprofit structure.

Perhaps a necessary step for achieving any goals—whether profit or social mission—is increased clarity about what we can expect from the organizational / legal structures we use. An Aspen Institute study of entrepreneurs in the childcare industry found that “the decision to start a for-profit business versus a nonprofit can be the result of imperfect knowledge.”⁶ We hope this paper will bring clarity to the discussion and help practitioners and philanthropists avoid costly missteps.⁷

This paper explores some central issues to consider when choosing a nonprofit or for-profit structure. Descriptions of relevant organizations—some formed over a century ago—as well as an examination of REDF’s focus bring real-world examples into the discussion. The author concludes by offering a guide for deciding between a nonprofit or for-profit structure.

1 “Cinderella.” Pagebypagebooks.com.

2 Examples can be found at <<http://www.socialedge.org/>>.

3 Dees and Anderson; Young (see both Young papers listed on “Works Cited” page).

4 Unless otherwise stated, in this paper the term “nonprofit” refers to U.S. nonprofit corporations that are also tax-exempt under Internal Revenue Code Section 501(c)(3). Legal structures in other countries vary widely. The observations in this paper may apply to situations in other countries, but the paper was written with a focus on what we know best, the nonprofit field within the U.S. For insights into challenges and solutions in some other countries, see <<http://www.NESsT.org/>>, and <<http://www.socialenterprise.org.uk/>>.

5 A definition of “social mission” broad enough to apply to all types of activity that U.S. nonprofits could undertake might be “activity with a public interest and mutual benefit characteristics.”

6 “Enterprising Organizations: New Approach to Social Problem-Solving.”

7 What this paper is NOT: It is not a discussion of the pros and cons of mixing business and social mission activities—that discussion has been written about extensively, see this paper’s bibliography; nor is it a discussion of the legal nuances of various for-profit and nonprofit forms. Legal considerations that nonprofits undertaking commercial activities should consider are thoroughly discussed in Brad Cafel’s article within *New Social Entrepreneurs*, found in this paper’s bibliography and on REDF’s website, <<http://www.redf.org/>>. Any legal matters discussed in this paper are not meant as legal advice.

THE WORD ON THE STREET

Despite the obvious challenges that for-profit companies face—a small business failure rate of fifty to ninety percent,¹¹ corporate closures, bankruptcies, and layoffs—many nonprofit practitioners gaze longingly at the for-profit world and imagine the better life they would have if they could just squeeze themselves into a for-profit structure. Papers,¹² articles, and online discussions delve into the challenges of sustaining a nonprofit organization. The groundswell of interest in applying business practices to social mission activities, together with the social mission accomplishments of a few well-known for-profits and the limitations that nonprofits face, have contributed to a recent field-wide flirtation with for-profit legal structures (or at least the *idea* of for-profit structures) as a fit for social mission work. REDF itself has encouraged nonprofits to consider incorporating appropriate commercial business practices and, in some cases, earned income strategies. Use of commercial *practices* is very different from adoption of a commercial *legal structure* and its obligations. But unwittingly, we may have contributed to the fascination with for-profit legal structures that we now see.

In an informal and decidedly unscientific poll of recent discussions on the “for-profit or nonprofit” topic, we found that the popular positions on the topic are:

- “**For-Profit Rules,**” i.e. for-profit structure(s) are best;
- “**Help is on the Way,**” i.e. it’s a whole new wonderful world out there, the old structures are outdated but new insights and laws are on the way—you can have it all, just hang in there;
- “**Don’t Worry, Be Happy**” (or the related “**Stop! You’re both right!**”), i.e. it doesn’t matter whether you use a for-profit or a nonprofit structure, so do whatever you want and don’t worry about it;
- “**Legal—Schmegal!**” i.e. it’s just a boring legal process for-cryin’-out-loud—just set something up and get to work!

We have been keeping a respectful distance from the whole conundrum, falling somewhere between the “Legal-Schmegal” and the unpopular (and therefore not listed above) “But I Thought It Was About Social Mission?” (i.e. a nonprofit structure is best for supporting social mission activities) contingents. But colleagues in the field continue to raise the “for-profit or nonprofit?” legal structure question and, upon reflection, it is clear that the choice of a nonprofit or for-profit form *does* matter. It is part of each organization’s message to the world about who they are, it imposes specific requirements that differ radically depending on which structure you choose, and the choice of one form over the other affects an organization’s path into the future.

Maintaining program stability on a base of unreliable financial contributions can be daunting; nonprofit leaders’ desires to become self-supporting via *sales* rather than *donations* is understandable.

11 A widely-circulated belief is that 90% of all small businesses fail within 1 year of start; Brian Headd challenges this belief with documentation putting the figure closer to 50% in 4 years. More information on this can be found in his work: “Redefining Business Success: Distinguishing Between Closure and Failure.”

12 Dennis Young, Greg Dees and Beth Battle Anderson, among others, describe the increased interest in mixing business and social mission activities and its resulting “blurring” of the distinctions between them. They also note that decisions to use one legal form over another should be made with caution.

Why are social mission entrepreneurs shopping for new structures?

Maintaining program stability on a base of unreliable financial contributions can be daunting; nonprofit leaders' desires to become self-supporting via sales rather than donations is understandable. This legitimate interest in the potential uses of earned income for supporting social mission work has also created an additional layer of "buzz." As William Foster and Jeffrey Bradach note,

Like their counterparts in the commercial world, managers of nonprofits want to be viewed as active entrepreneurs rather than as passive bureaucrats, and launching a successful commercial venture is one direct route to that goal. Board members, many of whom are accomplished business leaders, often encourage and reinforce that desire. At the same time, many philanthropic foundations and other funders have been zealously urging nonprofits to become financially self-sufficient and have aggressively promoted earned income as a means to 'sustainability.' As a result, nonprofits increasingly feel compelled to launch earned-income ventures, if only to appear more disciplined, innovative, and businesslike to their stakeholders.¹³

In addition, the current business allure includes an implication that for-profit legal structures are more desirable than a nonprofit structure.

Some philanthropists too are channeling funds for social mission activities into for-profit entities, despite the lack of tax incentives for doing so. In 2004, Omidyar Foundation's board closed down the foundation and replaced it with The Omidyar Network, a limited liability corporation that has both nonprofit and for-profit subsidiaries through which it can invest in activities that further its goals. Three aspects of the organization shed light on the unusual path it has taken: its mission, its criteria for evaluating investments, and its financial base.

- **Mission:** founder Pierre Omidyar's broad mission of empowering individuals to make a difference in their communities might be achieved in many structures, whether nonprofit or for-profit.
- **Investment criteria:** in order to protect and promote its social mission, the organization will only invest its for-profit funds in businesses whose financial success is dependent on their social mission accomplishment.
- **Financial base:** Omidyar Network's healthy financial base (well over \$400 million as of 2005) and the future support it can expect from its founder (who is founder, director and Chairman of eBay) allows for a broader mission and experimentation with multiple strategies.¹⁴

Another corporation's recently-formed charitable giving arm, Google.org, funds both nonprofits and for-profits to accomplish its world poverty and environmental social mission goals, with \$90 million allocated to nonprofits and \$175 million to for-profits—a significant division of funds).¹⁵

¹³ Foster and Bradach 94.

¹⁴ "We realized that the legal structure—for-profit versus nonprofit—wasn't all that relevant to what we believed in. What was important was our simple core belief: that every individual has the power to make a difference," Omidyar.

¹⁵ Kopytoff C-1.

Is it just style?

A common theme throughout the legal structure buzz in various field-wide discussions is the implication that the choice of legal form is “just an administrative” matter, an annoyance to be worked around or capitalized upon.¹⁶ Business-savvy individuals outline the ins-and-outs of various types of for-profit structures (such as limited liability corporations) at conferences and in online discussions. Spin-off of nonprofits’ earned income activities into for-profit companies is put forward as a solution to the challenges nonprofits face. “Hybrid organizations” (generally referring to a mix of both for-profit and nonprofit legal entities linked by a subsidiary, board member, or other connections) are put forward as an answer to the dilemma of creating economically viable social mission enterprises. But are these really solutions? A corporation can be either for-profit or nonprofit. A limited liability corporation can be either for-profit or nonprofit.¹⁷ A cooperative can be either for-profit or nonprofit. These “hybrid” mixes of for-profit and nonprofit entities still involve categorizing activities as either for-profit or nonprofit. In fact, these proposed “structural options” take us back to basic questions: “What is the best way to accomplish our mission?” and “Will this mission (social or profit) be best supported by a for-profit or a nonprofit legal structure?”

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¹⁶ Related online conversations can be found at <<http://www.socialedge.org/>> and related survey results from industry practitioners can be found at Social Enterprise Alliance (SEA)’s website and in the organization’s listserve, npEnterprise@yahoogroups.com.

¹⁷ Caftel, “Forming a Limited Liability Company.” State laws on LLC formation vary and should be checked.

REDF, like its predecessors The Roberts Enterprise Development Fund and The Homeless Economic Development Fund, exists to carry out a social mission. Its founders did not create the organization as a channel for business investments, but rather as a way to bring appropriate business practices to ending individuals' long-term poverty. They wanted to put resources into effective efforts that did not have other ready sources of capital and assistance. This social mission perspective has driven our strategies and decisions for well over a decade.

In 1990 we looked for ways to help individuals to move out of their poverty traps and become self-supporting, contributing, involved members of society. We came to the problem with business and social work experience and with a generous founder who was willing to experiment with new approaches to the problem. Started as an offshoot of a California private family foundation chartered to support nonprofit efforts, we sought out a portfolio of nonprofit programs whose missions were compatible with ours. Over the years, we have supported a variety of strategies, assessed the results, and refined our approach. Throughout the challenges and changes in our work, portfolio organizations with a nonprofit legal structure have always been the "right fit."¹⁸ Our goals and the nonprofit structure fit together in four key ways:

The nature of the social problem. The nature of the problem we have taken on does not lend itself to being solved within the private sector, but we have found that business practices can be instrumental in designing and implementing solutions to it. Though we support a portfolio of organizations that use commercial activities to further their social missions, we do not fund organizations that take on social mission activities as an adjunct to their commercial activity (while recognizing that good can also come from such efforts). With deep problems to solve and finite resources, we limit ourselves to supporting what we consider "full strength" social mission efforts. Just as we would not invest in a nonprofit organization if our main purpose was to generate financial returns for investors, we do not invest in for-profits to accomplish a social mission.

Lack of private investment options. We want to focus our social mission "investing" on efforts that *cannot* expect to support themselves solely via sales and private investment—that is where our charitable dollars are most needed. We support nonprofits knowing that our support (as well as that of other nonprofit grantmakers) is *necessary* for them, since the nature of their goals precludes complete self-sufficiency via sales and profits.

Legal commitment. Since the challenges of this work are so great, and the rewards are usually not monetary, we invest in organizations that have made a legally binding commitment to stick with their social missions. Specifically, a nonprofit legal structure and its federal/state regulation provide us with some assurance of:

- **Mission-focus** Nonprofit legal status gives us assurance that an organization has committed itself to a social mission focus, including its promise to reinvest any excess assets back into the organization's social mission work rather than distributing them to individuals. In addition, commercial activities (call them "earned income," or "social enterprise," or "business"), while useful in furthering a social mission, also introduce economic pressures that can pull away from social mission activity.¹⁹ A nonprofit legal structure can act as a reminder of the larger mission, and provide a check on the propensity to drive toward business success at the expense of social mission;
- **Mission retention** Nonprofit legal status obligates an organization to retain its social mission focus despite other economic, personnel, or governance changes;

¹⁸ By examining the "fit" of nonprofit versus for-profits for REDF, I am not ignoring the fact that REDF's legal structure limits its grant-making to organizations that are 501(c)3 nonprofit organizations. Rather, I am indicating that REDF chose that structure, limits and all, because it best supports our goals.

¹⁹ For a compelling example of this, read "Ben's Big Flop," Welles. Two case studies on REDF's website also touch on the topic: "Youth Industry Case Study" <<http://www.redf.org/publications-yi.htm>>, and "Enterprises Gone But Not Forgotten" <<http://www.redf.org/publications-boxset.htm>>.

Can nonprofits use commercial activities and business practices to support their social mission goals? **Yes!** Can for-profits accomplish good in their communities? **Yes!** Should we turn to for-profit structures to carryout the solutions to our most intractable social problems? **No.**

- **Managers'/employees' motivation** Nonprofit legal status increases the likelihood that individuals drawn to oversee and work in the organizations agree to a social mission (as opposed to private gain) focus;
- **Accountability to community** By acquiring nonprofit status, an organization becomes accountable to the community for carrying out its social mission.

In these ways the nonprofit structure provides a guarantee that is not available via any for-profit structure. While for-profit organizations *can* take on social missions, they are not *required* to do so; whereas nonprofits' *raison d'être* (and exemption from certain taxes) is their commitment to carry out a social mission. Social mission work is an option for a for-profit, and sometimes it is an option that must be abandoned in favor of its primary reason for being: profit.

Clarity Among Stakeholders. Finally, we find that a nonprofit structure, with its corresponding articulated and institutionalized emphasis on social mission, brings clarity and a base of agreement between REDF and our grantees about our joint purpose.

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:::::::::: A YARDSTICK TO MEASURE A FOOT FIT ::::::::::

Despite their differences, a continuum exists between pure social mission and purely profit mission organizations. Kim Alter calls it a spectrum; Greg Dees/Beth Battle Anderson describe it as a blurring of boundaries.²⁰ Whatever we call it, it is a valuable way to look at activities and their social mission-profit mission mix.



Placing an organization further to the right or left on the continuum identifies it as more heavily oriented toward social mission or profit mission. It also depicts the trade-off that often occurs between social mission and profit mission decisions, because doing more of one is apt to result in less of the other.²¹ When a mix of social mission and profit mission is planned, it is critical that founders' intentions are made clear to all stakeholders. Knowing where an organization stands on the on the continuum is as critical to its identity and strategy as its product and service descriptions. Designation as a nonprofit or a for-profit is one way of being clear about an organization's plans.

²⁰ Alter; Dees and Anderson.

²¹ Note that for-profit / nonprofit combinations can lead to more of both profits and social mission support. Newman's Own, Working Assets, and Pura Vida, as well as traditional corporations and their foundations, donate designated portions of the for-profit organization's profits to its nonprofit partner(s). Here too, social mission activities and commercial activities are clearly divided into for- or nonprofit structures.

With all this mixing and matching of social mission and business enterprise activities, it isn't surprising that individuals have questioned the importance of distinguishing between the for-profit and nonprofit legal form. But in fact, mixing social mission and business enterprise activities necessitates *more* clarity about direction and priorities. As Kim Alter notes "...in the social enterprise, money and mission are intertwined like DNA; however, they are not always equal partners. Indeed, in practice, financial and social objectives are often in opposition or competition with one another."²² More nonprofits are considering earned income projects to help diversify their sources of revenue. When money is the primary motivation to engage in earned income activities, it can be tempting to let funding sources, or theories about potential funding sources, lead the way. The thinking behind this approach goes something like this: If the concept can attract philanthropic dollars, structure it as a nonprofit. If it can attract business investor dollars, structure it as a for-profit. If it can attract both, set up one of each. While this reasoning might accidentally result in an appropriate structure, or might be an unarticulated expression of underlying dynamics, it is not a thoughtful, strategic way to approach organization design or engagement. It allows entrepreneurs and funders to avoid open discussion of critical nuances about intentions and expectations and it can foster misunderstanding and wasted effort.

Mission should decide fit. Decisions about structure should flow from mission. At one extreme of the profit—social mission continuum, a purely profit mission is best served with a for-profit structure. At the other end of the spectrum, a purely social mission focus is best served with a nonprofit structure. Supplementing a profit-focused organization with social mission activities is not a reason to take on nonprofit form; supplementing a social mission-centric organization with financial mission activities is not a reason to take on a for-profit form.

But how does one sort out these nuances and place an organization on this social mission-to-profit continuum? Insight into four aspects of an organization can point the way:

1. Is the organization's *primary* mission social or profit;
2. What are the founders' perspectives, skills, and motivation;
3. What is the market for primary mission activities; and
4. How closely-held is the organization?

1. Is the organization's primary mission social or profit? Is social mission or profit the main purpose of an organization? What *must* the organization accomplish to satisfy founders, directors, and key stakeholders? Is profitability or social mission impact most critical to them? If the organization can only accomplish social mission impact *or* profitability, which would stakeholders choose? Can the organization continue to exist if it is *not* profitable, or if it does *not* perform social mission work? How *little* profit is acceptable? How *little* social mission activity/accomplishment is acceptable? If profit generation is a must, probably the for-profit structure is most appropriate. If social mission accomplishments are a must, probably a nonprofit structure is appropriate. If both profits and social mission accomplishments are required, some tradeoff in degree is likely to be necessary (minimal profits in order to allow for social mission results, or minimal social mission results in order to allow for more profit). The prioritization of these tradeoffs should be an indicator of the most appropriate legal structure.

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²² Alter.

2. What are the founders' perspectives, skills, and motivation? Organizations, whether nonprofit or for-profit, are started by individuals. Why do these individuals start the organization? Are social mission and business activities being mixed in an existing organization as an adjunct to existing profit or social mission goals? What perspectives, skills, motives do founding individuals bring to the organization's start up and growth? Founders' perspectives are the ground on which all subsequent structures and activities are set. Although ownership, management, and stakeholders often change over time, it is original founders' point(s) of view that starts an organization down one path or another. That path should be one that founders can skillfully navigate.

3. What is the market for the primary mission product or service? The market for an organization's primary product or service can be another pointer toward which structure is most appropriate. Most social mission activities organizers have a market challenge: either 1) the direct beneficiaries of the activities cannot pay competitive prices for them; or 2) potential customers do not value the product or service enough to pay its competitive price. For example, employed people who are struggling to pay rent probably cannot afford to pay for job search help. So although poor people's need for job search services might be high, providers cannot depend upon "market forces" to bring paying customers to them. Instead, funders such as government agencies or foundations become the proxy customers, paying on behalf of those who will receive the services. But this "paying on behalf of..." introduces illogical, unpredictable elements into the dynamic between seller of services and user of services. In the job search assistance example, the fees paid for assistance will not necessarily reflect how clients feel about the service or what they would pay if they could pay. It may reveal more about donors' interests and capacity. Typical supply and demand reasoning does not address the complexity of social mission market forces.

There are a few (but not many) instances of a product or service that *in and of itself* furthers a social mission objective. Grameen Bank's Village Phone initiative, in which poor villagers' phone purchases help them set up small businesses, which in turn decreases rural poverty, is one example. An automobile that doesn't contribute to air pollution and can be sold at prices people will pay, once it is developed, will be another example of a product whose sales can both increase profits and accomplish a social mission goal. However, free market economic positioning can change: In the case of Grameen's Village Phone initiative, for example, the success of the initiative has brought in commercial competitors whose presence is exerting price pressures on the initiative.²³ It may be that what was initially a profitable venture for a small organization, will become profitable only for very large firms that can exercise larger economies of scale. The owners may find they need to revisit and revise their goals and strategies.

4. How closely-held²⁴ is the organization? In addition to mission, an organization's ownership and leadership complexity must be considered. The more complex its mission objectives are, the more *uncomplicated* its leadership structure should be. How many individuals are involved in establishing and subsequently directing the organization? How diverse are their points of view? A complex combination of social and profit missions is most likely to be successful when fewer individuals, with minimal diversity in points of view, establish and direct an organization. Complicated, diverse ownership and leadership require more strategic clarity and consistency. A for-profit firm holding social mission goals, for example, is more likely to succeed at mixing the two when it is closely-held by like-minded individuals.

The four characteristics described above wind their way throughout an organization's life. If its central mission is clear, that mission can point to the legal structure that will most effectively support it.

²³ Information about the Grameen Village Phone program can be found at <http://www.gfusa.org/technology_center/village_phone/>.

²⁴ I am using "closely-held" in this paper to refer to organizations that are owned / directed by a very small group of individuals. For the purposes of this paper, the term would not apply to publicly traded corporations, or to nonprofits, since both are accountable to multiple parties.

WILL A FOR-PROFIT SHOE FIT?

Some for-profit businesses have successfully taken on social mission work. ShoreBank, Grameen Bank, and Working Assets are examples of for-profit businesses whose positive community impact is well documented.²⁵ More recent for-profit innovators in the world of private sector businesses that are carrying out a social mission include Evergreen Lodge and Wolfe's Neck Farms Natural Beef, described later in this paper. We applaud the achievements of these entrepreneurs and organizations. We believe their achievements illustrate that for-profit businesses can make important positive contributions to their communities. But we do not believe their achievements in themselves make a case for choosing a for-profit structure to carry out social mission goals. In fact each of these example firms has established, or works closely with, one or more nonprofit organizations to help it carry out the social mission side of its goals, a sign that each has encountered needs that are best filled by a legal structure specifically designed to support social mission goals. Such collaborations between for-profits and nonprofits, mentioned previously as "hybrid" organizations, actually support the view that a for-profit legal structure is best used for profit-generating goals, while a nonprofit structure is the best fit for social mission objectives. Linking the two forms in some way is a creative workaround for the limitations of each, but does not at all suggest that a for-profit structure works best for implementing social mission objectives.

In cases where planners require profits and also want to carry out social goals, the choice of a for-profit business in which profits and social mission accomplishment are linked is a must. The Omidyar Network has set such linkage as an investment criterion. Investee firms' financial success must be dependent on their social mission success. It may be challenging to find many firms that can make it through this screen.

In some cases, for-profit efforts to carry out social mission goals have not been successful. Sometimes leadership has changed and with it, social mission efforts have been watered down or dropped entirely.²⁶ Sometimes, even with the best of intentions, a social mission cannot be continued because it conflicts too strongly with the financial goals (or existence) of the firm. In the well-known case of Community Products, Inc.²⁷ (CPI), Ben & Jerry's cofounder Ben Cohen started a for-profit company that manufactured chocolate products using nuts whose collection helped preserve rainforest areas. The company also sent a percentage of its profits to organizations supporting other social causes. Early success on both business and social mission fronts was quickly followed by market, operational, legal, tax, and financial challenges. It turned out that it wasn't always profitable to source the nuts from the rainforest-positive farms. Quality was uneven. And yet, in order to maintain its social mission objectives, CPI needed to continue purchasing from these approved vendors. Throughout the company's downturn, the conflict between its stated social mission goals and its underlying financial structure and needs created a wedge which made survival—as either a viable profit-generator or a social mission implementer—impossible.

Interestingly, even Corporate Social Responsibility (CSR), a relatively moderate²⁸ approach to the use of for-profit businesses for carrying out social goals, can be difficult to implement and provides examples of issues that can arise when one depends upon a private corporation to carry out social mission objectives.

25 Websites for the these three businesses provide a starting point for learning more about their accomplishments: Shorebank, <<http://www.shorebankcorp.com/bins/site/templates/splash.asp>>; Grameen Bank, <<http://www.grameen-info.org/>>; Working Assets, <<http://www.workingassets.com/>>.

26 D.Rosner describes what happened when Brooklyn hospitals' leadership and economic environment changed and it converted from being a charitable to a pay service institution. Better services became available for wealthier patients while service availability and quality declined for poorer patients. "Trustees began to see the paying patient as an important source of income and the free patient as an increasingly expendable burden." 314.

27 Welles.

28 The author describes CSR as a "moderate" approach because it generally targets change that is incremental and is designed to fit within existing corporate structures.

CSR guidelines are set by corporations to articulate the ways in which they are helping (or avoiding harm to) society. Many international corporations have adopted their own CSR standards. In her *Stanford Social Innovation Review* article, “The Myth of CSR,”²⁹ Deborah Doane describes the measure some factory leaders have resorted to in order to meet both social mission (CSR) goals and financial (production) goals. Reportedly “factory officials in charge of manufacturing consumer goods for Western markets are falsifying records in order to appear to be in compliance with the tougher labor standards demanded by their multinational corporate customers. Such factories simultaneously face demands to enforce fair labor standards and to reach levels of productivity that could only be attained by breaking these standards. Factory managers may thus consider these ethical labor standards to be a sham in light of corporations’ other message: produce at all costs.”

OLD SHOES, NEW SHOES

Although the blending of social mission and commercial activities is often described as a modern phenomenon, examples of social-business combination organizations date back hundreds of years. It is useful to look back at this history, and to track several example organizations: were they designed as charitable organizations or as businesses? What happened to these early efforts? What has lasted, what hasn’t? It is also useful to look at examples of current innovators’ efforts to bring business and social mission activities together, and the role legal structure plays in their work.

We can see a mix of commercial and social mission activities in Europe’s social, religious, and craft guilds, which existed in the ninth through sixteenth centuries in Western Europe. These membership associations took on a variety of objectives in both commercial and social mission areas: in some cases they regulated pricing, production and quality standards in particular industries while also sponsoring apprenticeship programs and providing forms of welfare to members. They were seen as community or member organizations, not as businesses. Later, in eighteenth century England, “friendly societies” took up where the guilds had left off, with a “combination of social and economic activities,”³⁰ one example of which was to provide members a form of self-insurance. Both guilds and friendly societies held social mission goals for their members, rather than profit-making goals, though their efforts sometimes affected individual business owners’ profits.

During the industrial revolution in Europe, as the public became more aware of employees’ harsh working conditions, business associations dedicated to counter-acting those conditions arose. In the eighteenth and nineteenth centuries, cooperatives developed, providing self-governing associations for workers and consumers to meet economic, social, or cultural needs.³¹ To this day, throughout the U.S. and other countries, the cooperative structure is used for business and social mission purposes. Cooperatives meet the common economic, social and cultural needs of member-owners who agree to jointly own and democratically control an enterprise. They can be either for-profit or nonprofit.³²

29 Doane 29.

30 “To counter the worst social effects, friendly societies of all kinds were created. They embraced a wide range of activity: building societies, retail and wholesale co-operatives, savings banks, trade unions, and welfare clubs. From 1910 to 1947, friendly societies administered the state sickness benefit scheme and, at their peak in 1945 also catered for the further needs of 8.75 million private subscribers through over 18,000 branches or societies.” Gray.

31 This is not a comprehensive history of the mix of commercial and social mission activities, rather, it offers a few illustrative examples and highlights themes among them.

32 The cooperative structure, in and of itself, with its democratic decisionmaking, might be considered a force for social good, irrespective of whether it is a for-profit or a nonprofit. A good source of information about U.S. cooperatives is the National Cooperative Bank, <<http://www.ncb.coop/>>.

Although the blending of social mission and commercial activities is often described as a **modern** phenomenon, examples of social-business combination organizations date back **hundreds of years**.

A number of social-business mix organizations were formed a century or more ago: we describe **Cadbury Chocolates, the Salvation Army, and Goodwill Industries** here. Each has grown and evolved over the years and each continues to this day. Both the Salvation Army and Goodwill Industries were started as mission-first organizations: business was utilized as a means of carrying out their social missions. They have continued as nonprofit organizations. Cadbury Chocolates was started as a business-first³³ organization: its founder believed that responsiveness to employee and community needs could help a business succeed, both financially and as a positive community force. It has become part of a thriving multi-national corporation.

CADBURY

John Cadbury, an active Quaker, Temperance Society member, and small business founder, believed that his employees should benefit as his company became successful. He started his Cadbury Chocolates shop in 1824, in Birmingham, England. He and his heirs took a business-first approach while including their employees’ welfare as a key part of their definition of “business success.” Over years of business expansion, their innovations in employee rights and benefits stood in stark contrast to the harsh working conditions of the time. By showing that it was possible to be profitable while providing a humane working environment, the company affected country-wide employee welfare practices. Cadbury was a closely-held family company for a century, but over time it went through two mergers, eventually becoming part of Cadbury Schweppes, Plc., a large multinational corporation. When it merged and took on a more diverse base of owner-investors, the company’s social mission activities became more indirect. Its social mission activities are now institutionalized via the Cadbury Schweppes, Plc. CSR program and the grants that its foundation makes to nonprofits.

ORGANIZATION: Cadbury Chocolates

DATE FOUNDED: 1824

STRUCTURE OF ORIGINAL ORGANIZATION: for-profit business

STRUCTURE OF CURRENT ORGANIZATION: for-profit business

SOCIAL MISSION ACTIVITIES: Cadbury championed worker rights and benefits; it set a model for other businesses by providing conditions and benefits to the company’s employees that were superior to those generally available in the Victorian era. It built model factory facilities and housing for employees. The business’ product itself also furthered John Cadbury’s temperance society beliefs: he saw cocoa and chocolate as an alternative to alcohol.

BUSINESS ACTIVITIES: During Cadbury’s history, it has developed and manufactured chocolate/candy products; early in the company’s history it was a retailer; currently it is part of Cadbury Schweppes, Plc., a large candy and beverage corporation.

PRIMARY MISSION: Cadbury Chocolate’s mission is primarily a business mission. Cadbury has always represented itself as a business that helps its employees improve their lives. Profits have always been necessary to the continuation of the business.

FOUNDER(S): John Cadbury started the organization as a one-man chocolate shop. He and his family were active Quakers, committed to ethical principles and to the belief that a business could operate profitably while improving the lives of its employees. Cadbury’s sons expanded upon their father’s product innovations and the company’s enlightened approach to employee benefits continued for almost 100 years.

MARKET FOR PRIMARY MISSION ACTIVITIES: Cadbury’s target market has always been the prospective consumers of its candy and beverage products. Its product development, production, and wholesale/retail activities have been supported by product sales. In its early days, sales of its product, in and of itself, accomplished both social and financial goals.

HOW CLOSELY-HELD IS THE ORGANIZATION: For the company’s first hundred years, it was a very closely-held family-run company. Over time, its shareholder base became larger and more diverse as it expanded and merged with other companies (first in 1919 with Fry, and then in 1969, with Schweppes).

³³ I use “business-first” to describe an approach in which an organization’s commercial activities are its primary focus, with social mission activities taken on if and as they can support—or at least not detract inordinately from—business success.

In the same period, two other entrepreneurs took social mission-first approaches and formed the Salvation Army and Goodwill Industries. Both of these charitable organizations were started by Christian ministers who wanted to alleviate the poverty around them. William Booth started the Salvation Army in 1865. For a number of years the organization focused on Christian evangelizing, and slowly started adding charitable programs like morning breakfasts for the poor. Booth wrote *In Darkest England and the Way Out* in 1890, in which he calculated that one tenth of Britain’s population lived below the standards set for cab horses. The book shocked Londoners and generated much public support for his anti-poverty cause. This enabled him to start a matchstick factory that both created jobs and revolutionized the matchstick industry in Britain. Salvation Army matches, labeled “Lights in Darkest England”, went into direct competition with the existing match-making industry companies. Prior to Booth’s work, matchstick companies’ use of toxic materials had made necrosis, or phossyjaw, a terrible and prevalent disease among factory workers. Through the Salvation Army’s promotions and sermonizing, match customers switched their allegiance to the safe matches, and the industry was forced to change. Once this goal had been achieved, the Salvation Army closed its factory.

Over the next century, the organization continued to get involved in various industries, depending upon where social mission need appeared. Its businesses included a labor bureau to help people find work and a farm where unemployed men were trained as farm laborers. While many of these businesses dissolved once their social mission goal had been reached, the Salvation Army Bank, a for-profit bank that evolved into the Reliance Bank, was established in 1890 to finance the organization’s social mission work. The Salvation Army Trustee Company and The Salvation Army International Trustee Company still retain sole ownership of the Bank and its profits.

ORGANIZATION: Salvation Army

DATE FOUNDED: 1865

STRUCTURE OF ORIGINAL ORGANIZATION: charitable (nonprofit equivalent)

STRUCTURE OF CURRENT ORGANIZATION: nonprofit

SOCIAL MISSION ACTIVITIES: Initially the Salvation Army’s sole mission was to spread Christianity. In the 1880s, it began an increased emphasis on social service, helping the poor find work and improving working conditions.

BUSINESS ACTIVITIES: Businesses were started as ways of accomplishing the organization’s social mission. Some businesses were started to help the unemployed return to work, and some were started to change the way a particular industry operated. Businesses have tended to be in industries with a high labor component. In addition, a for-profit bank, Reliance Bank, operates with the purpose of generating revenue for the Salvation Army. Current business activities include the collection, processing, and sale of used goods through Salvation Army thrift stores.

PRIMARY MISSION: Salvation Army’s mission is primarily a social mission. Profits were not required of its businesses. Today’s Salvation Army describes its mission as “to preach the gospel of Jesus Christ and to meet human needs in His name without discrimination.” This mission statement captures the sequence of the organization’s mission development—it started with a religious mission which grew into a focus on helping people with their human needs.

FOUNDER(S): William Booth started the organization as part of his Christian mission among the poor of London. He became concerned about the economic struggles of the people he worked with and translated this concern into training and job programs.

MARKET FOR PRIMARY MISSION ACTIVITIES: The human needs part of the Salvation Army’s mission involves providing services to people who have little market power. Its social service programs “meet the basic needs of daily life for those without the resources to do so themselves.”

HOW CLOSELY HELD IS THE ORGANIZATION: Though started and directed by one man for years, the organization has become large, with many stakeholders. It continues to be led by one/two people within a centrally controlled organizational structure. As a nonprofit, it is accountable to the communities in which it operates.

GOODWILL INDUSTRIES

Goodwill Industries, another well established, well-known charitable organization founded in 1902, started with a particular business model which it has retained to this day: collecting, refurbishing and reselling used clothing, and employing poor and disabled people to do it. Founded by Rev. Edgar J. Helms, the organization was backed by the Methodist Church during its initial decades. It has grown into a network of 207 independent, community-based nonprofit agencies in and outside of the U.S. Over 2,000 Goodwill stores sell donated clothing and furniture. Its business model has expanded to include contracts for services such as janitorial work, food service preparation, document management, and packaging and assembly. Its social mission, to provide job training and career services to people with disabilities or other barriers to employment, continues to be Goodwill's focus.

ORGANIZATION: Goodwill Industries, Inc.

DATE FOUNDED: 1902

STRUCTURE OF ORIGINAL ORGANIZATION: charitable (nonprofit equivalent)

STRUCTURE OF CURRENT ORGANIZATION: nonprofit

SOCIAL MISSION ACTIVITIES: Goodwill Industries, Inc. provides education, training, and career services for people with disadvantages, such as welfare dependency, homelessness, and lack of education or work experience, as well as those with physical, mental and emotional disabilities.

BUSINESS ACTIVITIES: Goodwill agencies run 2,000 retail stores and an online auction site. They also train and employ contract workers to fill outsourced needs for document management, assembly, mailing, custodial work, and groundskeeping.

PRIMARY MISSION: Goodwill Industries' mission is primarily a social mission. It seeks to "enhance the quality and dignity of life for individuals, families, and communities on a global basis, through the power of work, by eliminating barriers to opportunity for people with special needs, and by facilitating empowerment, self-help, and service through dedicated, autonomous local organizations."

FOUNDER(S): Rev. Edgar J. Helms, an American Methodist minister, founded the organization. Helms clearly described his goals, "...we will press on till the curse of poverty and exploitation is banished from mankind."

MARKET FOR PRIMARY MISSION ACTIVITIES: Goodwill's primary mission target market (for its social services) is people who have little market power; people who have experienced barriers to opportunity.

HOW CLOSELY-HELD IS THE ORGANIZATION: Goodwill was started and directed by one person, but has expanded and is no longer closely-held. It has become an international network of 207 affiliated but independent organizations. As a nonprofit, it is accountable to the communities in which it operates.

Evergreen Lodge, Wolfe's Neck Farms Natural Beef, and Springboard Forward provide examples of more recently-formed social-business organizations. All of these organizations have mixed social mission and commercial activities and have chosen structures that support their central goals.

EVERGREEN LODGE

In 2001 a for-profit firm started by Brian Anderluh, Lee Zimmerman, and Dan Braun purchased a recreational resort near Yosemite National Park. The founders had both profit and social mission goals for the business. Since they purchased the property, they have carried out their promise to investors to expand and refurbish the aging property, to fill the cabins, and to deliver a program of employment, recreation and individualized social service support to 15–20 at-risk young adults each year. The social service program was designed in partnership with Juma Ventures, a nonprofit organization that holds a seat on Evergreen's board. The founders promised their investors "both financial and social returns."

They initially debated a nonprofit versus for-profit structure, and settled on the latter. The key to this decision was that a for-profit structure gave them the ability to raise capital, both debt and equity, quickly, which was essential for the property acquisition, something that would not have been possible with nonprofit funding. The asset value and potential profitability of the project made it possible to raise this debt and equity. Other key factors in their decision to structure the organization as a for-profit included the entrepreneurs' past experience with business and general orientation toward the business sector (both hold MBA degrees and have managed businesses previously). Zimmerman notes his perception that for-profit business brings "feet-to-the-fire" accountability, something he relishes.

ORGANIZATION: Evergreen Lodge

DATE FOUNDED: (bought by current owners) 2001

STRUCTURE OF ORIGINAL ORGANIZATION: for-profit

STRUCTURE OF CURRENT ORGANIZATION: for-profit

SOCIAL MISSION ACTIVITIES: 15 youth who have lacked opportunities are trained and employed each year. The youth not only learn a specific trade, they are also able to live in a supportive community and enjoy outdoor experiences that challenge, motivate and inspire them.

BUSINESS ACTIVITIES: Evergreen is a Yosemite area lodge. In addition to lodging and meals, it provides recreation resources, programs, rentals and activities.

PRIMARY MISSION: Evergreen's primary mission is a business mission, to provide lodging with gracious and friendly service, quality products, private and communal settings, and a large array of opportunities to educate visitors about the Yosemite area.

FOUNDER(S): Lee Zimmerman, Brian Anderluh, and Dan Braun, individuals with business training and experience, as well as outdoor and youth program experience.

MARKET FOR PRIMARY MISSION ACTIVITIES: Evergreen's primary mission target markets are American and international tourists, as well as corporate or special meeting groups—all groups of people who have market influence.

HOW CLOSELY-HELD IS THE ORGANIZATION: The company is relatively closely-held: it is a for-profit with three owner-managers, and a few primary investors. A nonprofit, Juma Ventures, holds a seat on the company's board and "partners" with Evergreen to design and administer the company's youth programs.

Evergreen Lodge is effective as a for-profit business doing social mission work because:

1. It generates high enough revenues and profit margins to support investment and the costs of its social program;
2. Its social program was designed to fit within the constraints imposed by the business;
3. Its equity investors are willing to accept a somewhat lower financial return to achieve social goals.

The lodge's service and infrastructure requirements necessitate that its social program target youth who are not in crisis and are nearly work-ready. "Providing a program for more needy youth could consume all profits," according to Zimmerman. "Our for-profit social enterprise model is an exciting one, but it is by nature limited to certain types of populations and social programs. A nonprofit model is clearly most appropriate when the social mission goals require ongoing investment beyond the profit potential of the enterprise." While Zimmerman doesn't feel constrained in investing in the social program to maximize its impact, it is clear that the for-profit demands of the business restrict the type of population they can serve as well as the resources that can be devoted to the social mission.

WOLFE'S NECK FARM NATURAL MEATS

Eleanor and Lawrence M.C. Smith started Wolfe's Neck Farm in 1940. Dedicated conservationists, the couple began their natural farming operation in 1959. In addition to nurturing their beef herd, the Smiths set up educational programs to promote environmental preservation and farming, and they assisted other local farmers to keep the area's land open and viable. In 2001, the farm's Executive Director, Erick Jensen, started a new program to promote its own natural beef products and to support Maine's natural beef farmers. The demand for natural beef was not compelling enough to induce local farmers to change to "naturally raised" methods (which includes no added hormones, no antibiotics, and no animal by-products in the cattle feed) without financial support and coaching. Aided by Common Good Ventures,³⁴ Wolfe's Neck Farm brought funding, coaching, brokering, and market promotion to Maine beef raisers and helped many of them change to "natural" beef raising. Two outside factors, the popularity of the Atkins Diet and the advent of Mad Cow Disease, boosted market demand significantly. Having invested in Maine's beef farmers, and with its strategy and products in place, Wolfe's Neck Farms Natural Beef was able to meet the rising demand. When its sales reached \$6.5 million, the Farm's board of directors decided that its Natural Meats program had become a business that could be commercially successful, so they decided to spin it off. In August 2005, it was sold to a for-profit, Pineland Farms Natural Meats. Erick Jensen too, left the nonprofit to continue his leadership of the natural meats enterprise. He plans to continue helping Maine farmers get the best price for their cattle. The company "must also achieve profitability, which has eluded it thus far."³⁵

ORGANIZATION: Wolfe's Neck Farm Natural Meats (now Pineland Farms Natural Meats)

DATE FOUNDED: 2001

STRUCTURE OF ORIGINAL ORGANIZATION: nonprofit

STRUCTURE OF CURRENT ORGANIZATION: for-profit

SOCIAL MISSION ACTIVITIES: To date, the company has provided financial support, coaching, brokering for, and market promotion to Maine beef raisers. In the future, its social mission activities are expected to include some elements of these activities.

BUSINESS ACTIVITIES: Raise and sell beef in a "natural" way that results in healthy beef and sustainable local farming.

PRIMARY MISSION: The organization's primary mission was originally a social mission. Now that significant parts of that mission have been achieved, the organization has changed its focus and has a primarily business mission.

FOUNDER(S): Eleanor and Lawrence M.C. Smith, two dedicated conservationists, founded Wolfe's Neck Farm; Erick Jensen founded the farm's natural meats program.

MARKET FOR PRIMARY MISSION ACTIVITIES: The target market for its original social mission services was a community of Maine farmers that required assistance to move into natural beef raising methods. The target market for Wolfe's Neck Natural Meats is now healthy and upscale grocery stores.

HOW CLOSELY-HELD IS THE ORGANIZATION: Wolfe's Neck Farms is a nonprofit, with numerous contributors and public accountability. The new company, Pineland Farms, is for-profit and is more closely-held—it has a few primary investors.

³⁴ Common Good Ventures, <<http://www.commongoodventures.org/>>, is a Maine-based philanthropic organization that partners with nonprofit groups to improve their performance.

³⁵ Hazard 1+.

SPRINGBOARD FORWARD

In 1997, Elliot Brown created Springboard Forward to help improve social and working conditions for the poor. He started it as a for-profit business, providing staffing services to California's Silicon Valley firms. Prior to starting the firm, Mr. Brown had designed, founded and served as director of several educational and training program for young people in need of opportunities.

Springboard Forward was designed to provide services to low income people, serving as an employment agency that places them in entry-level jobs that have opportunities for advancement. At the same time, by helping workers advance in their working environments and retain their positions, it sells services to large-scale employers that are having difficulty filling entry-level positions. Employees begin with opportunities such as food service or general office work, and are mentored along the way to eventually acquire a full-time job with benefits.

In 2001, after four years of running the company as a commercial entity, Mr. Brown incorporated as a nonprofit.

"It was hard for us to do everything that we wanted to do as a business," Brown said, explaining that the networking and governmental resources available for nonprofits were the greatest reason he decided to make the switch.

"I couldn't keep doing a staffing business," Brown said, adding that running the business "taught me what the issues were and how to use a business model to achieve a social mission."

Since 1997, Springboard Forward has helped nearly 200 individuals make the leap from low-income jobs to established positions in the workforce.

ORGANIZATION: Springboard Forward

DATE FOUNDED: 1997

STRUCTURE OF ORIGINAL ORGANIZATION: for-profit

STRUCTURE OF CURRENT ORGANIZATION: nonprofit

SOCIAL MISSION ACTIVITIES: Springboard Forward serves as an employment agency that places low-income individuals into entry-level jobs where there is room for advancement.

BUSINESS ACTIVITIES: The organization provides on-the-job mentoring and coaching services to businesses so they can develop a more engaged and effective entry-level workforce.

PRIMARY MISSION: Springboard Forward's primary mission is a social mission: to help individuals make the leap from low-income jobs to established positions in the workforce.

FOUNDER(S): Elliot Brown, an innovator of job training and coaching programs for disadvantaged people, created the organization to help improve social and working conditions for the poor.

MARKET FOR PRIMARY MISSION ACTIVITIES: The organization's primary mission target market is people who generally have little market influence.

HOW CLOSELY-HELD IS THE ORGANIZATION: The original for-profit organization was relatively closely-held, while the nonprofit that it has evolved into has a broader base of stakeholders and wider accountability. As a nonprofit, it is accountable to the community in which it operates.

While all six of these organizations have mixed social and profit activities, they have also each focused primarily on either their social mission or their profit mission, and that focus has been reflected in their structures as charitable or for-profit organizations.

It stands to reason, and the historical examples bear this out, that social mission-first organizations are more apt to maintain a core emphasis on social mission activities over the long haul. Business-first organizations are more apt to maintain and strengthen their commercial activities. Business-first organizations can take on social mission activities, especially if they are closely-held by committed entrepreneurs, but these social mission activities need to be adapted to the business' particular requirements.

Sometimes an organization's emphasis changes from social mission to for-profit or vice versa, and this change is apt to involve a simultaneous structural change. Significant changes in ownership, changes in the prevailing market forces, and initial miscalculations of what the optimal structure will be are the most common causes of such shifts. As noted previously, while nonprofits' leadership may change, organizational commitment to a social mission focus is mandated and generally does not change. Wolfe's Neck Farm, for example, did not itself become a for-profit, rather, it sold the part of the organization that seemed destined for a commercial focus.

.....: FUTURE FOOTWEAR :.....

Entrepreneurs find ways of doing what they want to do, whether an appropriate legal form exists or not. Our communities' compelling needs will inspire entrepreneurs to find solutions, without regard to legal form. So a dilemma about choice of the for-profit or nonprofit legal structure should not stand in the way of action. At the same time, choosing a good fit can smooth the way and help that action be more effective, more quickly. An appropriate fit can conserve resources.

It is possible that future social entrepreneurs will have new forms to work with.³⁶ Devising legal forms that incorporate advantages from both for-profit or nonprofit structures could be beneficial to all. But even with new forms, the questions we face will remain: "What's the point of this activity?" "What must it accomplish?" "How much social benefit is enough?"

Ultimately, like the Cinderella story, the same shoe won't fit everyone...but when the fit is right, the results can be awe-inspiring. A good fit is worth careful deliberation and prioritization. A good fit can make each organization's exciting "ever after" possible.

...choosing a good fit
can smooth the way
and help your action
be *more* effective.

³⁶ The U.K. recently developed a new legal form, the Community Interest Company, which requires a focus on community benefit but allows for some benefit to owners too. The form was developed with a particular eye toward social enterprises' needs.



The “If The Shoe Fits” Handy Guide

The social mission - profit mission continuum can be applied to a series of key questions, leading your organization toward a nonprofit or for-profit structure. We offer this guide as a decision making tool for social entrepreneurs and funders, and suggest you use it to help you and your stakeholders determine which structure will fit your goals. We hope you have fun with it, learn from it, and remember that it is only a beginning. You will want to consult legal, financial, and business planning professionals for in-depth analysis of specific questions.

Consider your organization’s goals against a screen of the four question areas outlined in “If The Shoe Fits”:

- 1. Is the organization’s primary mission social or profit?**
- 2. What are the founders’ perspectives, skills, and motivations?**
- 3. What is the market for primary mission activities?**
- 4. How closely-held is the organization?**

Each of the four areas contains its own particular questions. Answers are recorded on a scale of -5 to 5, and each question is weighted in our “Tallying It All Up” template. Scale numbers (and negative numbers) are not indicators of “good” or “bad”, but rather show placement on the profit-mission to social-mission spectrum.

You will learn a lot about the key stakeholders’ goals for your organization if you administer the Guide’s questions via facilitated gatherings of stakeholders with similar roles (for example, at a board meeting). Group discussions of this sort can be full of surprises, however. If you want to test the waters more gradually, you can start by having stakeholders individually answer the Guide’s questions. Whichever approach you take, make the point that it is important to thoughtfully answer each question, no matter how obvious respondents believe the answer to be.

You may find that stakeholders resist ranking their goals closer to profit-mission or social-mission—they may insist on rankings that are squarely in the middle (“0”) for some or all questions. Though this inclination comes from a normal human desire to excel at many things, it is not productive in this exercise. In fact, we have provided no middle position in our fit guide yardstick—respondents must rank answers closer to one pole or the other. This no-middle-of-the-road design is critical in determining your best fit so we suggest you enforce it when you administer the Guide.

Enter the number that most accurately describes what you think. Each question can be answered on a scale of -5 to 5. The opposite poles represented by “-5” and “5” are described for each question. You may enter any number but 0. Negative numbers do not indicate less value.

1) Is the organization’s primary mission social or profit?

Answer (A):

- Which is more critical to your organization’s survival: accomplishing your social mission goals, or achieving breakeven (or better) sales?



Every organization has many things its stakeholders would *like* to accomplish—but which are necessary for its survival? For-profit stakeholder expectations dictate a business model in which sales revenue grows to cover all expenses. Nonprofit stakeholder expectations dictate a business model in which social mission goals are met.

Answer (B):

- Do you choose social mission activities to fit your business model, or a business model to fit your social mission?



In assessing the compatibility of business and social mission activities (important to do no matter which one is your focus), also consider *how* you evaluate which business activities and which social mission activities to engage in. Do you think of the business tasks as primary, with adjunct social mission activities or vice versa? Or should social program considerations drive business decisions? At any given time, either business or social program concerns are apt to be of primary focus and it is healthy to recognize which you want to lead.

Answer (C):

- If profitability (sales revenue covering all costs) is impossible, will key stakeholders want to continue the activity?



Answer (D):

- **If social mission objectives must be abandoned, should the organization continue to exist?**



Imagine that you have just learned it will never be possible to cover all expenses with sales revenue. Will you want the organization to continue on? Imagine that you have just learned that your organization cannot undertake its social mission activities. Will you want the organization to continue on?

Answer (E):

- **Do key stakeholders value a specific social mission, or would they be content with more general social mission accomplishments?**



Not all social mission statements are created equal!

A specific social mission is apt to be less flexible, less changeable, and more likely to be supported by a nonprofit structure. For example, a mission to “provide housing for formerly incarcerated people” is quite specific and its specificity makes it less flexible. If it turns out that providing housing for formerly incarcerated people is economically challenging, will the organization decide to instead provide housing for scientists? Probably not. Key stakeholders generally get involved with social mission organizations because of an interest in a particular mission area.

More general social missions, such as “contribute to our community’s economic life” can more easily be fit into a variety of circumstances and thus are easier to support within a for-profit structure.

There may be accompanying trade-offs in that a social mission’s specificity can be part of what attracts supporters to it. So a more specific, less flexible social mission may have a stronger public appeal while being more difficult to combine with for-profit activities. A more general social mission is more flexible and more easily combined with for-profit activities but may not have as strong a public appeal.

2) What are the founders' perspectives, skills, and motivation?

Answer (F):

- Why did the founder start this organization?



Sorry, we know the answer may be hard to reduce to one or the other. Of course founders may have multiple reasons for starting an organization and a variety of motivations may be very important while not being primary. If the organization's founder is no longer a significant force in the organization's life, replace "founder" with "leader."

Answer (G):

- In what sector does the founder's professional experience lie?



Founders' backgrounds are important because past experience can be a predictor of future activities and because previous sector experience is advisable before launching an organization in either the for-profit or nonprofit sector.

3) What is the market for primary mission activities?

Answer (H):

- Are the direct beneficiaries of your organization's activities able to pay for the product or service you produce?



Does an activity have inherent market viability or not? Is there a customer base that can/will support the activity by purchasing its product or service? If yes, then a for-profit structure may be a fit. If the social mission nature of an activity rules out market viability, perhaps a nonprofit structure is a fit. Examples of direct beneficiaries who cannot pay for a service are typically indigent people receiving counseling. Though others may choose to pay for the service on their behalf, the value to a third party and resulting price, quality, and volume characteristics are apt to be skewed and not truly driven by demand (or need).

Answer (I):

- **Does the distribution of a given product or service accomplish your social mission?**

**PRODUCT/SERVICE
ACHIEVES
SOCIAL MISSION**



**PRODUCT/SERVICE
DOES NOT ACHIEVE
SOCIAL MISSION**

If distribution of a product or service can achieve a social mission, and a viable market for that product or service exists, a for-profit organization can achieve both its financial and social goals simultaneously. In the case of Wolfe's Farm Natural Meats, increasing the sales of its natural meats increased the company's profitability so that as demand for the meats increased, it was able to move from a nonprofit to a for-profit structure.

Answer (J):

- **Does your organization's business activity accomplish your social mission without taking on additional costs?**

**NO ADDITIONAL COST
TO CARRY OUT
SOCIAL MISSION**



**ADDITIONAL COST
TO CARRY OUT
SOCIAL MISSION**

Social missions come in all sizes and shapes. Some can be incorporated into existing for-profit business activities. For example, a blighted neighborhood's social mission of increasing its economic vitality can be met by encouraging local businesses to move onto its main street. Or a fee-based online service can accomplish its social mission of helping people communicate with each other. Such social missions naturally fit into the regular activities of a for-profit business.

But many social missions do not fit so easily into the economics of a for-profit business. They may be furthered by certain business activities, but only when adding some necessary cost elements. In the above examples, private enterprise forces will not induce small businesses to fund employees' continuing education. Nor would market forces encourage a for-profit fee-based online service to provide computers and computer training to indigent people who could not otherwise use their service.

Answer (K):

- **Are for-profit businesses delivering the proposed product or service now, or have they done so in the past?**

**MANY FOR-PROFIT
PROVIDERS**



**NO FOR-PROFIT
PROVIDERS**

Are others providing similar products or services doing so as nonprofits or as for-profits? It can be instructive to see what others are doing. There is often (though not always) a reason behind current practice.

4) How closely-held is the organization?

Answer (L):

- How many people hold and exercise governance authority for your organization?



Answer (M):

- Is your organization currently a publicly held corporation or a 501(c)3 nonprofit?

For the purposes of this guide, publicly traded corporations and nonprofits are assumed to be widely-held.



If an organization is closely-held, it can more easily pursue the complexities associated with mixing profit and social mission objectives; many decision-makers and/or being a publicly held or an existing nonprofit organization is apt to complicate the pursuit of a mix of profit and social mission goals.

Tally Up!

Insert your rating for each question into Column A. Multiply Column A numbers by Column B weight and place answer in Column C. Add question totals.

For-profit or Nonprofit Rating	A Your Rating	x	B Weight	=	C Question Total
(A) Which is more critical to your organization's survival: accomplishment of your social mission goals, or achieving breakeven (or better) sales?			1.5		
(B) Do you choose social mission activities to fit your business model, or a business model to fit your social mission?			1.3		
(C) If business profitability is impossible, will key stakeholders want to continue the activity?			1.4		
(D) If social mission objectives must be abandoned, should the organization continue to exist?			1.4		
(E) Do key stakeholders value a specific social mission, or would they be content with more general social mission accomplishments?			1.2		
(F) Why did the founder(s) start this organization?			1.1		
(G) In what sector does the founder's professional experience lie?			1.3		
(H) Are the direct beneficiaries of your organization's activities able to pay for the product or service you produce?			1.3		
(I) Does the distribution of a given product or service accomplish your social mission?			1.2		
(J) Does your organization's business activity accomplish your social mission without taking on additional costs?			1.1		
(K) Are for-profit businesses delivering the proposed product or service now, or have they done so in the past?			1.2		
For-profit or Nonprofit Rating TOTAL					

Now proceed to the Difficulty Factor Rating on the next page.

Tally Up!

Insert your rating for each question into Column A. Multiply Column A numbers by Column B weight and place answer in Column C. Add question totals.

Difficulty Factor	A Your Rating	x	B Weight	=	C Question Total
(L) How many individuals have governance authority for your organization?			1.3		
(M) Is your organization currently a publicly held corporation or a 501(c)3 nonprofit?			1.5		
Difficulty Factor TOTAL					

Tallying It All Up

Place ratings for each question into the Guide's "Tally Up!" section to calculate two measures: a **For-profit or Nonprofit Rating** and a **Difficulty Factor**.

The **For-profit or Nonprofit Rating** is an indication of your stakeholders' inclinations toward activities that are best supported by a for-profit or a nonprofit organization. Consider your rating results in the following broad categories.

-15 to -70 High profit focus

-1 to -14 Profit focus, with desire for some social mission activities

0 to 14 Social mission activity focus, with desire for some business/profit generating activities

15 to 70 High social mission activity focus



The **Difficulty Factor** refers to challenges an existing organization's decision-making and regulatory characteristics are likely to bring in mixing profit and social mission goals. Consider your rating results in the following broad categories.

-15 to -70 Lowest Difficulty: Highly closely-held, very flexible decision-making

-1 to -14 Low to Moderate Difficulty: More closely-held, simpler, more flexible decision-making

0 to 14 Moderate to High Difficulty: More widely-held, more complex, less flexible decision-making

15 to 70 Highest Difficulty: Highly widely-held, least flexible decision-making



What do my ratings mean?

Look at the combination of ratings you have tabulated and assess what they tell you about your stakeholders. Do you see a strong focus on profit within an organization that has the highest difficulty rating? In such an organization, one individual's desire to broaden into social mission activities may be very difficult to implement. Do you see a social mission focus, with some desire for business/profit generation within an organization that has the lowest difficulty rating? This may be a supportive environment for adding business activities to a social mission focus. The score you tabulate will give you a sense of key stakeholders' inclinations, whether that is a focus on profit, a focus on social mission, or a desire for some combination of both. We hope this insight can help you choose a structure that fits your organization and helps it realize its potential.

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